LINDSELL TRAIN

ESG & Engagement Report

2021

Q1 ESG Update

There was much activity in the area of ESG during the first quarter of 2021, largely driven by UK and European regulatory deadlines and policy responses.

EU Sustainable Finance Disclosure Regulation (SFDR) came into effect on 10th March 2021 as part of the EU's legislative programme to make ESG a central plank of regulation in the financial services industry. Asset managers are required to comply with SFDR and indeed, Lindsell Train has put in place the necessary mandatory disclosures to meet our obligations as an Article 6 manager. Lindsell Train's Responsible Investment and Engagement Policy and Principal Adverse Impact Statement can be found on our website here.

The UK Stewardship Code 2020 (the Code) replaces the existing 2012 UK Stewardship Code and sets high expectations for how investors, and those that support them, invest and manage money on behalf of UK savers and pensioners, and how this leads to sustainable benefits for the economy, the environment and society. During Q1 2021, Lindsell Train submitted its inaugural Annual Stewardship Report to the FRC for their assessment and consideration. The first list of signatories is expected to be published in the summer 2021. This report can be found on our website here.

EU Shareholder Rights Directive II (SRD II) introduced the second phase of requirements in September 2020 and in response to this, during Q1 2021, we have responded to a number of client and consultant requests for information relating to significant votes and significant engagement activity. We have also made publicly available, for the first time, our voting records for 2020. These can be found on our website here.

Task Force on Climate-related Financial Disclosures (TCFD) promotes transparent and consistent reporting of climate-related financial information. Like many industry participants, we have been frustrated by the lack of uniformity of ESG data and as a result support the aims of any organisation promoting transparency and consistency. Over the last six months we have looked closely at TCFD and expect to sign up as a supporter once this review is concluded. Whilst there are no mandatory reporting obligations for supporters, if we were to publicly promote such an initiative, we would want to ensure our own ability to commit to reporting transparently. As such, we continue to review the governance structure, strategy and risk management processes of Lindsell Train Ltd as relates to ESG (including climate change). We have also built an in-house tool to assess the carbon footprint/intensity of our portfolios in line with TCFD and have reviewed our portfolios to determine which companies are already supporting/reporting in line with this important initiative. Data available on request.

ESG Strategy review/ESG Committee – to date we have developed our ESG strategy through discussion across the teams, with a more formal annual review. Updates and proposals are then addressed by senior management at quarterly Board or Management Committee meetings, when ESG is a standing agenda item. In Q1 it was proposed to the Board that an ESG Committee be established and this was approved on 30th March 2021, with the committee's initial meeting diarised for April 2021. Nick Train will chair the committee, which will have representation from investment, marketing/client services and compliance.

Engagement Activity – Q1 2021

It was another busy quarter for ESG engagement, with the Lindsell Train investment team communicating with management/board members of 12 of our portfolio holdings. We also held conversations with one activist investor (who holds a minority stake in one of our holdings), as well as a universe stock which is being considered for investment. These latter two conversations related to board composition and a global corporate health initiative respectively.

With regards to engagement with our portfolio holdings, highlights are as follows:

Initial and Ongoing Engagement

PZ Cussons and Unilever – Animal testing of health and personal care products, cosmetics and fragrances is a practice that is not only unnecessary but also acts as a barrier to the growing numbers of cruelty-conscious consumers globally. Fortunately, the practice is less common these days and we have determined through our research that very few of our companies engage in animal testing. Indeed, only companies selling personal care products, cosmetics or fragrances into China will have made their products available for animal-testing (see below). Nonetheless we have monitored this for some time and during Q1 2021 we engaged with the management of both Unilever and PZ Cussons on this matter.

This engagement was in part in response to the recent news that from 1st May 2021, China will remove the mandatory animal testing requirements for imported cosmetics. In the case of Unilever, this follows 10 years of hard work to ban this practice and it will enable Unilever to develop its Chinese cosmetics business, broadening it from the current very limited cross-border ecommerce set-up (i.e. products bought elsewhere are re-sold into China via ecommerce). Chinese authorities carried out the animal testing themselves and so any products imported were necessarily tested even if elsewhere in the world they were sold cruelty free, as indeed most brands are. Suspending this practice will therefore be positive news for all our cosmetics holdings, as there will no longer be a tension between targeting the Chinese market and supplying cruelty free products. This is an important and positive step and we will continue to discuss the subsequent potential upside with all relevant investee companies, including Unilever, PZ Cussons (PZC), Kao and Shiseido.

