

# LINDSELL TRAIN

## ESG & Engagement Report

2024

## Q1 ESG Update

We are currently working hard to finalise our 2023 Stewardship Code report which will be available on our website from the 30th April 2024. In addition, work is underway to produce the requisite TCFD Reports by the FCA's 30th June 2024 deadline.

### Engagement Activity – Q1 2024

During Q1, the Investment Team engaged with Investor Relations/Management/Board Members of ten of our portfolio holdings on specific matters we had identified. These engagements included calls with both **Sage** and **RELX** regarding the rationale for their recent share buy-backs, a discussion with the Chair of **A G Barr** regarding the incoming CEO and writing to the compensation committees of both **FICO** and **Intuit**, as detailed in the escalation section below, as well as the following:

#### Initial and Ongoing Engagement

**PepsiCo** – In October 2023 we saw a scare for consumer companies in relation to the effects of weight-loss drugs on consumer behaviour, which we wrote about in last quarter's report. During Q1 we engaged with PepsiCo to better understand the potential implications for their business. Obviously the potential future impact is hard to quantify, however PepsiCo reminded us of the barriers to access of the drugs - cost, insurance implications and the unpleasant nature of the regime, to name a few – and thus in their opinion the commercial risks are low. From the perspective of improving public health, there are clearly benefits, however we hope that PepsiCo is staying ahead of this phenomenon through ensuring that they have enough health brands available and also by improving the health profile of their existing product range and ensuring that the packaging options offer the consumer sufficient portion control ability. We noted that the CEO specifically called out the latter point in the November 2023 earnings call, observing that “consumers [are] moving to smaller packs”, and we were pleased that in our engagement, management were able to assure us that they continue to work on all of these aspects, particularly in certain regions where they admitted they are less ahead of the curve. Management reminded us of the sugar, saturated fat and sodium reduction targets that they have in place and the progress to date made towards these targets. It is our intention to engage with our other consumer companies on this matter and to continue to monitor the risks associated with these drugs.

**Juventus** – readers of this report will recall that we engaged with Juventus during the fourth quarter regarding their financial position as well as ongoing accounting issues. In February, we met again with management on the same matters. Management provided an update on debt management and confirmed that all outstanding accounting issues have now been resolved, meaning that they are no longer required to file an additional set of accounts to The Commissione Nazionale per le Società e la Borsa (CONSOB) which is the government authority of Italy responsible for regulating the Italian securities market.

**Disney** – Ahead of the Disney AGM (early April 2024), we met with Nelson Peltz and several representatives from activist investor Trian Partners to better understand their rationale for electing Pelz and a second Trian-proposed candidate, Jay Rasulo, to the board. In the same month, we also spoke with Hugh Johnston (CFO) and other representatives from Disney to hear why they believed the board was sufficiently well-resourced without the Trian representatives.

Trian raised several pertinent points, particularly around succession concerns, the current business strategy for ESPN, the low level of executive team ownership of Disney shares, recent box office disappointments and investments that, to Trian at least, appeared not to have a clear strategic rationale. Disney on the other hand defended their current strategy – namely, to reignite their creative engine, attain direct-to-consumer (D2C) profitability, forge partnerships for ESPN, and invest more behind their parks – and maintained that

Nelson Peltz lacked obvious experience that he could bring to their board. They did acknowledge that the recent succession attempts had been unsatisfactory, and reassured us that the current process was considerably better thought-out.

While the current Disney strategy should hopefully yield positive results, and the new succession process seems considerably better thought out, we did feel that Peltz had some valuable perspectives to share. We have historically voted against compensation at Disney citing remuneration practices that are not aligned with our core principles. We also believe that a fresh third-party perspective would be additive and could ensure greater accountability from management. As such, we made the decision to support Peltz's nomination to the board. Disappointingly, however, Trian did not manage to muster sufficient votes.

