

Responsible Investment & Engagement Policy

Introduction

Lindsell Train Limited (Lindsell Train) is an asset management company that specialises in the management of Global, UK, Japanese and North American equity portfolios.

The primary aim of Lindsell Train is to protect and grow the real value of our clients' capital over the long term. To achieve this aim, Lindsell Train invests in what we have determined to be "exceptional" companies with the expectation of holding them for the very long term. We will always endeavour to act in the best interests of our clients as stewards of their capital.

The firm's strategic mission is to consistently meet our clients' expectations. This relates not only to the achievement of strong investment results but also to fulfilling our clients' wider requirements, which are increasingly focussed on a desire to invest responsibly.

Adherence to codes of practice

This policy is based on values that are consistent with the Principles of Responsible Investment (PRI), to which we became a signatory in November 2019.

Lindsell Train is a signatory of the 2021 UK Stewardship Code and the Japan Stewardship Code, a public supporter of the Task Force on Climate-related Financial Disclosures (TCFD), a signatory of Net Zero Asset Managers (NZAM), a User Member of the IFRS Sustainability Alliance and a signatory of the Find It, Fix it, Prevent it project.

Investment Approach

At the heart of our approach is a conviction that inefficiencies exist in the valuation of "exceptional" companies. Specifically, we note that durable, cash generative franchises are not only rare but also appear to us to be undervalued by other investors for most of the time. We invest in such "exceptional" companies with the expectation of holding them for the very long term. It is the resultant long-term partnerships that we build with investee companies that form the cornerstone of our approach to Responsible Investing. Our truly strategic time horizon means we must be continually alert to all relevant long-term issues, with the objective of pre-empting risk and enhancing returns. Considering all ESG factors which might affect our companies has therefore always been central to our investment approach.

Any stock identified as a potential candidate for inclusion in Lindsell Train's investment universe is analysed in detail and an intrinsic value is determined. We seek a significant margin of safety when valuing companies and when allowing for growth we estimate conservatively. We value all our candidate



investments using a variety of measures, the most important being a discounted cash flow (DCF) calculation.

We aim to construct a concentrated portfolio of typically 20 to 35 “exceptional” companies, selected from our investment universe. Portfolio construction is entirely bottom-up and index agnostic. All investments are selected on their own merits.

Investment Team

All six members of the Investment Team are generalists, to encourage as broad a range of market, industry and company knowledge as possible, and all research is reviewed and debated as a team. The designated Portfolio Managers have final authority to decide whether a stock is added or removed from a portfolio.

We have deliberately chosen not to set up a separate ESG function, reflecting our view that ESG is integral to the research process and that all members of the investment team are therefore responsible for its inclusion in their work. However, Madeline Wright (Deputy Portfolio Manager) is responsible for coordinating the team’s ESG endeavours as Head of Investment ESG.

Analysis and Integration of Environmental, Social and Governance (ESG) factors

As long-term investors our aim is to identify companies that can generate long-term sustainable high returns on capital. We have historically found that such companies tend to exhibit characteristics associated with good corporate governance and responsible business practices. Indeed, we believe that companies which observe such standards, and that are serious in their intention of addressing environmental and social factors, will not only become more durable but will likely prove to be superior investments over time.

The “exceptional” companies that Lindsell Train seeks to invest in are rare. Furthermore, we expect to hold these companies for the very long term, which for us means several economic market cycles. As such, our investment process places significant emphasis on heritage and sustainability. It is no accident that our portfolio holdings (or the brands or market positions they occupy) have on average survived for more than 100 years. This means they have encountered Wars, depressions, recessions, digital transformations and a global pandemic. We therefore have every expectation that these companies can successfully navigate the challenges presented by the next few decades, such challenges including - continued digital disruption, climate change and data security risks, to name just a few. Furthermore, we believe that there is a clear accelerating convergence between achieving our clients’ investment goals and investing in businesses that meet rising ESG standards, particularly when investing over a time horizon that stretches over decades rather than just quarters or years.