In the case of PZC, in our most recent meeting we sought confirmation from CEO, Jonathan Myers that it remained management's intention to pursue a cruelty free strategy. Myers confirmed that this was most certainly the case and added that PZC's strong ethical culture was a key attraction to him in his decision to join the business last year. Since joining, he has been impressed not only by the company's efforts to be cruelty free but also to review the use of plastic and remain vigilant about sourcing palm oil from environmentally conscious suppliers who do not engage in deforestation to clear land for these crops. It is their intention to step up these efforts and initiate reporting transparently on progress versus commitments as the whole company looks to achieve important milestones.

Diageo – In February we hosted a call with CEO, Ivan Menezes during which we discussed the social benefits from the global shift to drinking less and how this would impact Diageo's business. Diageo's strategy is focussed on encouraging their customers to drink less and drink better. To that extent, marketing is very focused on ensuring drinking in moderation. The source of future growth is not from increased units per capita, but rather from customers trading up from beer to wine, and then to higher quality spirits. So whilst Diageo claims only 2.4% market share of global alcohol sales, they have an important role to play and take this responsibility seriously. Additionally, the company is taking seriously low or zero alcohol offerings and sees an attractive opportunity to build out an additional business stream, as part of the Diageo brand. Existing key brands in this space include Seedlip and Gordons 0.0, which have both sold particularly well.

Elsewhere, management are actively pursuing sustainability goals to improve the efficiency of their overall business. These initiatives are very much directed at the long-term success of the business rather than for short-term economic payback, as it is no secret that early stage renewable energy is relatively expensive. Over time however they expect this will convert to economic and financial efficiencies. Overall water and energy use are coming down - indeed two Scottish distilleries are already net zero and the Bulleit distillery in Kentucky is well on its way to net zero. Despite this, Menezes was candid about the fact that their ambitions to reach net zero by 2030 will be difficult until new technology, on which they are reliant is developed. Nonetheless, the intent is there.

Escalation

We escalated our engagement in two instances this quarter, both of which related to remuneration.

Disney and Intuit - We wrote to the management of these two portfolio holdings, outlining our reasons for voting against the resolutions concerning compensation at their respective FY 2020 AGMs. We have engaged with both companies on a number of occasions to share our views regarding compensation best practice and continue to believe that both could foster greater shareholder alignment through improved compensation structures.

Results

Kirin Holdings – existing readers of our ESG reporting will recall that Lindsell Train engaged with the management and advisory board of Kirin Holdings during the course of 2020 regarding their investment in Myanmar and in particular their joint venture with the Myanmar Economic Holdings Public Company Limited (MEHPCL). Amnesty International and the UN has accused MEHPCL of using the proceeds of this joint venture to finance a military that has been associated with human rights abuses.

That said, Kirin's joint venture agreement with MEHPCL specifically prevents cashflows from the breweries to be used for any military purpose, however, MEHPCL is a sprawling conglomerate and it is not clear how its cashflows from the joint venture can be credibly isolated from its other operations. However, what has become clear through our engagement is that Kirin take their responsibilities in Myanmar seriously and we were comforted that management are committed to adhering to the highest standards of corporate and social responsibility. Indeed, in November 2020, Kirin management suspended the joint venture dividend payment in view of the significant lack of visibility regarding the future business environment. This move to sever their links with the military, whilst continuing to support business and commerce in Myanmar was commendable and would be a positive outcome of this otherwise dire situation. However, following the military coup and subsequent events in early 2021 this balance became untenable and Kirin was forced to withdraw from the joint venture entirely on 5th February 2021. On the surface we applaud this decision, however we keenly await any updates from Kirin on their progress in terminating the joint venture and will be asking for as much detail as possible when we speak to them next month, post Q1 results.