**TKO** – In January we engaged with management of TKO shortly following the announcement that Netflix was to become the new home for WWE's "Raw". Whilst a global partnership with Netflix has many appealing characteristics, we used the opportunity to better understand the rationale for entering into a deal with a 10-year initial term. Management outlined their aspirations for the partnership and noted that the deal protects cashflows for the long-term, at a point where continued consolidation in the US media ecosystem is likely.

During the same meeting we requested an update on the ongoing class-action lawsuits that had been launched by former UFC fighters. Specifically we wanted to understand whether the litigation had impeded any strategic plans. Management confirmed that it had not. Pleasingly, a settlement was reached at the end of the quarter which has now eliminated this overhang.

## Escalation

**FICO and Intuit** – We escalated our engagement with both companies by writing to the Compensation Committee of each to share our views regarding compensation best practice. We continue to believe that both companies could foster greater shareholder alignment through improved compensation structures.

## Results

**Ito En** - Readers of this report will know that we have engaged regularly with Japanese soft drinks holding, Ito En to encourage them to use their net cash to retire preference shares, to proactively manage the wide price difference between the preference and ordinary shares. We were therefore pleased to see management conduct a significant buy-back programme over the course of the first quarter, which resulted in the discount reducing from around 70% to 50%. We continue to encourage further buy-backs to encourage a further narrowing of the discount.

## Collaboration

Please refer to our engagement with activist Trian Partners as detailed above.

## Q2 ESG Update

During the quarter we published our Annual Stewardship Report (covering calendar year 2023), reflecting our ongoing support of the UK Stewardship Code and the work and ambitions of the Financial Reporting Council (FRC); as well as our TCFD entity report (2023) and inaugural TCFD product level reports. All reports can be found on our website [here](#).

**Modern Slavery** - As stated in our 2023 Stewardship Code report, we have strengthened our commitment to the abolishment of Modern Slavery. 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. Over the past 12-18 months, we have updated our Responsible Investment and Engagement Policy to specifically reflect on this commitment; we have strengthened our partnership with the CCLA-founded initiative Find It, Fix it, Prevent it (further details below) and we have developed an Engagement Framework which aims to address the issues we judge to be most relevant to our portfolios (Modern Slavery and Climate Change) and where we have the best chance of influencing for positive change.

### Engagement Activity – Q2 2024

During Q2, the Investment Team engaged with Investor Relations/Management/Board Members of eight of our portfolio holdings on specific matters we had identified. These engagements included a meeting with the Chair of **Schroders** to discuss the implications of CEO Peter Harrison's retirement, as well as the following:

#### Initial and Ongoing Engagement

**Burberry** – we met with both the Chair of the Board and the CEO/CFO on separate occasions in June following the release of Burberry's most recent results. Whilst we continue to believe that Burberry is a globally significant brand, with a valuable franchise in outerwear, the strategy of the last 7 years, which we have supported, has not worked. We have engaged extensively with executives, the board, advisers and other shareholders in recent months, and we agree with the Burberry CEO's comments in the recent Report and Accounts that Burberry is an "Extraordinary brand with a unique position in global luxury." But it is clear he and his fellow executives need to rethink how to fulfil the brand's potential.

#### Escalation

**Mondelez** – readers of this report will recall that we have engaged regularly with Mondelez on the matter of Modern Slavery, as well as shareholder pressure to create an Independent Chair role. On the latter, in general we have a preference for the Chair to be independent and hence we abstained on this resolution. Our reticence to vote against, reflects on our understanding that management view the existing set-up as appropriate for their business, a position we have sympathy with. With regards to modern slavery, our engagement during the second quarter also centred on a shareholder proposal requesting that the company adopt and report on targets to eliminate child labour in its cocoa supply chain by 2025. Having sought further clarification from Mondelez, as per last year, we voted against this resolution on the basis that the company has provided significant disclosure in this regard and our belief that the target is unrealistic.

