LINDSELL TRAIN

ESG & Engagement Report

2023

Q1 ESG Update

The first quarter of 2023 was quieter than previous quarters, with regards to ESG activity outside of our ongoing engagement work. We published our second annual Task Force on Climate-related Financial Disclosures (TCFD) report, which is available on our website here. We also responded to a survey sent to all Japan Stewardship Code signatories, with the objective of updating the Japanese Financial Services Agency on institutional investors' stewardship endeavors.

Engagement Activity – Q1 2023

Our investment team communicated with investor relations/management/board members of seven of our portfolio holdings on specific matters we had identified. These included Celtic (ownership succession discussions), Burberry (remuneration and personnel turnover), Hargreaves Lansdown (remuneration, strategy and shareholder politics) as well as the following:

Initial and Ongoing Engagement

Ito En – we are long standing investors in Japanese drinks company, Ito En. We are attracted to the characteristics of differentiated branded franchises and we particularly admire the healthy sugar free characteristics of Ito En's portfolio and its overall position in the Japanese soft drinks market. There is also the potential for Ito En to expand overseas especially in Asia where consumption of green tea, Ito En's staple, is already well entrenched. We have engaged with management in the past to encourage more ambitious expansion and to promote consolidation within the Japanese soft drinks market. We have also proactively engaged with the Ito En Board to encourage them to use their net cash to retire preference shares. During the first quarter we reignited our engagement efforts by raising these matters again with the President, Daisuke Honjo. With regards to the preference shares, the Board acknowledge the wide price difference between the preference and ordinary shares as a concern and they are considering their options, which include offering shares to employees as an incentive as well as a more aggressive share buyback program. Whilst this work is ongoing, we are comforted by the yield of the preference shares at 2.6% (compared to the ordinary dividend yield at 0.9%).

WWE - Readers of this report will recall that we engaged with WWE on several occasions in 2022 following allegations of misconduct against the CEO Vince McMahon and rumours of a purported sale of the business. This engagement was reinvigorated in Q1 when, ending months of speculation, Vince returned to a reshuffled WWE board with the stated purpose of leading a sale process. We spoke to management on two occasions with the objective of clarifying the implications of the board reshuffle and also reminding management of our belief that the market continues to undervalue WWE's potential and that a sale at anything other than a knockout price would be disappointing.

Frank Riddick (CFO) detailed the appointments (Michell Wilson and George Barrios), the resignations (Ignace Lahoud and Man Jit Singh) and the removals (Jo Ellen, Lyons Dillon, Jeffrey Speed and Alan Wexler). Unfortunately, Vince's daughter Stephanie McMahon, who had recently taken up the chair/co-CEO role, simultaneously resigned from this position. We shared our disappointment, as we had been impressed by Stephanie when she visited our offices in Autumn 2022. However, we were pleased to hear that Paul Levesque, amongst others, would be staying and would remain in charge of the creative side. Frank reassured us that the board is appropriately resourced and was focussed on pursuing a sale of the business, as it was felt that the best price would be achieved with Vince at the helm, ably supported by his Board allies.

We enquired as to whether the company would be distracted should the deal derail and they assured us that this wouldn't be the case. Similarly, we asked whether the strategic review would disrupt the TV rights negotiations. They also assured us that this would not be the case. Of course, a deal has now been

announced (Endeavor will combine its Ultimate Fighting Championship (UFC) assets with WWE, to create a new, separately-listed company) and as you would expect, we've already engaged with the leadership teams on both sides, and we look forward to further engagements in the intervening period before the transaction officially goes ahead at the end of the year. In the meantime, the investment team are busy assessing the consequences and analysing the soon-to-be combined assets.

