Q2 2022 Responsible Investment Report

Voting Season

"Always vote for principle, though you may vote alone, and you may cherish the sweetest reflection that your vote is never lost."
— John Quincy Adams, 6th US President

As June drew to a close so did the 2022 Annual General Meeting (AGM) season. By the end of the quarter Troy had analysed, considered and voted on 1,031 resolutions at 61 company meetings. While this represents a considerable research effort for the team, voting on behalf of our underlying investors is one of the mainstays of our stewardship approach.

A company's AGM is the only time that all investors are afforded the opportunity to formally influence the way in which a company is governed. The value to an investor of this influence increases with the investment time horizon because it reinforces the positive alignment of management and shareholders. As such, we see it as imperative that long-term investors vote shares with care and diligence.

For this reason, we allocate considerable resource to proxy voting. We see the integration of voting (and engagement) across the investment team as fundamental to ensuring that our stewardship activity is aligned with our long-term investment objectives. Although we receive external voting research, this only supplements our own internal research which is produced ahead of each company AGM. We aim to frame the ESG issues raised by the AGM agenda with our deep understanding of each of our investee companies. This means we vote independently and consider each resolution individually and in context. The rest of this report seeks to give some insight into the voting outcomes that arise from this process.

Governance

Historically, the AGM agenda was focussed on governance. The typical format allows shareholders to determine by whom a company is led, the incentive structures it provides to those leaders, how it allocates capital and how it reports to its stakeholders. In our efforts to improve accountability and alignment, recent months have seen Troy cast votes against management in all four of these governance areas.

We choose our representatives carefully

As custodians of your assets, we seek to ensure that the Boards representing your interests are as well positioned as possible to perform that task. This means they should be independent, diverse, with relevant experience and of the highest calibre. In trying to fulfil this obligation, we voted against the appointment or reappointment of seventeen directors across fourteen different companies over the quarter. The reasons for not supporting an individual Board member have been varied but over-boarding (sitting on too many Boards) and a lack of independence are recurring issues.

Tenure is often seen as a proxy for independence with directors assumed to become increasingly 'captured' by managers as the years elapse. While US corporate governance standards on independence are different to those in the UK, we tend to apply what we see as the more robust UK standard. In particular we cast a significant number of votes against over-tenured Lead Directors of US companies. US corporate governance codes allow the combining of CEO and Chair roles. If the independence of the Lead Director (the Senior Independent Director in UK parlance) is also compromised then this risk of 'Board Capture' rises materially. Holdings where we voted against over-tenured Lead Directors include Pepsi, Johnson & Johnson, Fiserv and Adobe.

Chair Independence

Troy also voted against the incumbent Chairs of both Unilever and Nestlé. We wrote extensively on the associated Unilever engagement in the Q1 report. We have also engaged in relation to the Nestlé vote, outlining our desire to see the appointment of a more independent chair than ex-CEO Paul Bulcke and one with a stronger leadership position on ESG issues. Troy also supported shareholder resolutions proposing the appointment of an independent chair at US firms Coca-Cola, American Express, Pepsi and Meta Platforms. These four resolutions gained between 16% (Meta) and 32% (Amex) support, sending a strong signal to management that a meaningful number of shareholders want to see governance improved. Our participation in the Amex vote is also part of a long-standing bilateral engagement on the issue of Board independence.

Holding the accountants to account

The reappointment of external auditors is a common item on many corporate AGMs. Without an independent audit a company's annual report and accounts would represent little more than the management team marking its own homework. However, the independence and judgement of external auditors can be questioned when client relationships become entrenched. As a reflection of this risk, Q2 saw us vote against seven ratification resolutions where we felt that the independence of auditors had not been adequately demonstrated. By way of example, Adobe, founded in 1982 has been audited by KPMG since 1983, with the company unable to confirm when the audit was last put out to tender. However, this is not the longest incumbency; S&P Global's auditors, Ernst & Young, have been in situ for over 50 years.

While these long-tenured audit relationships continue to have the support of proxy advisors, the related resolutions are unlikely to encounter more than the 5-10% dissent seen at the latest meetings. However, for those with long memories, Arthur Andersen's complicity in Enron's collapse still casts a shadow. We will continue to demand independence of the audit review function.