**Kao Corporation** – following a Q1 meeting with the management of Kao (a holding in both our Japanese and Global funds), portfolio manager Michael Lindsell set out in a report, publicly available [here](#), his frustrations with management's ability to address several strategic miss-steps, namely: the company's slow progress in terms of expanding overseas, the cyclical nature of their unbranded industrial chemical products range and management's slow pace of rationalisation of its product portfolio, which aims to further exploit the heritage and functionality of the company's core brands. Whilst we remain hopeful that the company can emulate if

not exceed the returns of the past (prior to 2019 Kao's 10-year ROE averaged 15%), we felt it necessary to prompt management to expedite further action.

**Hargreaves Lansdown** – news of a possible bid by a private equity consortium sent the share price of Hargreaves Lansdown up 54% over the quarter, supporting our view that the market value of the company did not match the strategic value of the business. During the quarter we engaged separately with both the CEO, Dan Olley and the Chair of the board, Alison Platt to better understand the rationale for the board supporting the offer and to also raise our concerns regarding fair treatment of shareholders. We expect to be able to cover this matter more fully in a future report.

## Results

There are no results to report for the quarter.

## Collaboration

**Sage** – we have engaged with the management of Sage in collaboration with Find It, Fix it, Prevent it, in order to encourage Sage to explain and respond to the fact that they had scored poorly against the Modern Slavery UK Benchmark which was launched in November 2023. Sage confirmed that they have since met with Dame Sara Thornton (Modern Slavery Consultant) and CCLA and have taken a number of steps to enhance their approach to modern slavery. These included strengthening their supply chain due diligence process, introducing systems to implement a sustainable supply chain strategy and upskilling staff. Accordingly Sage has also since updated its Modern Slavery statement to reflect these advancements and hence we and Sage management have every expectation that this progress will be reflected in their revised score when the Benchmark is republished later this year.

**Hargreaves Lansdown** – In addition to engaging with management and the Chair of the Board, as detailed above, we have also held discussions with three fellow minority shareholders regarding the anticipated bid, to try to ensure that an optimal outcome is reached.

## Q3 ESG Update

During Q3 2024 we appointed our first employee dedicated to ESG, Azjin Ali. Whilst ESG remains integral to all areas of our firm and we continue to believe that all staff should be aware of their responsibilities, Azjin's appointment reflects on our ongoing efforts to enhance the integration of responsible investment into our investment decision-making, reporting and governance activities. Azjin will also support us in our efforts to meet the rising industry standards and obligations on our firm.

Azjin's primary responsibilities will include supporting Lindsell Train's ESG-related client and regulatory reporting and data management responsibilities. In addition, Azjin will support our investment integration and engagement endeavours, collaborating with the ESG Committee and all members of the investment team. Our Portfolio Managers and Deputy Portfolio Managers remain responsible for researching, investing in, monitoring, and engaging with companies that fulfil our ESG-related investment criteria.

Please find Azjin's biography below:

Azjin Ali joined Lindsell Train in July 2024 as Responsible Investment Lead and is a member of the Marketing & Client Services team. Prior to joining Lindsell Train, Azjin worked at Aon as an Associate Investment Consultant. Azjin joined Aon as a Defined Contribution (DC) Investment Analyst in 2019 and went on to become a core member of Aon's Responsible Investment team, focusing on climate and nature-related investment risk. Azjin has a Masters degree in Civil and Structural Engineering from the University of Leeds.

**UK Stewardship Code** - We were pleased to receive confirmation from the FRC that our 2024 Stewardship Report continues to meet the expected standard of reporting to remain a signatory to this important Code.