Collaboration

Ministry of Economy, Trade and Industry (METI) Japan - During Q1, we were pleased to participate in a call with various members of METI, hosted by PWC who are supporting METI with a research project with the overall purpose of improving corporate governance in Japan. The results of this collaborative engagement, which was aimed specifically at determining how investors view corporate governance in Japan, will be factored into future issuing guidance. Given that we believe that companies that observe high standards of governance should increase their chances of survivability, we were pleased to have the chance to share our thoughts.
Corporate transparency has historically been generally lower in Japan than for Western companies and corporate disclosure varies considerably from company to company. This is partly due to the high level of cross shareholdings between companies and financial institutions originally designed to foster business relationships. In recent years there has been a clear trend in reducing these cross holdings partly in the recognition that it ties up precious capital but also, encouraged by changing guidance and regulation, independent shareholders

can better supervise corporate governance standards necessary to compete in the modern world. We are supportive of the improving trends in corporate governance and ESG more generally particularly in the context of our investment time horizons. On that basis, as part of our engagement strategy, we encourage and advise our Japanese portfolio companies where relevant and necessary and we have been pleased to see that the companies in our portfolio have made substantial progress on this front. Indeed, the majority of our company's corporate disclosure is commendable, but we know there are still many companies that don't meet these standards. We expect to see some progress as increased corporate disclosure goes hand-in-hand with a diverse shareholder base.

METI sought our views on where they should issue guidance. Our views were as follows:

- Board diversity – Non-executive Director (NED) numbers are improving but the appropriateness of the individual and diversity of skillset is not. An effective NED should be an individual with relevant experience in order to provide a perspective and insight into how the company's strategy should be formulated over the longer term. Improved diversity will only be achieved by a degree of commitment and cooperation between the existing board (who propose NEDs) and the shareholders (who approve them).
- Chairman/CEO role – These roles should not be held by the same individual.
- Capital allocation – Improved disclosure of M&A activity, specifically outlining the rationale for capital allocation decisions.
- Environmental and Social policies - We would welcome greater disclosure of a company's environmental and social policies to ensure the company remains relevant to the consumers of the future, who are much more concerned with these issues than the consumers of the past.
- Fair treatment of shareholders –practices that unfairly favour one shareholder over another need to be curtailed (e.g., Quo cards or vouchers). Furthermore, such practices should not be promoted by the Tokyo Stock Exchange itself, an entity you would expect to be setting an example as it has the responsibility for overseeing the corporate governance of its members.
- Virtual shareholder meetings – These are valuable for a foreign investor; however these meetings would be much improved if shareholders were confined to voting by proxy.

Euromoney – this holding in our UK Equity strategy is undergoing a strategic review of its ESG proposition and is engaging with important stakeholders (including Lindsell Train) by way of sharing ideas and best practice. The meeting explored Lindsell Train's overall approach to ESG both at a corporate and investment level. It was agreed that much progress has been made in terms of what is being asked of all businesses by investors, clients and stakeholders. From Lindsell Train's perspective, we have seen a notable shift from client tick box questions to more thoughtful, integrated questioning which we are also trying to carry over to our interactions with investee companies. We also discussed the capabilities offered by rating agencies and the merits of increased consolidation and standardisation. There is much we can learn and share from leveraging the experiences and capabilities of all financial market participants.

Q2 ESG Update

As with Q1, there was much activity in the area of ESG during the second quarter of 2021. We are pleased to share with you the following key milestones:

ESG Committee – The Committee held its inaugural meeting on 22nd April, led by committee Chair, Nick Train. The Committee's role is to ensure the clear definition of our ESG strategy, as well as to oversee the identification and mitigation of risks relating to ESG. The Committee is also responsible for ensuring that Lindsell Train as a business monitors the sustainability of its operations and adopts the necessary policies and objectives to meet the standards expected of us by our clients, stakeholders, and regulators. During the meeting, the Committee reviewed our progress year to date and set 12 ambitious objectives for the remainder of the year. These objectives address all areas of our business, including corporate governance and strategy, risk management, investment research, diversity and inclusion, and resources.

Principles for Responsible Investment (PRI) – We submitted our inaugural report to the PRI in April 2021 and now await their feedback, which we expect to receive later this summer.

Task Force on Climate-related Financial Disclosures (TCFD) – We were pleased to confirm our public supportof TCFD in May 2021 and expect to publish a TCFD report for Lindsell Train Limited later this year. As such,we continue to review the governance structure, strategy and risk management processes of Lindsell Train Ltd as relates to ESG (including climate change). We have also built an in-house tool to assess the carbon footprint/intensity of our portfolios in line with TCFD and have reviewed our portfolios to determine which companies are already supporting/reporting in line with this important initiative. Data available on request.