To that end our initial analysis and ongoing company engagement strategy seeks to incorporate all sustainability factors that we believe will affect the company’s ability to deliver long-term value to shareholders. Such factors may include but are not limited to; environmental (including climate change), social and employee matters (including turnover and culture) and governance factors (including remuneration and capital allocation), cyber resilience, responsible data utilisation, respect for human rights, modern slavery, anti-corruption and anti-bribery, and any other risks or issues facing the business and its reputation. The evaluation of these factors is an inherent part of our research process, as it is our view that we can best serve clients through the application of an integrated approach, where our



investment team leverage these considerations to make better investment decisions.

The Investment Team takes shared responsibility for ensuring that ESG is integrated throughout the investment process. All ESG research conducted by the team is catalogued in a proprietary database of risk factors (Sentinel). 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. The majority of this work is qualitative in nature, however there is a quantitative element to the database to the extent that we score the ESG risks posed to each business based on subjective materiality.

If, as a result of this assessment, we believe that an ESG factor is likely to materially impact a company's long-term business prospects (either positively or negatively) then we can reflect this in the long-term growth rate that we apply in our valuation of that company, which alongside our more qualitative research will influence any final portfolio decisions (for example, whether we start a new position or sell out of an existing holding).

Climate Change

The risks associated with climate change represent the great issue of our era and the transition to a low-carbon economy will affect all businesses, irrespective of their size, sector or geographic location. Therefore, no company's revenues are immune and the assessment of such risks must be considered within any effective investment approach, particularly one like ours that seeks to protect our clients' capital for decades to come.

From a portfolio perspective, evidently the transition to a low-carbon economy will affect some sectors more than others and fortunately these are typically the sectors that Lindsell Train avoids, most notably capital intensive industries and companies involved in the extraction and production of coal, oil or natural gas. Nonetheless, we must ensure that we are able to identify and monitor the transition risks (and opportunities) within our research process. Lindsell Train's [TCFD report](#) further outlines how climate-related considerations are integrated into our investment process.

Ethical Supply Chains

As investors in several Fast Moving Consumer Goods (FMCG) and luxury fashion companies, we are particularly alert to modern slavery in the supply chain and the business and ethical risks it poses. As signatories of CCLA- founded initiative Find It, Fix it, Prevent it, which is exclusively focused on the abolition of modern slavery, we are committed to delivering lasting positive change. Working with CCLA and other signatories, we will encourage all our companies to proactively identify and address any incidences of modern slavery in their supply chains, including child labour.



Positive/Negative screening

Our experience and research tell us that “exceptional” companies are found only in a limited number of sectors, which means that many sectors are never represented in our portfolios. For example, as a product of our investment philosophy, we do not invest in the following industries:

- capital intensive industries (energy, commodities or mining) or any companies involved in the extraction and production of coal, oil or natural gas; and
- industries that we judge to be sufficiently detrimental to society that they may be exposed to burdensome regulation or litigation that could impinge on financial returns (e.g. tobacco, gambling or arms manufacturers).

The nature of these sectors leads to a synchronous improvement in the ESG ratings of our portfolios. Thus our investment approach already gives us a “head start” because of the innate integration of many aspects of ESG in our portfolios.

Similarly, our investment approach has steered us to invest in a number of companies that play an important positive social or environmental role. We believe that such positive benefits for society should be consistent with our aim to generate competitive long-term returns, thus helping us meet our clients’ investment objectives. Furthermore, through our engagement strategy, we increasingly seek to encourage and support our companies to meet their own commitments (be those aligned with the UN Sustainable Development Goals, climate goals or other similar initiatives), with the aim of improving standards and enhancing returns.