"Show me the incentives and I will show you the outcome" – Charlie Munger

Remuneration of management is perhaps the knottiest item on the AGM agenda and we find it hard to believe there is a one size fits all solution. Here, more than anywhere else, the flexibility provided by our internal voting guidelines is invaluable. In principle, we like remuneration to be weighted to the long term, for targets to be clearly defined and returns based, for share ownership to be encouraged and for pay to be competitive. In aggregate we voted against 15 compensation-related resolutions at 13 companies during the quarter.

Whilst most remuneration policies published by our investee companies are now reasonably well aligned with shareholders' interests, we are still seeing issues arise in two areas. The first of these is around one-off payments to executives. These arise for a variety of reasons but are often the result of contractual changes or severance arrangements. Coca-Cola, L'Oréal, CME and Philip Morris have all been guilty of trying to make overly generous one-off pay-outs to individual executives and, as such, have attracted votes against their remuneration reports from Troy. We are not alone in our objections. Published voting data shows high levels of dissent; Coca-Cola saw over 49% of shareholders decline to ratify the remuneration report and CME's advisory resolution was rejected by over 75% of votes cast. We hope this will prompt action and a curtailment of this practice.

We have also cast a number of votes against remuneration resolutions that relate to returns-based targets. For long-term shareholders, return on invested capital (or return on equity) targets are a way of ensuring judicious deployment of capital. But they are fraught with complexity. Both Unilever (who exclude acquisition spend from their measure) and American Express (who have used an insufficiently challenging benchmark) could do more to improve these targets. We engaged with both these companies ahead of the AGM and escalated our concerns by voting against the Board's recommendations.

Capital Allocation

While the approval of dividends is the only regular resolution relating to capital allocation at company general meetings, large-scale M&A frequently precipitates the calling of an Extraordinary General Meeting (EGMs). One such EGM was held by Take-Two Interactive Software in May after the gaming company announced the intended acquisition of Zynga, the creator of FarmVille.

We much preferred Take-Two's historic strategic focus on organic growth, based on the development of renowned gaming franchises of the highest quality and sophistication. We see the merger as a diversion from this focus, adding complexity and diluting the quality of Take-Two's portfolio. We believe Take-Two's equity to be deeply undervalued, making it an expensive source of financing and leading us to vote against the issuance of new equity to fund the deal.

Whilst the levels of dissent shown by the results of the poll were less than 3% on the two main agenda items, we believe it is important to have indicated to management that approval was not universal.

Say on Climate

Management-proposed 'Say on Climate' resolutions are a recent, welcome addition to the agenda. To date, relatively few of our investee companies have voluntarily put their climate proposals to investors but, over recent AGM seasons, Unilever, Nestlé, S&P Global and Moody's have all shown leadership in this area. Shortly after the period end, National Grid was added to this list, with the company putting its climate strategy to voters and receiving support from over 98%. For carbon-intensive companies such as National Grid a 'Say on Climate' resolution is an important step in ensuring the interests of both shareholders and environmental stakeholders are aligned and we would encourage others to follow suit.

Shareholder resolutions

Of the resolutions voted in the second quarter, 86 (over 8%) were proposed by shareholders. While this number is diluted by Troy's UK investments (where the threshold for filing shareholder resolutions is higher), it is significantly higher than over the same quarter in 2021.

This increase reflects a growing understanding that shareholder resolutions are an important aspect of active ownership. Furthermore, the threshold for the first filing of a US shareholder resolution remains low: $2,000 of stock held for 3 years[1,2]. This proliferation is illustrated by the 29 shareholder resolutions lodged at the AGMs of just two US tech investments: Meta and Alphabet.

However, the increase has not been matched by an increase in support. Notably, Blackrock's July stewardship report highlights that the world's largest asset manager has seen a 44% reduction in its level of support for environmental and social shareholder resolutions and that the average level of support received for a

[1] SEC Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8.