Sustainability Accounting Standards Board (SASB) – Lindsell Train is proud to support the work of SASB, having become a User Member of SASB in May 2021. The SASB Standards guide the disclosure of financiallymaterial sustainability information, under the auspices of the Value Reporting Foundation, a global nonprofit organization.

ESG Research Database - ESG research conducted by the team is now catalogued via a proprietary database of risk factors. Like all our company analysis, this research is bottom-up and sourced from published reports and accounts, together with other publicly available information and meetings with management. The database helps us to centralise and codify our team's views, as well as to prioritise our ongoing research and engagement work. We cross-reference this work with the SASB Materiality Map©, which identifies likely material sustainability issues on an industry-by-industry basis, allowing us to coordinate research along (increasingly standardised) industry reporting methods, and to mitigate against potential blind-spots. Importantly, however, the extensive research conducted to identify the ESG risks posed at a stock-specific level is our own. Furthermore, this enhancement to our process has not resulted in any changes to the fundamentals of our investment philosophy or process.

Financials Services Agency (FSA) Consultation – We submitted a response to the 2021 call for Public Comments on the proposed changes to Japan's Corporate Governance Code and Guidelines for Investor andCompany Engagement, following our collaboration with the Ministry for Economic Trade and Industry (METI)in March 2021. Lindsell Train recognises the fundamental role played by strong and effective corporate governance practices and believes that companies that observe high standards of governance should increase their chances of survivability and success. As stewards of capital we respect the responsibility placed on us, by our clients, to improve the allocation of capital in the economy to create sustainable value for the betterment of society. As long-term investors in Japanese equities, we were pleased to have the opportunity to engage with METI and PWC (please refer to our Q1 report for details), and also submit our comments as a part of this important consultation.

It was another busy quarter for ESG engagement, with the Lindsell Train investment team communicating on specific ESG issues with management/board members of 16 of our portfolio holdings. We also collaborated with our peer, CCLA and with Accounting for Sustainability (A4S).

With regards to engagement with our portfolio holdings, highlights are as

follows:Initiated and Ongoing Engagement

Burberry – In April, we engaged with Julian Easthope, Investor Relations at Burberry following news that Burberry had been targeted by China authorities in retaliation to Britain's recently imposed sanctions on account of alleged human rights abuses in the Chinese cotton-producing region, Xinjiang. Burberry is a long-standing member of the Better Cotton Initiative (BCI), a group that promotes sustainable cotton production, which announced it was suspending its approval of cotton sourced from Xinjian, citing human rights concerns.

Burberry believe that they have been unfairly implicated as a result of their involvement with BCI, although it would seem other luxury members of BCI have successfully avoided the wrath of the Chinese social media. Fortunately, the impact on Burberry has been limited to unpleasant social media feedback, the loss of two Chinese brand ambassadors and a severed collaboration with Tencent, relating to their video game Honor of Kings. Other Tencent tie-ups and enterprises remain unaffected.

It is Burberry policy not to respond with public statements, and so instead they responded in the short term by reducing their advertising in China, with the intention of building this back up as tensions lessen. To date, Burberry have not identified any tangible revenue impact from purchasing boycotts and so it is hard to gauge the long-term impacts, if any, of these events. Ultimately, the Chinese consumer wants products with European provenance and that includes Burberry. ESG is an important part of Burberry's brand and as a result they need to be careful to protect their ESG credentials and initiatives, despite the occasional trade-off.

AG Barr, Shiseido, Calbee – A notable theme of our engagement this quarter related to conversations with management regarding plastic production. Specifically, we spoke to the management of AG Barr, Shiseido and Calbee regarding their strategies to reduce the amount of plastic packaging, to protect the environment and specifically the Oceans (Sustainable Development Goal 14 – Life Below Water). Whilst there is clearly value in plastic, in terms of getting products to consumers safely and efficiently, recent Global research has widely publicised the alarming rate at which plastic flows into our oceans each year. With the advent of plastic packaging taxes (for example in the UK the proposed tax will apply to packaging produced or imported that does not contain at least 30% recycled plastic), this is fast becoming a potentially financially material issue. However, plastic reduction is not straightforward and can have adverse impacts, for example Calbee highlighted a reduction in product shelf-life and the resultant food loss as a notable trade-off. Shiseido are focussing on promoting refill options for a number of their products and are also working with top tier chemical companies in Japan to develop biodegradable plastics. Closer to home, AG Barr reminded us of not only the potential explicit costs (e.g. litigation, plastic taxes etc.) but also the potential decline in consumer demand they could face given that currently plastic in packaging is the most cited consumer concern. So whilst their reduction commitments are currently an economic drag, AG Barr are optimistic that the costs associated with this strategy will be more than outweighed by the positive sentiment and subsequent economic value derived from a trusting consumer base, who love their brands.

