



# Responsible Investment Report N°9

## The Principal-Agent Relationship

As the summer lull starts to set in for many of us, it's been all systems go in Westminster as the political parties prepared for a showdown in three important by-elections last Thursday, with the constituents of Uxbridge, Selby and Somerton choosing who to represent their interests in Parliament. Electing politicians is a classic example of a principal-agent relationship, an arrangement in which one entity appoints another to act on its behalf.

The same is often true in the business world. At Troy, we think like business owners; however, as minority shareholders our interests are represented by others, which is why it is important to have confidence in the competence and integrity of a company's management and board of directors, as well as ensuring that their incentives align with our own as long-term shareholders.

This quarter has seen Troy's Investment Team vote our shares at 57 company annual meetings – this is one of our primary opportunities as shareholders to have a say on important corporate governance matters. We thought it would be a good idea to share some reflections from this year's proxy voting season with you and shed light on how we arrive at our voting decisions.

## Why good governance matters?

The quality of corporate leadership can either add or detract from the overall quality of an investment. Most experienced investors will recall stories of investments that did not play out as expected owing to bad governance. Poor corporate governance has the potential to destroy shareholder value and cause permanent capital loss. This is precisely what Troy's investment process aims to avoid. Having witnessed first-hand the devastating consequences of poor governance, Troy's co-founders Lord Weinstock and Sebastian Lyon, placed great emphasis on robust governance structures, both for Troy's business and the companies in which Troy invests. Assessing the quality of governance is therefore a core tenet of our investment process, and one that is

expressed in our approach to proxy voting.

At Troy, we aim to invest in quality businesses with unique assets that are highly profitable. Management can shape the destiny of these businesses for the next decade (and beyond) owing to the foresight with which they make decisions today. A quick skim of recent news headlines is a reminder of the increased polarisation in public opinion, uncertainty around the macroeconomy and mounting concerns around the capabilities of artificial intelligence. Management teams who can steer companies through these uncertain and turbulent times, maintain an entrepreneurial spirit by investing for long-term growth and display an ability to adapt as exogenous forces emerge will inevitably be better positioned to survive and grow over time.

## How we vote

*"The ballot is stronger than the bullet"*

*Abraham Lincoln*

Voting our shares at companies' Annual General Meetings (AGMs) is an important aspect of active ownership – representing a unique opportunity to hold a company to account and influence the way in which it is governed. This gentler approach is in contrast with the methods employed by activist investors who have become known for their public confrontations with companies, often breaking the principal-agent relationship.

Troy are shareholders with longer than average time horizons, seeking to own portfolio companies for the next decade. The way in which we exercise our voting rights at AGMs is done with care and with the intention of upholding high standards of corporate governance. We aim to ensure that our voting decisions are integrated into our wider engagement agenda and investment decision-making. As voting season draws to a close, we have voted on a total of 1,043 resolutions at 57 company meetings this quarter.



Whilst Troy has always emphasised the importance of proxy voting, we have developed our process over recent years and become more active in our approach. Doing so has brought greater consistency to the way we vote and ensured we promote best-practice standards for corporate governance. It has also helped deepen relationships with investee companies since we write to them following a vote against management, sharing our voting rationale.

AGMs are analysed by members of our Investment Team which allows us to leverage our deep knowledge of companies and ensure our voting decisions reflect what we believe to be in the best long-term interest of shareholders. Troy run concentrated, low turnover portfolios of high-quality companies that are already well-governed. Our analysis of resolutions at a company AGM is an extension of our research, hence the importance we place on voting analysis and decisions being made by members of our investment team rather than outsourced to a separate function or third-party.

We seek to cast our votes in such a way that reinforces the alignment between management and shareholders, which is to sustainably grow profits and create long-term value. Provided we have not overpaid for the opportunity, this should result in maximising returns for our investors. This process includes appointing qualified and experienced directors to company boards and ensuring management incentives are aligned with the interests of committed shareholders.

### **Board composition and diversity**

We seek to promote boards that are majority independent, have an independent and experienced chair, and are comprised of qualified directors with relevant yet diverse expertise. Additionally, we like there to be an appropriate balance between longer-serving directors (who bring experience and a depth of company knowledge) and newer directors with fresher perspectives.

*“Great minds think unlike”*

*Matthew Syed*

The importance of cognitive diversity at company boards is not to be underestimated. Effective decision-making can be enhanced by diverse perspectives and different views that can be openly challenged and debated. While diversity of thought cannot be reduced to visible characteristics only, the latter still forms an important aspect of creating an inclusive and diverse environment. As minority shareholders, we gain greater assurance from diverse boards as they are more likely to counteract the risks of groupthink<sup>1</sup>.