Unilever – we spoke to Nils Andersen (Chairman) and Richard Williams (IR) in February, following the news that Hein Schumacher will be succeeding Alan Jope as CEO. It was explained that Hein had been identified several years ago as a possible candidate. Hein was appointed following Board interviews where he received unanimous support. His CV showcases his numerical capabilities (he has been a CFO at dairy multinational Royal FrieslandCampinas) and his sustainability credentials as well as strong leadership skills and a good knowledge of emerging markets (having run China for Heinz). From a perception and reputational standpoint, it also helps that he is an external hire. Unilever's new strategy will be well supported by Hein, who accomplished a similar strategy at his previous employer. Nils reaffirmed that there are currently no plans to buy or sell any significant parts of the business and there is also unlikely to be any large cost program under Hein's leadership. The fact that Hein hails from the Netherlands does also not foreshadow any shift in focus.

Escalation

FICO - we wrote to the management of FICO, outlining our reasons for voting against the resolutions concerning compensation at their upcoming AGM. This was our first written engagement with FICO on this matter, and so we detailed our preferred approach to compensation and invited the remuneration committee to respond to our concerns.

Results

No results to report.

Collaboration

Nothing to report.

Q2 ESG Update

Stewardship Code - we published our Annual Stewardship Report (covering the year 2022), reflecting our support of the UK Stewardship Code and the ongoing work and ambitions of the FRC. This report can be found on our website here.

Engagement Activity – Q2 2023

Our investment team communicated with investor relations/management/board members of six of our portfolio holdings on specific matters we had identified. These included Juventus (an update on resourcing, governance, legal proceedings and their financial position) Unilever (initial meeting with newly appointed CEO, Hein Schumacher), JPX (fair treatment of shareholders and improving corporate governance in Japan), as well as the following:

Initial and Ongoing Engagement

Mondelez – the investment team spoke with five individuals from Mondelez ahead of their AGM. Between them, these individuals represented Investor Relations, Mondelez's sustainability team, Compliance, HR and legal. The purpose of the call was to discuss two contentious shareholder proposals, one for an independent chair (we abstained – see below for further details) and one relating to the eradication of child labour from the cocoa supply chain. This is an issue that we have engaged regularly on with Mondelez and so we were eager to hear Mondelez's views on the resolution and also an update on the progress they are making on this specific initiative. Indeed, they confirmed that 74% of their supply chain is now covered by their Cocoa Life programme, up from 28% in 2020. Despite this, like Mondelez, we recognise that eradicating child labour from the cocoa supply chain is a more systemic issue that requires wide-scale collaboration and for this reason we have voted in line with management, as it is unreasonable to expect Mondelez to solve this wider issue on their own.

WWE – Following the announcement that Endeavour will be combining its Ultimate Fighting Championship (UFC) assets with WWE, to create a new, separately-listed company (as briefly mentioned in last quarter's report), we have continued to engage with WWE leadership to better understand the future prospects of the business once the deal officially goes through later this year. Our engagement covered an update on the progress of the deal, prospects for their upcoming rights renegotiations, anticipated synergies, capital allocation, the ongoing relevance of their assets, remuneration and reputational risks. On the latter two, it is encouraging that WWE have revised the performance periods for their remuneration policy, partly in response to our engagement and feedback, however we continue to engage with them on other issues. On the matter of reputation, WWE confirmed that they have not received any concerning or negative feedback from any subsidiary, partner or shareholder in response to combining with UFC, which may be deemed by some as less family-friendly viewing than WWE. It was also confirmed that the controversies surrounding Dana White have not in any way impacted the detail or the future of the business.

Escalation

WWE, Mondelez, Disney - We have engaged with all three companies on several 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. In accordance with our escalation process, during the most recent voting season we abstained on the resolutions concerning compensation for Mondelez and voted against WWE and Disney's resolutions. We wrote to the management of all three companies, outlining the reasons for our votes, and encouraging them to review their compensation structures.

In addition, in the case of Mondelez, we also abstained on a shareholder proposal for an independent chair. In our view, the appointment of a chair of the board who is independent of management is preferable to having a single individual lead both the board and the executive team. We are willing to be flexible to accommodate each company's individual circumstances, hence our decision to abstain.