Kirin Holdings – existing readers of our ESG reporting will recall that Lindsell Train engaged with the management and advisory board of Kirin Holdings during the course of 2020 regarding their investment in Myanmar and in particular their joint venture with the Myanmar Economic Holdings Public Company Limited(MEHPCL). During our meeting with management in June, we again engaged with Kirin on this matter. Kirin have confirmed that they are looking to withdraw from the joint venture with MEHPCL, however at this point, MEHPCL has not agreed to divest its stake. As such, it is hard for Kirin to comment further on negotiations; however, they have assured us that resolving this issue is a priority and they are considering all options to conclude the matter. In the meantime, Kirin continues to be in contact with the investigation team, human rights NGOs, legal counsel and outside advisors in order to increase their chances of finding anoptimal solution. We continue to follow developments closely.

Escalation

We escalated our engagement in three instances this quarter, all of which related to remuneration.

Mondelez, PayPal and WWE - We wrote to the management of these three portfolio holdings, outlining our reasons for abstaining, in the case of WWE and Mondelez, and voting against in the case of PayPal, the resolutions concerning compensation at their respective 2021 AGMs. We have engaged with all three companies on a number of occasions to share our views regarding compensation best practice and continue to believe that all three companies could foster greater shareholder alignment through improved compensation structures.

Results

The majority of our engagement activity is ongoing and as a result no engagements concluded during the quarter.

Collaboration

Accounting for Sustainability (A4S) - During Q2, we were pleased to participate in a roundtable hosted by A4S, a Prince of Wales initiative aimed at engaging with the Finance community and leaders to make sustainable business, business as usual. This roundtable sought to engage with investors to discuss how sustainability plays a role in the investment decisions and processes and was an opportunity for investors, CFOs and IR directors from large global companies to share experiences and insights, as well as discuss challenges and concerns.

CCLA – We initiated a dialogue with the Head of Responsible Investment of the asset manager CCLA specifically regarding their initiative, “Find it, Fix it, Prevent it” which is aimed at abolishing modern slavery. Prior to 2018 their work on modern slavery was primarily focussed on policy, however they have since broadened the scope to ensure an actionable response, to combat what is now widely considered a financially material and systemic issue. The initiative is backed by the Investment Association and the PRI (to help spread the word and prevent industry duplication of initiatives), as well as the University of Nottingham Rights Lab. CCLA are seeking asset managers to collaborate with them on this important initiative and we will be giving consideration to what we heard.

Q3 ESG Update

As with the first half of the year, there was much activity in the area of ESG during the third quarter of 2021. We are pleased to share with you the following key milestones:

The UK Stewardship Code 2020 (the Code) - We are delighted to confirm that Lindsell Train was included on the inaugural list of Stewardship Code signatories. This reflects our enhanced efforts as a firm to integrate stewardship and responsible investment into our investment decision-making, reporting and governance activities. The Code replaces the existing 2012 UK Stewardship Code and sets high expectations for how investors, and those that support them, invest and manage money on behalf of UK savers and pensioners, and how this leads to sustainable benefits for the economy, the environment and society. Lindsell Train's Annual Stewardship Report can be found on our website here.

ESG Training – In July we hosted our third annual ESG training event. For the first time, we were extremely grateful to have been supported by three external contributors: longstanding portfolio company, Unilever; investment consultant Aon; and our client Border to Coast. These firms are important partners to Lindsell Train and are also businesses that we are aware have made significant progress in their approach to ESG and therefore we were keen to learn from them. Our collaborative discussions explored how we can together tackle some of the key ESG issues facing our industry; namely climate change, including the transition to net zero, and effective stewardship. The session also sought to remind Lindsell Train staff about the key principles of Responsible Investing, to update them on industry developments, to confirm how Lindsell Train integrates such principles into our investment process and to discuss examples of company engagement on ESG issues.