## Engagement Activity – Q3 2024

During Q3, the Investment Team wrote to the remuneration committees of 13 portfolio holdings, as detailed below. In addition, the team engaged with Investor Relations/Management/Board Members of five of our portfolio holdings on specific matters we had identified. These engagements included a call with the Chair of Rightmove following REA Group's, now abandoned, takeover pursuit, as well as the following:

### Initial and Ongoing Engagement

**Unilever** – We are long term holders of Unilever in both our UK and Global strategy and have engaged regularly with management over our holding period. Following the recent news that Unilever will spin off its ice cream business, we reignited our engagement with CFO, Fernando Fernandes to review capital allocation and strategic priorities. We were particularly interested to understand why Unilever continues to maintain substantial debt on its balance sheet. Fernandes reconfirmed Unilever's capital allocation policy, which remains unchanged, noting that the business priority remains focussed on increasing volume growth to 2+%, up from 1% at present. From a strategic perspective, the CFO is acutely alert to the need to be in premium segments with global scalability and so future capital allocation will be fundamentally concentrated in the US and India where the largest opportunities exist. Similarly, prestige beauty represents one third of growth in Health & Wellbeing and will be c.8% of revenue once ice cream is gone. This is a strong business which has grown for 14 consecutive quarters, but management are aiming for it to be a £10bn business and so ensuring adequate capital allocation to priority segments such as this is important.

**Sage** – the Investment Team met with the Chair of Sage and members of the Remuneration Committee to discuss changes to the Directors' Remuneration Policy. We will be asked to approve a meaningful increase in the salaries of both the CEO and CFO as well as a big uplift in the bonus potential and long term incentive plan (LTIP). The changes are being proposed to ensure retention of talent throughout the company. Sage's

total remuneration has not kept pace with the progress of the company and, in our opinion, the need to attract and retain talent for a rare UK tech business is of great importance.

**Diageo** – during the quarter, the Investment team engaged with the CEO and outgoing CFO to understand management's balance sheet priorities. The company remains committed to being a progressive dividend player, and recognises that to make up for the softer topline it must improve operations. The CFO stated that inventory and supply agility has been examined and the company has employed a strategy to reduce inventories back down to pre-Covid levels. This exercise of looking closely at the cost base has revealed that the business contains a number of opportunities to permanently improve processes and boost efficiencies, including certain uses of 'smart' technology such as AI which can be deployed in the scotch production process.

**Burberry** – it continues to be a challenging year for our UK holding, Burberry. To recap, the company has parted with its chief executive, Jonathan Akeroyd and its board is under intense scrutiny, having made several strategic missteps. What's more, Burberry will make a loss in its current half year and the balance sheet will swing from net cash to net debt. In response, our team has continued to engage with both the Board and management, which in Q3 included meeting with a Senior Independent Director as well as the new CEO, Joshua Schulman.

In response to what we and Burberry hope will be a period of temporary constraint, the company has embarked on an aggressive cost-saving plan and has pre-emptively chosen to pass the dividend, saving itself c.£220m pa. The CFO speaks confidently about containing leverage at c2.0x EBITDA this year and has raised £300m of liquidity via a bond issue, dated 2030 and with a far from "junk bond" coupon of 5.75% - signalling that bond investors aren't anticipating a liquidity crisis. Current, much reduced, profit forecasts suggest Burberry's interest cover will be 4x for 2024/5. That's fine – assuming this year is the low point in its fortunes. We would of course prefer Burberry to have zero debt, but a closer inspection of the 2.0x figure reveals that its net debt figure includes lease liabilities – which in fact make up the bulk of the total debt, with financial leverage a minimal amount. We have done a lot of work on this in recent months and believe that lease liabilities pose a smaller threat than 'true' financial leverage: Burberry's leases are generally of good quality, meaning that in most cases finding a replacement tenant and exiting the lease would be possible, if such a thing needed to happen. That said, we continue to monitor debt levels closely.

The question now is whether the brand has been irreversibly tarnished by the recent mismanagement. We don't think so. We retain the view that we have invested our clients' capital in an enduring and unique brand, that has generated attractive financial returns in the past and can do so again. Accordingly we have not sold. Instead, since early 2024 we have worked to protect the value of the investment by engaging with the board and its corporate advisers. We encouraged the early passing of the dividend, in order to protect the balance sheet and, we hope, avoid a dilutive new capital raise. We have also forcibly pointed out that there has been a lack of substantive Luxury experience amongst Burberry's non-executive directors and perhaps missteps might have been avoided with such Luxury experience on the board. We believe there will be further changes to the membership of the board in coming months.