Gender diversity at board level has gained greater attention lately. In the UK, the FTSE Leaders Women Review, which builds on the work of the former Hampton-Alexander and Davies Reviews, lays out the aspirations and expectations for gender-balanced boards and leadership teams by 2025. Addressing gender diversity at board level is relatively easy, there is certainly no shortage of qualified and experienced female board members. However, we recognise that change takes time and must follow the natural churn of directors. Recruiting talented and experienced board members is paramount. However, we feel strongly that the search to fill board seats should include a diverse candidate pipeline to promote diversity at board-level. This process should be additive to the wider aim of building a strong and capable board.

Troy has begun to vote against the incumbent chair of the nominations committee, or equivalent committee chair, at boards with less than 30 % female representation. We voted against four directors on these grounds in the second quarter. Our aim is to signal discontent at a lack of progress on gender diversity and initiate a dialogue on the topic. We appreciate that these issues are complex and require contextualisation and nuanced thinking; some geographies are further behind than others in addressing gender imbalances at board level and will inevitably have a longer way to go. However, that is not to say they shouldn't be addressed over time. Take Nintendo as an example. Of its ten board members only one is female, however this 10% female representation at board-level must be considered within the context of Japanese corporate governance where the overall

<sup>1</sup>The practice of thinking or making decisions as a group, resulting typically in unchallenged, poor-quality decision-making.



proportion of female directors is only 9%<sup>2</sup>. In total, 13 out of 86 companies held across Troy's portfolios have fewer than 30% female directors. We have an engagement underway with each and will continue to monitor the direction of travel at these companies over the coming years.

## CEO/ Chair separation

A chair guides the work of the board in its support and supervision of the executive. The combination of CEO and Chair roles, a feature at almost half S&P 500 companies, compromises this relationship and the value that independent oversight can bring. The US practice of having an independent lead director does not always provide sufficiently robust oversight. In the UK, the corporate governance code requires companies to "comply" by separating the two roles or else "explain." Over the quarter we have supported four shareholder resolutions proposing the appointment of an independent chair at US firms Coca-Cola, Pepsi, Colgate and Fiserv. These resolutions gained between 20% (Coca-Cola), 25% (Pepsi), 35% (Colgate) and 31% (Fiserv) support, sending a signal to the boards that a meaningful review of governance structures is warranted.

## Holding the accountants to account

The reappointment of third-party auditors is a common agenda item at AGMs. An independent external audit of a company's annual reports and accounts is a legal requirement. However, the independence and judgement of external auditors can be questioned when relationships become entrenched. We have begun to vote against auditors where the audit firm has a tenure of more than 20 years. Over the quarter, we voted against the re-appointment of ten auditors. By way of example, Adobe was founded in 1982 and has been audited by KPMG since 1983. As a result, this is the second year in a row we have voted against the re-appointment of the auditor at Adobe and have communicated our rationale to the company.

## Shareholder resolutions

Of the resolutions voted this quarter, 64 (6%) were proposed by shareholders. This number is significantly higher than over the same quarter in 2022. This increase reflects a growing understanding that shareholder resolutions are an important aspect of active ownership.

Shareholder resolutions span a range of ESG issues, there is no one-size-fits-all approach when deciding which resolutions to support or oppose. Troy's Investment Team carry out careful analysis and use research from our proxy-adviser, ISS, to inform our voting decisions. We are guided by materiality and common sense when voting on such resolutions. In the quarter we supported 23 shareholder resolutions where we felt the best interests of long-term shareholders, the environment and society had all been considered.

Examples of shareholder resolutions that Troy supported over the quarter include a proposal for Alphabet to report on the alignment of YouTube policies with online safety regulation. The proposal received 18% of shareholder support at the AGM. Another shareholder proposal Troy supported was for McDonald's to comply with World Health Organization (WHO) guidelines on antimicrobial use. This proposal received 20% of support from shareholders. These examples illustrate some of the reputational and regulatory risks our portfolio companies face. By supporting such shareholder resolutions, we are signalling to management that these are issues we do not believe should go unaddressed.

## Patient capital and constructive dialogue

At the 57 meetings held during the quarter, we voted against at least one resolution recommended by company boards in 26 of them (46% of meetings). We have also voted against the re-appointment of directors in 12 meetings (21% of meetings). Votes against board members may reflect dissatisfaction with the individual's performance, the performance of a committee they chair, concerns about their tenure, independence or in some instances may constitute an escalation of an engagement.