[2] Section 338 of the Companies Act 2006 sets the UK thresholds at 5% of total voting rights or 100 shareholders.

shareholder resolution had fallen, from 36% to 27%.[3]

While shareholder advocacy platforms such as As You Sow undoubtedly perform a useful role in navigating the challenging legal process for lodging shareholder resolutions, at times we feel that resolutions could be better drafted to serve both society and financial stakeholders.[4] Furthermore, our materiality threshold protects us from the risk of using shareholder resolutions to micro-manage a company's executive. In the quarter we supported 25 shareholder resolutions where we felt the best interests of long-term shareholders, the environment and society had all been considered.

Walking the walk, not just talking the talk.

One shareholder item frequently seen on the AGM agenda is a proposal requiring companies to disclose lobbying spend. This has the potential to shed light on important discrepancies between a company's external public relations communications on certain issues and how it petitions policy makers and regulators behind closed doors. As Alphabet and Meta face increased regulation in relation to data rights and privacy, we felt such disclosures would shed light on corporate culture and their own sense of social purpose. We supported lobbying disclosure resolutions at both AGMs. Both resolutions received c.20% support which, given the concentration of voting rights in the hands of the founders of each of the companies, represents a significant level of support. We hope both companies will respond to demands of independent shareholders.

Communication

Like bidding in a game of bridge, voting against management resolutions follows a series of conventions. Also, like bridge, these conventions can differ. By way of example, a vote against a Board member could reflect dissatisfaction with the individual's performance, the performance of a committee they chair or concerns about their tenure or independence. This means that without additional communication, voting can be a very blunt tool. In ideal circumstances, such communication would take the form of a pre-AGM engagement, followed by an explanation of voting decisions. In several of the examples cited above, the voting decision was indeed the outcome of engagement and escalation. However, it is also the case that tight corporate time frames mean it is not always possible to follow this pattern. Subsequent to last year's AGM season, Troy implemented a practice of writing to every company we have voted against explaining the rationale behind our voting decisions. Combined with a principle belief that we should always endeavour to vote in the best interest of long-term shareholders, we hope that this ensures that your vote "is never lost".

Hugo Ure
Head of Responsible Investment
August 2022

[3] BlackRock Investment Stewardship 2022 voting spotlight summary

[4] https://www.asyousow.org

Responsible Investment at Troy

UK Stewardship Code

Signatory of:

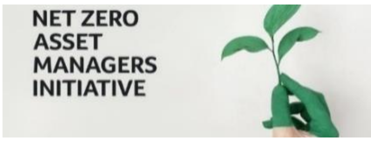
STEWARDSHIP CODE | 2021

United Nations' Principles for Responsible Investment

Signatory of:

PRI Principles for Responsible Investment

Net Zero Asset Managers Initiative

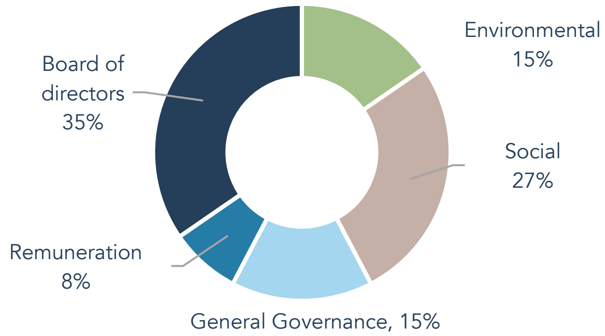


Voting

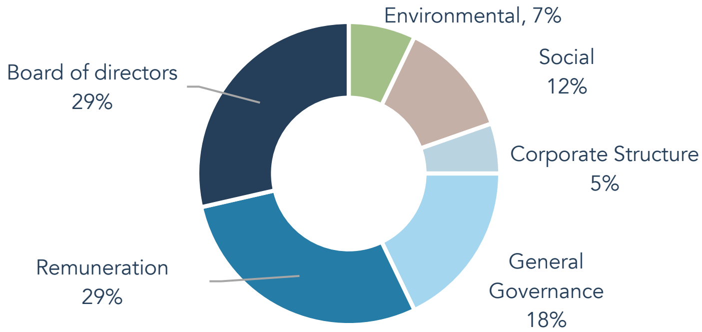
	2021	2022 YTD
Meetings Held	142	92
Meetings voted	100%	100%
Meetings with at least 1 vote Against Management*	23%	31%
Management Resolutions		
Total management resolutions	1,975	1,428
Votes against management resolutions*	2%	4%
Votes against ISS recommendations	3%	4%
Shareholder resolutions		
Total shareholder resolutions	59	88
Votes in favour of shareholder resolutions	44%	31%
Votes against ISS recommendations	15%	18%

Source: ISS. *This may include abstentions.