Results

As noted above WWE have addressed our concern regarding the performance periods for their remuneration policy, which they disclosed was partly in response to our engagement.

Collaboration

There were no collaborations to report this quarter.

Q3 ESG Update

Stewardship Code -
We are delighted to confirm that the Financial Reporting Council (FRC) has confirmed that our latest Stewardship Report continues to meet the expected standard of reporting and as such we remain a signatory to this important Code. This report can be found on our website here.

ESG Training – In July we hosted the first of two sessions that comprises our 2023 annual ESG training. This training seeks to update staff on industry trends, regulatory developments and systemic risks, as well as to remind staff of the key principles of responsible investment and the commitments that we have made as a business and these are integrated into our investment process and business strategy. The training also provides an opportunity to review milestones achieved and future priorities, specifically with regards to our engagement strategy.

We were therefore extremely grateful to have been supported by a preeminent Global Consulting firm with deep knowledge of integrating climate analysis into stock selection and monitoring, as well as Global Canopy, co-founder and official piloting partner of the Taskforce on Nature-related Financial Disclosures (TNFD). Internal presentations focussed on the upcoming Sustainable Disclosures Requirements (SDR).

Net Zero – Q3 marked a year since we measured our baseline for our interim net zero targets. As a reminder, in recognition of Lindsell Train's investment approach we have adopted a portfolio coverage target, which seeks to increase the proportion of a manager's AUM aligning to a Net Zero pathway, using specific and comprehensive criteria, with improvement being driven mainly by targeted engagement, as opposed to disinvestment. During Q3 we engaged proactively with 20 laggard companies that we had identified in August 2022 as "not aligned". Where there was limited signs of progress we reminded management of our expectations, and pointed them to similar companies where we had identified improvements, to encourage collaboration. For the remaining (~50) companies across our portfolios we reviewed publicly available reports to establish where improvements have been made in order to complete our annual progress review. Overall, we are satisfied with the progress being made by our companies, however there is still much work to be done and this remains a key focus of our engagement strategy.

Engagement Activity – Q3 2023

Our engagement activity focussed on our net zero review as outlined above. However, in addition to these conversations, the team also communicated with investor relations/management/board members of nine of our portfolio holdings on specific matters we had identified. These included writing to the Compensation Committees of seven North American companies, as detailed in the escalation section below, as well as the following:

Initial and Ongoing Engagement

Nintendo – Like many Japanese companies, Nintendo could be accused of maintaining an overly conservative balance sheet. Currently the company has ¥2 trillion of cash to guard against tech change and for future growth investments. As a rule, we are supportive of our companies maintaining net cash balances and, indeed, would be concerned by any significant levels of net debt, however we recognise that Nintendo could manage its balance sheet more efficiently. As such, during Q3 we had the opportunity to share with company management that we would encourage the Board to review its capital allocation and the uses of its retained earnings. If it was decided to return funds to shareholders we expressed our preference for a share buyback at an accretive share price rather than a special dividend.

Unilever – In a call with CFO Graeme Pitkethly, the team discussed Unilever's decision to retain its presence in Russia. It sought justification for this decision and, whilst the team recognises that there is no easy choice, we conveyed our expectation that management would keep the situation under active review with the hope of finding the 'least worst' outcome.

Escalation

Adobe, Alphabet, CME, Coca Cola, Colgate, eBay and J&J – We escalated our engagement with all seven companies by writing to the Compensation Committee of each to share our views regarding compensation best practice. We continue to believe that all seven companies could foster greater shareholder alignment through improved compensation structures. In accordance with our escalation process, during the most recent voting season we abstained on the resolutions concerning compensation for Coca-Cola, Colgate and J&J and voted against Adobe, Alphabet, CME and eBay's resolutions.

Results

There were no results to report this quarter.

Collaboration

There were no collaborations to report this quarter.