<sup>2</sup>Tokyo Shoko Research via Nippon.com



An example is American Express (Amex), Troy voted against the chair of the nominations, governance and public relations committee at the most recent AGM owing to our concerns over the combined CEO/Chair roles and less than 30% female representation at board level. Troy has a long-standing bilateral engagement on the issue of board independence with Amex which began in April 2021. Over the last few proxy voting seasons, we have supported shareholder proposals encouraging Amex to appoint an independent Chair. We continue to maintain a constructive dialogue with Amex on this issue and have had several meetings with management of Amex on the topic.

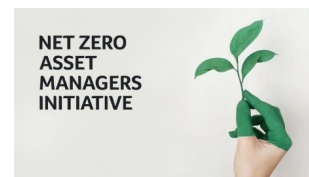
Without additional communication, voting can be a very blunt tool and we therefore write to companies where we vote against the board's recommendation to explain our voting decisions. We believe this process deepens the relationships we have with investee companies and serves to emphasise our long-term interests. The patient capital that Troy represents is appreciated by like-minded management teams and boards. Maintaining a constructive dialogue during times of disagreement is a practice we will continue to cultivate and prioritise.

Sian-Azilis Evans

July 2023



## Responsible Investment at Troy

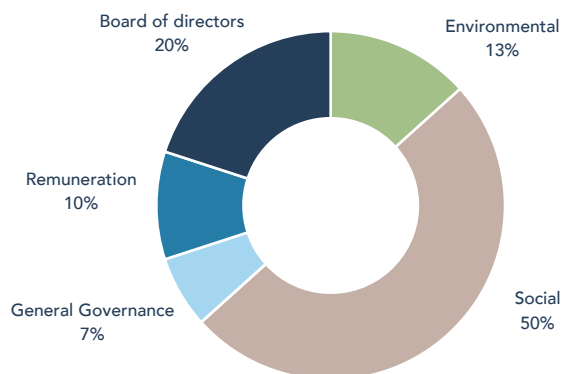


### Voting

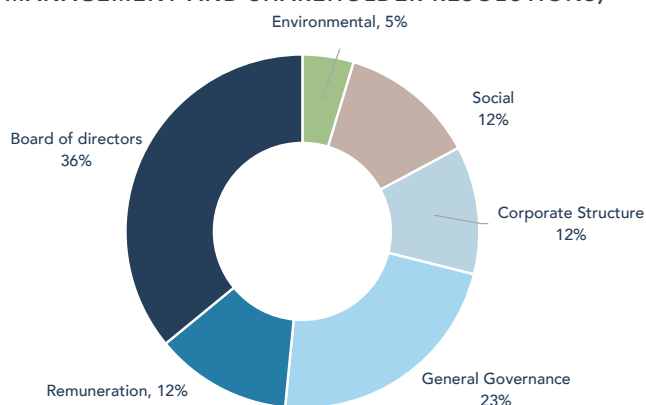
	2022	2023 YTD
Meetings Held	108	72
Meetings voted	100%	100%
Meetings with at least 1 vote Against Management*	29%	50%
<b>Management Resolutions</b>		
Total management resolutions	1,643	1,252
Votes against management resolutions*	4%	8%
Votes against ISS recommendations	4%	10%
<b>Shareholder Resolutions</b>		
Total shareholder resolutions	95	66
Votes in favour of shareholder resolutions	28%	46%
Votes against ISS recommendations	17%	29%

Source: ISS. \*This may include abstentions.

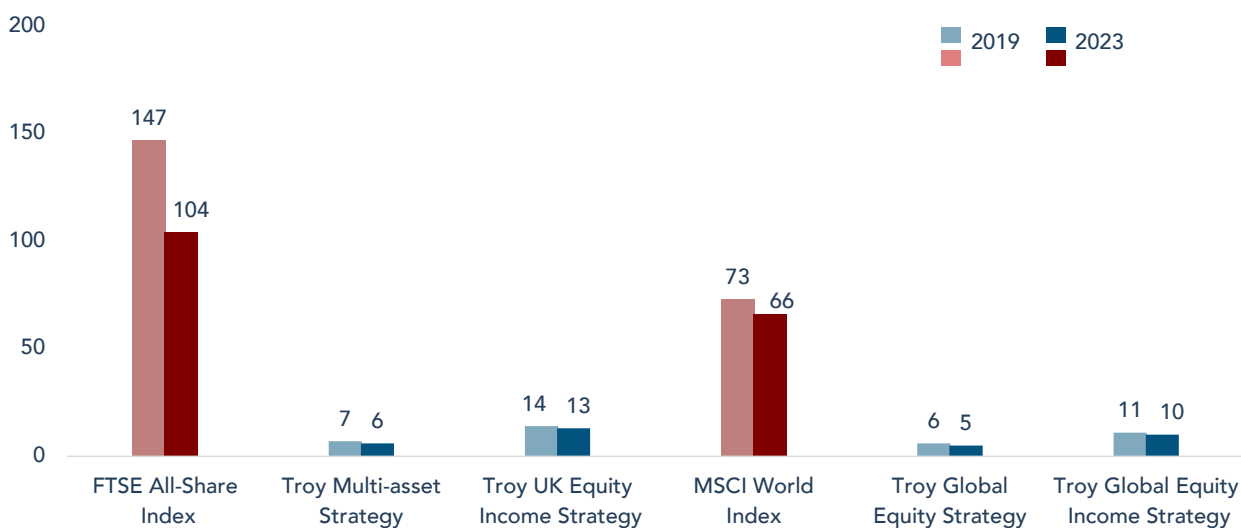
### VOTES IN FAVOUR OF SHAREHOLDER RESOLUTIONS – 2023 YTD