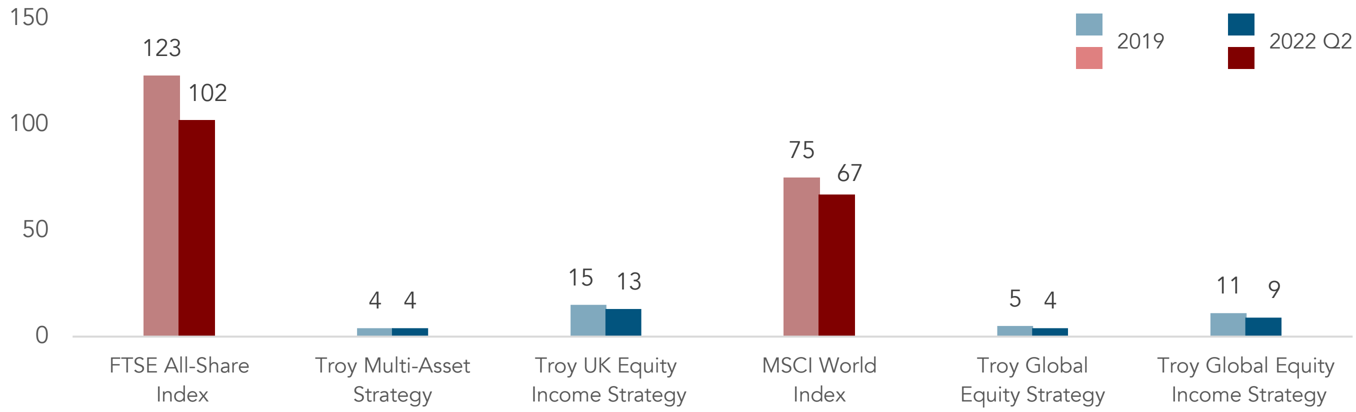
Votes in favour of shareholder resolutions – 2022 YTD



Votes against management recommendations – 2022 YTD (both management and shareholder resolutions)

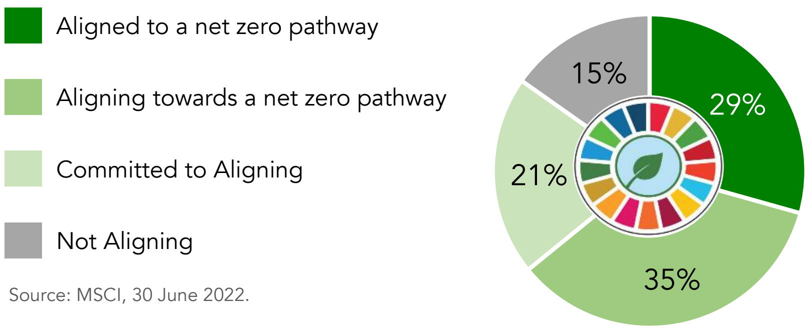


Portfolio Carbon Footprint (Metric Tons CO2e / $M Invested)*



Source: MSCI, 30 June 2022. *Carbon footprint calculated using market capitalisation. Asset Allocation subject to change. The information shown relates to a mandate which is representative of, and has been managed in accordance with, the relevant Troy Strategy.

Current Alignment of our Holdings with Net Zero by 2050

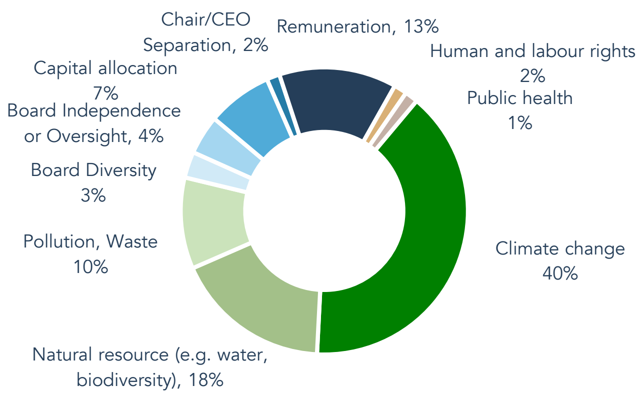


Source: MSCI, 30 June 2022.