Q4 ESG Update

PRI - We are delighted to share that we have received the PRI's updated 2023 scorecard, which shows that Lindsell Train has scored 4/5 in all three relevant categories. This improved scorecard reflects on our enhanced efforts as a company to continue to integrate stewardship and responsible investment into our investment decision-making, reporting and governance activities. Lindsell Train's Full Transparency Report can be found on our website here.

ESG Training – In October we hosted the second of two sessions that comprises our 2023 annual ESG training. This training seeks to update staff on industry trends, regulatory developments and systemic risks, as well as to remind staff of the key principles of responsible investment and the commitments that we have made as a business and these are integrated into our investment process and business strategy. The training also provides an opportunity to review milestones achieved and evaluate future priorities, specifically with regards to our engagement strategy.

We were therefore extremely grateful to have been supported by investment consulting firm, Aon and portfolio company, Burberry. The sessions focussed on the role of the manager, and specifically the responsibility and fiduciary duty placed on truly long-term investors such as ourselves; the implications of AI for ESG; the importance of proxy voting, and in particular the increased focus on shareholder proposals; the regulatory pressures faced by large-listed companies and their readiness to respond; as well as the impact of equity manager engagement and consumer demands in shaping ESG strategy.

CCLA Modern Slavery UK Benchmark - Q4 marked the launch of this important benchmark. Lindsell Train participated as a member of the Benchmark Working Group, which was responsible for agreeing the scorecard used to assess companies. In summary, the benchmark assesses the largest UK-listed companies on the degree to which they:

- conform with the requirements of Section 54 of the Modern Slavery Act 2015
- disclose information outlined in the Home Office Guidance on Modern Slavery
- report on 'Finding', 'Fixing' and 'Preventing' Modern Slavery.

We hope that the publication of this Benchmark will lead to increased scrutiny and engagement with companies on this important human rights issue and, in turn, will be a catalyst for improvement.

GLP-1 drugs – Whilst we have not yet specifically engaged with any portfolio companies on the implications of these drugs, Madeline Wright (Deputy Portfolio Manager and Head of Investment ESG) undertook a review of the potential impact of these drugs, specifically for our consumer businesses. Her findings have been shared below (Appendix A).

Engagement Activity – Q4 2023

During Q4, the Investment Team engaged with Investor Relations/Management/Board Members of ten of our portfolio holdings on specific matters we had identified. The two focal areas for the quarter were asset allocation & strategy and remuneration. On the former, the Team engaged with **Ito En** (we continue to agitate for management to address the excessive discount ascribed to the preference shares), **Astellas** (our engagement focussed on holding management to account for their increased M&A activity as well as their debt management) and Burberry (we reminded management that we would prefer them to invest for growth rather than retire stock). Bridging both strategy and remuneration, we engaged with management of **Disney** regarding Board experience, succession planning and the CEO's performance-based restricted stock, which has increased from 50 to 60% in response to shareholder feedback. On remuneration exclusively, we continued to engage with the management of **LSE**, specifically regarding their chosen comparators – for Total Shareholder Return (TSR), we believe it most appropriate to compare to a peer group as opposed to the

FTSE. Our engagement activity also included writing to the Compensation Committees of three North American companies, as detailed in the escalation section below, as well as the following:

Initial and Ongoing Engagement

Unilever – we continued our engagement with Unilever via a call with Designate Chairman, Ian Meakins. Topics covered included their retained interest in Russia, Peltz's presence on the Board, as well as strategic priorities and M&A. On Russia, Meakins agreed that clarity and haste are needed. From a strategic perspective, the focus will be on SKU rationalisation, bolstering existing high-performing brands and targeted geographic expansion, before any more deals are done. Unilever admit that they have overinvested in some emerging markets, in some cases at the expense of some developed markets, and hence a more targeted approach, with due consideration given to the translation of local currency earnings, is required.