### VOTES AGAINST MANAGEMENT RECOMMENDATIONS - 2023 YTD (BOTH MANAGEMENT AND SHAREHOLDER RESOLUTIONS)



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

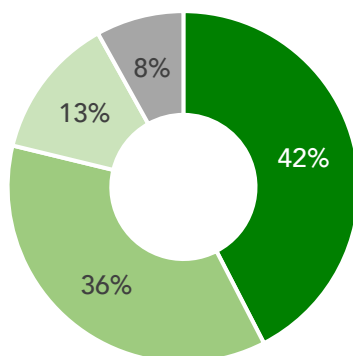
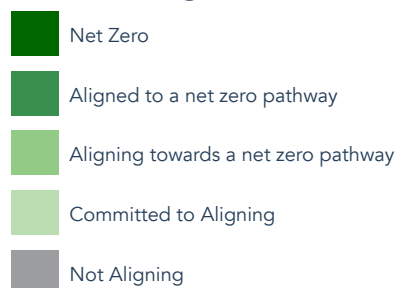


\*Carbon footprint calculated using market capitalisation.

Source: MSCI ESG Manager, portfolio holdings as at 30 June 2023 and data as at 5 July 2023. Asset Allocation subject to change. The information provided is based on calculations relating to corporate securities only. Where the fund holds other asset classes, such as cash or government bonds, these are excluded from the portfolio. The information shown relates to a mandate which is representative of, and has been managed in accordance with, the relevant Troy Strategy. Past performance is not a guide to future performance.



## Current Alignment of our Holdings with Net Zero by 2050



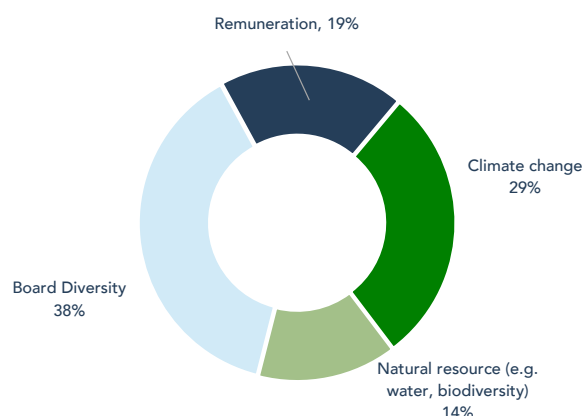
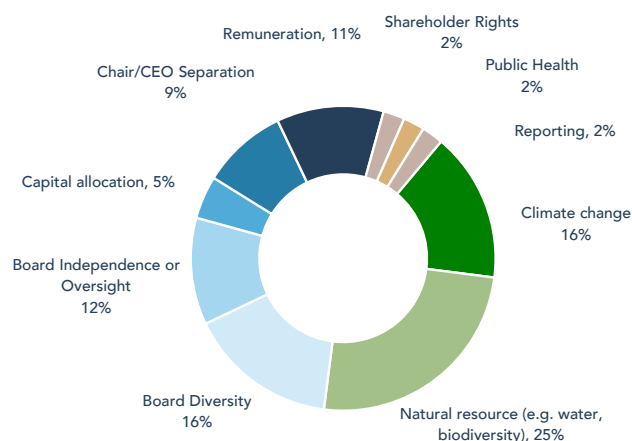
Troy has categorised all equity holdings along an alignment maturity scale in accordance with the Institutional Investors Group on Climate Change's (IIGCC) Net Zero Investment Framework methodology. This reflects our commitment under the Net Zero Asset Managers initiative to ensure our investments are 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 objective of achieving net zero. For further information please see [Troy's Climate Change Mitigation Policy](#).<sup>3</sup>

Source: MSCI ESG Manager, 30 June 2023.