Website – during the third quarter we launched our new website www.lindselltrain.com, which now includes a section dedicated to Responsible Investment. You can read about our approach to ESG from an investment perspective, as well as how we are adopting the necessary policies and objectives to ensure the sustainability of our own operations. We'd love to hear what you think!

Task Force on Climate-related Financial Disclosures (TCFD) – We have continued to explore the best ways to approach achieving a net-zero goal for both our firm and our investments. This analysis is ongoing; however, we expect to be able to publish the necessary policies, road map and targets within our inaugural TCFD report, which we are aiming to finalise in Q1 2022.

ESG Information Gathering - The investment team are currently in the process of contacting (via calls/written letters) all our portfolio companies to complete an information gathering exercise aimed at clarifying their stances on, and approaches to, certain ESG factors with the objective of ensuring that all our companies publicly report this essential information and data going forward.

A4S Essential Guide to Enhancing Investor Engagement – We were pleased to contribute to the A4S roundtable on Enhancing Investor Engagement, as reported last quarter; the insights from which have become part of a recently published Essential Guide for investor relations teams. Effective engagement between companies and investors is crucial for real progress on sustainability. So, whilst the degree to which sustainability is integrated into investment decision making and interactions between companies and their investors has increased significantly, there is still more to do to ensure the effective transmission of critical information.

Engagement Activity – Q3 2021

It was another busy quarter for ESG engagement, with the Lindsell Train investment team communicating with management/board members of 12 of our portfolio holdings. Highlights are as follows:

Initial and Ongoing Engagement

Diageo, Heineken, Coca-Cola – We continued to engage with Diageo and Heineken on their initiatives to promote drinking in moderation. Similarly, we initiated a discussion with Coca-Cola regarding their responsibility for consumer health and how they are addressing the obesity problem. Coca-Cola confirmed that, in addition to offering low-calorie alternatives, management are partnering with governments and NGOs to enable them to quickly respond to incoming regulations.

We also took the opportunity to hear from Heineken and Diageo on their progress with regards to their environmental policies and strategy. Heineken described the forward momentum resulting from the fact that environmental targets are now integrated into their operating framework. There are of course hurdles to their success, for example cleaner energy is more accessible in certain markets, and hence to their progress which in many cases will be region specific. In addition, management are now required to predict technological change to the extent that their power purchase agreements are typically for 20 years. So, despite being aware of the technological advancement that is underway, they have no option but to lock in the productivity of the existing technology for contracts that are soon to expire. This is not dissimilar to managing a portfolio of bond maturities, to the extent that management will have to embrace a technology portfolio of different maturities. A somewhat challenging balancing act! Diageo are similarly stretching their ambitions and are now well underway in terms of their ESG journey. They're integrating ESG metrics ever more strongly into business performance and long-term share rewards, which has had the added bonus of helping them attract talent. In terms of notable milestones and projects, management have recently announced a new solar farm at Leven, which will cover 20-30% of the packing plant's energy requirements, as well as the opening of a bourbon distillery that is net zero from day one.

Escalation

Sage – The cornerstone of Lindsell Train's investment process is to identify whether a company is "exceptional" – which we define as a company that is durable (likely to be profitably in business in 20 years' time), maintains a high return on capital and demonstrates superior capital allocation. Monitoring capital allocation therefore forms an important part of our engagement strategy. At a minimum, we expect companies to reinvest in the business to maintain its competitive edge. Next, we expect companies to consider acquiring complementary businesses, so long as by doing so they at least maintain their high return on capital. When the opportunity to make accretive investments does not exist, we would expect management to return cash to shareholders through paying dividends or through share repurchases at accretive prices.