Engagement Policy

Engaging with and monitoring investee companies is an essential element of our investment strategy. The team’s ongoing monitoring includes reviewing investee company annual reports and accounts, together with other publicly available information, and meeting with company management, when appropriate. All members of the Investment Team are involved in this process.

When we meet with company management, we will engage with them on all factors that we believe will affect the company’s ability to deliver long term sustainable value to shareholders (as set out above). As a result of our long-term investment horizon, we build relationships with investee companies over a number of years and we generally find management appreciative of our views and observations. We seek open and constructive dialogue with company management and board members, in order to broaden our knowledge of the company’s strategy, operations and risk identification and management, and to ensure any concerns we might have are assuaged. Our experience has demonstrated that constructive dialogue has more often than not resulted in satisfactory outcomes. However, where we have specific concerns with management’s strategy, company performance (financial and non-financial), and risk profile, or where we deem it necessary to protect our clients’ interests, we will consider escalating our engagement.

If we become aware of a significant issue a member of the Investment Team will make clear our concerns and expectations. In most circumstances we arrange a meeting with board members, or if appropriate with the company chairperson or the senior non-executive director. The feedback from these meetings is then discussed amongst the Investment Team who will decide whether the response requires escalation.



Usually, we will consider writing to management, making a public statement or, in more extreme circumstances, we might initiate collaborative engagement with other shareholders. Our preference however is for private and confidential conversations, as this enables us to build a more effective relationship with boards and management.

If we do not believe that raising our concerns in these ways is having the desired effect we will, where appropriate and if possible, use our voting rights. As our holdings in individual companies tend to be large, our votes often carry significant weight.

Finally, if concerns are raised with an investee company about fundamental changes to the business model on which we do not receive sufficient comfort – in particular, if the sustainability of its returns over the long term were under threat or if a sustainability risk associated with the company has increased beyond our comfort level - then in an extreme case Lindsell Train would think seriously about disposing of the position, should we believe that action to be in the best interest of our clients.

Lindsell Train's proxy voting policy can be found on our website [here](#).

Conflicts of Interest

We recognise that there is potential for conflicts of interest to arise in the course of engagement and voting.

All Lindsell Train staff are expected to exercise their business dealings with the highest standards of integrity. We seek always to act in the best interests of our clients and where possible avoid conflicts. Occasions may arise where an actual or perceived conflict of interest exists. In such instances, we have put in place a framework of policies and procedures which govern our approach to conflicts and how we manage them. The first step is to identify any conflicts that might arise, we then determine how we can either avoid or manage those conflicts to ensure that the best interests of our client(s) are met. If we are unable to manage a conflict of interest satisfactorily, we will disclose the conflict to the client.

Lindsell Train maintains a conflicts of interest register which is subject to regular review by the conflict owners and compliance to ensure that appropriate steps have been taken to address and manage them. All identified conflicts of interest are reported at least annually to the Board of Directors.

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Proxy Voting

The primary voting policy of Lindsell Train is to protect or enhance the economic value of its investments on behalf of its clients. Lindsell Train's portfolio managers are responsible for proxy voting decisions and it is our policy to exercise all voting rights which have been delegated to us by our clients. Proxy voting decisions are the result of careful judgement to ensure the best possible outcome to generate long-term shareholder value. The manager will vote against any agenda that threatens this position, in particular concerns over inappropriate management remuneration or incentives, changes in capital structure and mergers or acquisitions which are seen as detrimental to the investment held. Where we plan to abstain or to vote against a resolution, contrary to management advice, our intentions will be communicated to the company management in advance of voting.



Lindsell Train has appointed Glass Lewis to aid the administration of proxy voting and provide additional support in this area. However, the portfolio managers maintain decision making responsibility based on their detailed knowledge of the investee companies. We believe retaining ownership over the exercise of our votes forms an important part of our investment process and proactive company engagement strategy.

Reporting

Lindsell Train publishes a quarterly ESG and Engagement report as well as an annual proxy voting report, both of which can be found on our website [here](#).