## Engagements

2022 - 44 ENGAGEMENTS WITH 29 COMPANIES

2023 - 21 ENGAGEMENTS WITH 16 COMPANIES



## Notable Firm Engagements – Q2 2023

Company	E, S or G	Theme	Summary
Nintendo	E	Natural resource (e.g. water, biodiversity)	Troy participated in the CDP's annual non-disclosure campaign. Troy were a co-signatory in this campaign. The objective of this engagement is to get Nintendo to respond to the CDP's water insecurity questionnaire.
Roche	E	Climate Change	This engagement is part of the CDP's annual non-disclosure campaign. Troy were a co-signatory in this campaign. The objective of this engagement is to get Roche to respond to the CDP's annual climate change questionnaire.
AJ Bell	E	Climate Change	This engagement is part of the CDP's annual non-disclosure campaign. Troy are the lead investor in this campaign. The objective of this engagement is to get AJ Bell to respond to the CDP's annual climate change questionnaire. Following an email exchange, AJ Bell informed us that they will not be responding to the CDP's annual non-disclosure campaign on climate change given resource constraints this year. The company have published their first TCFD aligned report in 2023. We have encouraged them to continue to develop their climate reporting and utilise the CDP's questionnaire for future reporting and benchmarking over the coming years. We have now closed this engagement as unsuccessful.
Unilever	G	Remuneration	This engagement from 2021 was prompted by management acknowledging that the share price performance had been disappointing and with current levels of shareholder discontent in mind. They emphasised how difficult it had been to monitor performance during Covid-19. Troy reiterated to the Head of Remuneration our wish to see an improvement on the business winning market share KPI in the long-term incentive, as well as to see a more competitive CEO salary. We voted against the remuneration policy in the 2021, 2022 and 2023 AGM. Unilever's Remuneration Committee are reviewing the company's remuneration policy following a vote against director's remuneration at the most recent AGM. Andrea Jung (Remco Chair) hosted a session seeking feedback from shareholders on an early remuneration proposal before it will be finalised in September 2023. Unilever's Remuneration Committee sought feedback from Troy on the policy draft. The proposed changes to remuneration are well-aligned with Troy's view that the adjustable ROIC and business winning share metrics were not appropriate, the proposal would include a change to these metrics in favour of a total shareholder return (TSR) metric and sales growth targets. The policy would also include a change of peer group and change to CEO base pay to improve competitiveness for talent retention purposes. Troy is supportive of both of these changes. This engagement is ongoing.

Source: Troy Asset Management, 30 June 2023.

<sup>3</sup>This policy outlines the consideration of climate risk in our investment decision-making process for mandates which meet the criteria under Article 8 of the European Union's Sustainable Finance Disclosure Regulation



#### Disclaimer

All information in this document is correct as at 30 June 2023 unless stated otherwise.

Please refer to Troy's Glossary of Investment terms [here](#). The document has been provided for information purposes only. Neither the views nor the information contained within this document constitute investment advice or an offer to invest or to provide discretionary investment management services and should not be used as the basis of any investment decision. The document does not have regard to the investment objectives, financial situation or particular needs of any particular person. Although Troy Asset Management Limited considers the information included in this document to be reliable, no warranty is given as to its accuracy or completeness. The views expressed reflect the views of Troy Asset Management Limited at the date of this document; however, the views are not guarantees, should not be relied upon and may be subject to change without notice. No warranty is given as to the accuracy or completeness of the information included or provided by a third party in this document. Third party data may belong to a third party.

Past performance is not a guide to future performance. All references to benchmarks are for comparative purposes only. Overseas investments may be affected by movements in currency exchange rates. The value of an investment and any income from it may fall as well as rise and investors may get back less than they invested. The investment policy and process of the may not be suitable for all investors. Tax legislation and the levels of relief from taxation can change at any time. References to specific securities are included for the purposes of illustration only and should not be construed as a recommendation to buy or sell these securities.

Issued by Troy Asset Management Limited (registered in England & Wales No. 3930846). Registered office: 33 Davies Street, London W1K 4BP. Authorised and regulated by the Financial Conduct Authority (FRN: 195764) and registered with the U.S. Securities and Exchange Commission ("SEC") as an Investment Adviser (CRD: 319174). Registration with the SEC does not imply a certain level of skill or training.

© Troy Asset Management Limited 2023