Following the news that our UK holding, Sage had announced a substantial buyback, our investment team contacted management to ensure that the buyback had occurred at a point where they had judged that the equity was demonstrably and meaningfully undervalued. We also sought confirmation that there had been no opportunity cost, in terms of accelerating growth. Sage management and Board confirmed that they remain focused on M&A opportunities, and prioritising investment to drive growth. However, their disposal program has generated significant cash proceeds, on top of strong organic cash flows, and hence, after careful consideration of the valuation by the board, the buyback decision had been taken. We have engaged with Sage on this matter in the past and were pleased that management's response demonstrated consistency as well as discipline of execution.

eBay and WWE - We wrote to the management of these two portfolio holdings, outlining our reasons for voting against (eBay) and abstaining from (WWE) the resolutions concerning compensation at their respective AGMs. This was the first time that we have written to the Compensation Committee of WWE. However we have engaged with eBay on several occasions to share our views regarding compensation best practice and continue to believe that the Board could foster greater shareholder alignment through improved compensation structures.

Yakult – Following a recent call with management of Japan fund holding, Yakult, we felt compelled to follow up in writing to confirm our understanding of their strategy as it relates to environmental and governance matters, specifically the recycling of their bottles. We had concerns that the company's progress in terms of its environmental policies had been slow - in particular its unambitious GHG reduction targets, plastic recycling and water consumption reduction targets - and, if not addressed, could tarnish the brand. Yakult were quick to respond and requested another call to clarify their position on these matters. Management conveyed that climate change, plastic packaging, and water-related issues are of enormous strategic importance and so they want to ensure that any areas of concern we have are properly addressed. Yakult went on to provide a detailed overview of their recycling infrastructure, as well as the various recycling techniques (chemical, thermal and incineration) that are currently practised. Ultimately, Yakult will face tough decisions in terms of the future of their production strategy and the material they use to bottle their product. They are acutely aware of the demands of the increasingly discerning consumer and will continue to dedicate the necessary resource to ensuring that they get this right. We will be monitoring their actions closely.

Results

All engagement activity is ongoing and there are no results to share this quarter.

Collaboration

Over and above our training session, detailed above, there were no collaborations to report this quarter.

Q4 ESG Update

Our ESG efforts in Q4 were primarily focussed on climate change, with key milestones noted below:

Net Zero Asset Managers (NZAM) - We are delighted to confirm that Lindsell Train became a signatory of Net Zero Asset Managers in December 2021. This reflects our enhanced efforts as a firm to support the goal of net zero greenhouse gas emissions by 2050 or sooner.

Task Force on Climate-related Financial Disclosures (TCFD) – We are committed to expanding our reporting and disclosure, with the objective of advancing our investors' understanding of how climate change may impact their investments over time. In this respect, we believe the TCFD framework offers a practical way of outlining our approach to integrating climate-related risk and opportunities. To that end, we are in the final stages of drafting this Lindsell Train's inaugural TCFD report, which we hope to publish in February.

ESG Information Gathering - The investment team continued with their project to contact (via written letters) all portfolio companies that do not currently publicly report the ESG data essential to our analysis (for example scope emissions data and net zero targets). As part of this process, we also encouraged our companies to report in line with the TCFD framework and to set science-based targets where possible.

Meanwhile, Madeline Wright, Deputy Portfolio Manager, made significant progress with her large-scale project to hold an ESG specific discussion with every company in our portfolios (just over 70 companies). During these calls, she identified the tricky issue of how a company, in striving for Net Zero, can measurably reduce greenhouse gas emissions when in many cases the majority of these emissions tend to lie within the wider supply chain and therefore outside the company's direct control (in case you missed it, a more detailed report is available here).

Engagement Activity – Q4 2021

As well as the engagement activity noted in the opening section of this report, the Lindsell Train investment team communicated with management/board members of five of our portfolio holdings on specific matters arising. Details of these engagements have been provided below:

Initial and Ongoing Engagement

Juventus – We held a call with Juventus president, Andrea Agnelli and CFO, Stefano Cerrato, following the news that prosecutors in Turin were investigating Juventus for allegedly inflating the value of their players for accounting purposes. Juventus believes the claims to be groundless and nothing more than a matter of politics. This is the eleventh case of this kind in the last 20 years, and the fifth under Andrea Agnelli's tenure. Juventus, like its majority owner Exor, has strong corporate governance in place, and we have been assured by the company that they have at all times acted legally and within industry guidelines, but we will continue to monitor the situation.