Later in the quarter, the team spoke with Unilever IR regarding the Competition & Markets' Authority's (CMA) investigation into its green claims. Whilst Unilever is "surprised and disappointed", it is not against the purpose of the exercise, in that they uphold the need for higher standards against claims which could mislead the consumer. Unilever have been in discussions with the CMA for some time regarding specific claims for a small number of products, and so they were surprised by the announcement of a formal investigation specifically targeting only Unilever. The investigation is focussed on the use of vague and broad language in marketing materials as well as claims about ingredients that might exaggerate how 'natural' a product is. As a result, there is unlikely to be a binary outcome. Nonetheless, it is an opportunity for Unilever to refute claims that their new CEO, Hein Schumacher, is giving up on sustainability and instead focus consumer and investor attention on progress made on their four sustainability priorities (plastic, climate, nature and livelihoods).

Juventus – this marked our inaugural engagement with new CEO, Maurizio Scanavino and shortly followed the announcement of Juventus' latest equity issue. As should be expected, the focus of the engagement was on the financial position of the company. Having not qualified for the Champions League in 2023-24, when considering the subsequent financial impact to media revenues and sponsorship deals, a further equity raise was likely inevitable. Whilst not welcomed, given the dilutive impact of the issue, we are reassured that with a new Chair and CEO, and subsequently a new business plan and governance structure to accompany, there is a renewed focus on financial discipline. Management appears as ambitious for its financial performance as it is for its ongoing sporting performance and Scanavino is determined to reduce net debt, put an end to capital raises and achieve profitability. In terms of outstanding criminal proceedings and legal disputes, we sought confirmation that things were moving in the right direction. Scanavino confirmed this to be the case.

Hargreaves Lansdown (HL) – following the news of the FCA clampdown on "double dipping" (platforms charging a fee for the cash they hold) we engaged with James Found, Head of Investor Relations, to confirm that the company does not retain interest on cash and hence engage in "double dipping". HL confirmed that not only do they not charge a fee, they also pay very competitive rates of interest when compared to their peers. We were pleased to hear that HL is aligned with the FCA's focus to ensure good value and outcomes for their clients, as it is our view that putting clients' interests first will help the growth of the industry and that of HL as the industry leader.

Manchester United – we have reignited our engagement with company management, following the announcement on Christmas Eve that Jim Ratcliffe will take a 25% stake in the company. We are expecting that the offer documents will be published within the next 4-6 weeks and anticipate that we will be able to disclose further details of our ongoing engagement in our next report.

Escalation

Nike, Oracle & PayPal – We escalated our engagement with all three companies by writing to the Compensation Committee of each to share our views regarding compensation best practice. We continue to believe that all three companies could foster greater shareholder alignment through improved compensation structures. In accordance with our escalation process, during the most recent voting season we voted against the resolutions concerning compensation for all three companies. In the case of **Oracle**, we also abstained on a shareholder resolution regarding an independent chair, reflecting our preference for separation, but recognising that in the case of Larry Ellison (founder, majority shareholder and Executive Chair), given his strong alignment, we are comforted that he is making the best long-term decisions for the company and its shareholders.

Results

There were no results to report this quarter.

Collaboration

In addition to our partnership with CCLA (described above), the Investment Team communicated with two other A class shareholders of Manchester United stock, regarding the transaction discussed above.

Appendix A

We have read the Morgan Stanley analysis predicting that the number of patients taking GLP-1 drugs will grow 5x to encompass 7% of the US population by 2035 – and that people taking the drug are estimated to reduce their daily caloric intake between 20-30%. We also note that snack food manufacturers' share prices fell when Walmart's US CEO highlighted that shoppers buying these drugs from its pharmacies purchase "just less units" and "slightly less calories" from its grocery stores! Certainly these drugs do have the potential to effectively suppress appetite, which does have the potential to impact snack brands, but we'd point to a few dynamics which are likely to prove protective, in our view.