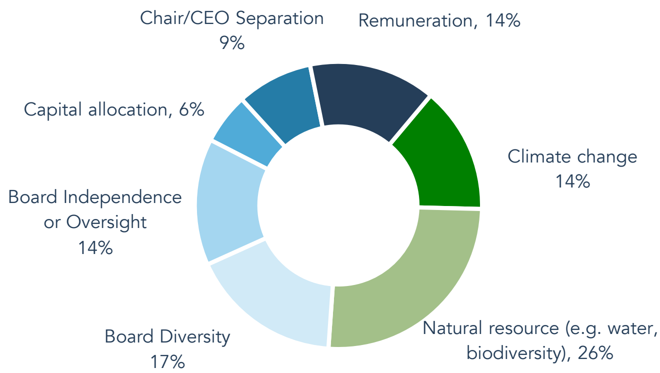
Troy have categorised all equity holdings along an alignment maturity scale in accordance with the IIGCC's Net Zero Investment Framework methodology. This reflects our commitment under the Net Zero Asset Managers Initiative to ensure our investments are on track to meet global ambitions of net zero emissions by 2050 or sooner. We currently have engagements underway with all holdings deemed 'not aligning', our goal is to move all holdings along the climate maturity scale with the ultimate goal of achieving net zero.

Engagement

2021 - 68 engagements with 47 companies



2022 YTD - 35 engagements with 25 companies



Notable Firm Engagements – Q2 2022

Company	E, S or G	Theme	Summary
Nestlé	G	Board Independence or Oversight	The non-independence of the chairman, combined with our belief that the previous CEO is not necessarily the best fit for the role today based on various factors led us to engage with the Secretary to the Board following an initial letter sent to Investor Relations. We would advocate someone with a strong record of value creation and a strong engagement with the relevant ESG issues affecting Nestlé. We followed up via email and also submitted votes against the reappointment of the chairman.
Fiserv	G	Chair/CEO Separation	Fiserv has combined its CEO and Chair roles having previously separated them. We believe separation of these roles gives shareholders assurance of a Board's independence and have communicated our views to IR in an email and voted against the re-election of the Lead Director. The Lead Director's independence is further compromised because he has served on the Board for too long (15 years).
Visa	G	Chair/CEO Separation	During our call with Visa's Chief Sustainability Officer and Chief Counsel we discussed our expectation for a CEO/Chairman separation to ensure Board independence and greater accountability of management to the Board. Our objective was for Visa to separate CEO/ Chair role at the next available opportunity. Visa's CEO Alfred Kelly Jr is approaching 65 years of age (currently 63) and therefore may look to retire in the next few years. This is a multi-year engagement.
Adobe	G	Chair/CEO Separation	Adobe combines its Chairman and CEO roles. We believe a separation of these roles would enhance the independence of the Board. Secondarily, the Senior Investment Director (SID) has served 9 years, further calling into question the Board's independence. The engagement was prompted by our first AGM since becoming shareholders in the company. Troy has voted against Frank Calderoni, Chair of the Governance & Sustainability Committee. Mr Calderoni is also the SID.
American Express	G	Remuneration	80% of Long-term Incentive Award is via performance based restricted stock with the KPIs split between 3-year average RoE KPI relative to peers and TSR relative to peers. The RoE objective is insufficiently demanding and is based on a group of financial peers which have structurally lower returns than Amex. There are also suboptimal elements to the short-term bonus, namely the lack of specificity when it comes to 'strategic' and 'customer satisfaction' metrics. We would like to see the company revise the RoE target (this is up for review in 2022) and consider improving the short-term KPIs. We have engaged several times in meetings on the RoE metric. The company's Compensation Committee and has welcomed the input.

Source: Troy Asset Management, 30 June 2022.

Disclaimer