DMGT – In December, Lord Rothermere secured enough shareholder support to delist the Daily Mail and General Trust, which has been quoted on the London Stock Exchange since 1932. Shareholders will receive a special dividend and an equity interest in Cazoo, the online car retailer. For the Lindsell Train investment team, our support of this transaction followed a lengthy engagement process with the Board of DMGT and their advisors, as this was not a straightforward decision. Our engagement commenced in mid-October, via dialogue with the corporate finance teams representing each party but escalated in November once the bid had formally been tabled. At this point we spoke to Kevin Parry (NED) and Tim Collier (CFO/Board Member) of DMGT to better understand the valuation metrics used by the Directors in determining the offer price. At the end of November, the Board presented a revised and increased offer for the outstanding DMGT shares, which Lindsell Train formally accepted.

Ultimately we supported the Board's recommendation in line with our long-term approach, which generally leads us to be supportive of company management (and in the majority of instances Lindsell Train will vote in line with company recommendations). Whilst the primary voting policy of Lindsell Train is of course to protect or enhance the economic value of its investments on behalf of its clients, it would be unusual for us to disagree with a formal recommendation from a board for what they determine to be a fair offer.

WWE – We spoke to incoming CFO, Frank Riddick and Senior Vice President, Michael Weitz in November following the announced departure of former CFO Kristina Salen. There will be no changes to the strategy as a result of her departure, however the hope is that Riddick will improve execution. We were reassured that there are no legacy issues from Kristina's time and overall, the management team is in good shape. They are working hard to build back the team and believe that there are a number of exciting opportunities on the horizon, including two major ongoing searches for a head of IR as well as a new head of HR. We will continue to monitor this closely.

Mondelez – We have had a number of meetings with Mondelez management throughout the year and ESG has been an important thread. In June 2021, the CFO described the opportunities presented by a mindful and deliberate ESG strategy. They intend to focus their approach on a handful of clear commitments; for example, they are stepping up their efforts to prevent slavery and child labour, as well as improving their knowledge of sustainable cocoa sourcing and deforestation. These are complex challenges that require collaboration across corporations, NGOs and the local communities, as driving change is not about intervention but rather providing tools, training and support. Mondelez's Cocoa Life program, launched in 2012, is a good example of such a collaboration, as are the child-labour monitoring committees that Mondelez has helped establish. Whilst Covid has slowed progress, Chris McGrath, Head of Sustainability at Mondelez, confirmed during a meeting in July 2021 that most projects are well underway and largely on track to meet their published targets.

More recently we engaged with Mondelez management regarding the recent Nabisco strike in Portland, Oregon, where Mondelez ultimately settled with the workers' union, limiting the potential repercussions.

Escalation

Kirin Holdings – existing readers of our ESG reporting will recall that Lindsell Train has been engaging with the management and advisory board of Kirin Holdings since the beginning of 2020 regarding their investment in Myanmar and in particular their joint venture with the Myanmar Economic Holdings Public Company Limited (MEH). During meetings in both June and December 2021, we again engaged with Kirin on this matter.

In November, Kirin announced that MEH had placed a petition with the courts to wind up its local joint venture, Myanmar Brewery ('MB'). Kirin on the other hand has been pursuing negotiations to dissolve the joint venture whilst looking to ensure that the business can continue. It's clear that MEH has been uncooperative in these negotiations, has acted to further its own interests and has ignored the wishes of its partner. Kirin is considering its legal options and vows to request dismissal of the petition. It doubts the fairness of the liquidation process, citing a violation of the joint venture agreement and of Myanmar's laws and regulations. However, against the background of the military takeover of the country's government earlier this year and the seeming determination of MEH to liquidate the joint venture regardless of Kirin's preference, we would have a low expectation of these actions yielding a positive resolution for Kirin. Assuming the business is wound up, whilst losses would amount to a relatively minor hit in the context of the size of the company, this represents a strategic misstep.

Mistakes aside, the company reacted responsibly when it became clear that MB dividends might have been used by the military in contravention of the joint venture agreement. Suspending all dividends from the joint venture and then seeking to dissolve it were the correct actions in the circumstances, even if the probability was that a wholesale write-off of its investment would be the likely outcome and one that now looks like eventuating.

Kirin continues to be in contact with the investigation team, human rights NGOs, legal counsel and outside advisors in order to increase their chances of finding an optimal solution. We continue to follow developments closely.

Results

All engagement activity is ongoing and there are no results to share this quarter.

Collaboration

There were no collaborations to report this quarter.