The snacking category behaves differently to the standard grocery "centre store" categories, which are probably more exposed to the threat from these drugs. (We note that Walmart US's CEO didn't specify exactly what products the consumers were leaving on the shelves.) Changes in consumer perception and evolving government guidance have been steering people away from highly artificial full meals and meal components for some time now – but the enjoyment of 'unhealthy' foods on an occasional basis hasn't been affected in the same way as these consumption patterns are different. We've long thought that snacks are a superior category to grocery as products tend to be impulse, low volume and low unit priced purchases with strong brand loyalty and low private label penetration (e.g. global private label market share is just 5% in chocolate), so even if American consumers reduce their calorie intake by the highest 30% estimate, there's likely to still be room for the occasional indulgence in their favourite snack. I hope we're not being too optimistic to think this perhaps even enhances brand loyalty – nobody wants to waste their occasional treat on an inferior product – which could put the owners of 'real deal' category leading brands, such as Mondelez's global #1 Oreos, in a stronger position. Ultimately it's not a sustainable business model for snack companies to sell increasingly large volumes of unhealthy food to shorter-lived, sicker populations, so premiumisation is certainly an important piece here, as higher unit prices or smaller package sizes allow individuals to consume less of the food in one go. But once again, pricing is only possible for the most desirable brands.

GLP-1 drugs are available only in the US and a handful of other geographies such as the UK and Denmark, and they are very expensive. Of course over time the price will fall and they will expand to other countries, but not into the entire population, and probably not in any significant way into emerging markets whose populations lack the resources – and need – for these drugs. 39% of Mondelez's revenue is from emerging markets, growing at nearly 11%, whereas North American revenues now actually count for less at 31% and developed market sales are growing at 4%. And we recall that earlier this year Unilever, owner of premium ice cream brands Ben & Jerry's and Magnum, shared that it sees the potential for its €7bn ice cream division to grow its emerging market revenues from 25% to 40% by 2025. However, we wouldn't necessarily write the US off for snack makers – the US Census predicts that the US population is expected to grow by 79m people by 2060, crossing the 400m threshold in 2058, and net international migration is projected to overtake natural increase. Some of this growing population will use GLP-1 drugs – but most will not, especially within the lower-income demographics whose consumption of snacks has historically grown. Again, we'd view the "centre store" brands as being at more risk from these demographic changes – migrants to the US, unfamiliar with ancient American staples like boxed mac'n'cheese, are unlikely to develop a new artificial cheese habit, but might well reach for more branded snacks. Which is why we don't view PepsiCo's 57% of revenues from the US as necessarily a bad thing.

The last point is that most snack companies have tweaked their portfolios in recent years to tilt towards 'well being' brands, which still enjoy the same consumption patterns as snacks but offer consumers a lower calorie or more nutritional option such as energy or protein bars. Five of Mondelez's nine most recent acquisitions fall into the 'well being' bucket; three of those were premium (most of those non-premium brands were emerging market brands). Of course we wouldn't want to see Mondelez devoting more time and energy to these brands than its core Oreos or Cadbury, but we believe that having these high quality brands in its portfolio allows it to reach the widest possible range of consumers with offerings which are likely to be viewed as compatible with even diets containing 30% fewer calories – whether they're consumed occasionally or daily.

This document is intended for use by professional investors and advisors. It should not be relied upon by private investors.

Opinions expressed whether in general or both on the performance of individual securities or funds and in a wider economic context represents the view of the fund manager at the time of preparation and may be subject to change without notice. This document is provided for information purposes only and it should not be interpreted as giving investment advice or an investment recommendation. Under no circumstances should this document be forwarded, copied, reproduced or redistributed without express prior written consent from Lindsell Train Limited.

Issued and approved by Lindsell Train Limited, authorised and regulated by the Financial Conduct Authority ("FCA") with registration number 194229. Lindsell Train Limited is also a registered investment adviser with the Securities and Exchange Commission (the "SEC") under the Investment Advisers Act of 1940, as amended ("the Advisers Act") from time to time.