Our Q3 meeting with new CEO Joshua Schulman was an important one. He gives the impression of being highly commercial and shareholder value-oriented. Whilst it was too early for him to provide his strategic vision for the company, which will come in November, Schulman has a clear diagnosis of what caused the "crisis" and recognises that decisive action will be needed to remedy the situation. According to Burberry's chairman, Schulman has already tabled a plan to the board that will first stabilize the business then return it to growth. Certainly Schulman was able to articulate to us that he has taken the job because he believes in the brand and understands that Burberry's history and functional purpose (protection from the weather) is an irreplaceable component of its brand value. All is yet to be proven, but if Schulman is able to execute better than his predecessors, the turnaround for Burberry is likely to be very rewarding. Customers and

shareholders have been promised a return to “classic”, “timeless” Burberry styles and colours, and while it’s of course early days, we note that the new products appearing online and in its stores have rowed back from the alienating, high fashion concepts of the last 18 months and there appears to be a renewed focus on the core outerwear which is so emblematic of the brand. We look forward to hearing more in November, and will be looking for evidence that the new CEO has a credible, rational strategy to build on this tentative step in the right direction.

## Escalation

**Remuneration** – During Q3, the Investment Team wrote to the remuneration committees of 13 portfolio holdings to share our views regarding compensation best practice and to encourage greater shareholder alignment through improved compensation structures

## Results

There are no results to report for the quarter.

## Collaboration

There are no examples of collaboration to report this quarter.



## Q4 ESG Update

**PRI** - In December we received the PRI's updated 2024 scorecard, which shows that Lindsell Train has retained its 4/5 classification in all three relevant categories. Although its classification banding remains 4/5, we were pleased to note an improvement in the Policy, Governance and Strategy category score, reflecting the steps taken to formalise our approach and engagement regarding modern slavery in supply chains.

**Net Zero** – It has now been two years 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 divestment. As per last year, we have completed an exercise to measure and monitor improvement and to help direct our engagement work. On account of revised criteria being published in 2024 (NZIF 2.0) this work is ongoing and we expect to be able to share the results in our next quarter report. That said, we have been able to identify persistent laggards, with whom we engaged during Q4 2024. There were 10 such companies, most of which are Japanese. Our outreach comprised a combination of letters and calls, during which we reminded management of our expectations and encouraged collaboration with Lindsell Train and other similar companies where we had identified progress.

## **Engagement Activity – Q4 2024**

During Q4, our engagement activity focussed on our net zero review as outlined above. However, in addition to these conversations, the Investment Team engaged with Investor Relations/Management/Board Members of 12 of our portfolio holdings on specific matters we had identified. The two focal areas for the quarter were asset allocation & strategy and remuneration. These engagements included a meeting with the new CEO of Schroders, to discuss the company's governance structure, as well as the new CFO of Diageo, to discuss capital allocation, strategy and remuneration in addition to the following:

### **Initial and Ongoing Engagement**

**Sage** - Readers of this report will recall that we engaged with the management of Sage during June 2024 in collaboration with Find It, Fix it, Prevent it, to encourage Sage to enhance their approach to modern slavery given they had scored poorly against the Modern Slavery UK Benchmark which was launched in November 2023. Sage confirmed that they had taken several steps to enhance their approach to modern slavery, including strengthening their supply chain due diligence process, introducing systems to implement a sustainable supply chain strategy and upskilling staff.

Following publication of CCLA's 2024 Modern Slavery UK Benchmark report in November, we were disappointed to find that Sage had not improved its rating. In November 2024, we continued our engagement with the company and met with the CEO and CFO to understand the reasons why Sage's modern slavery score remained stagnant. Management explained that this is due to the company's publications being out of sync with CCLA's monitoring schedule. Sage's disclosures happen in December, whilst Find it, Fix it, Prevent it, publish their report in October, meaning the changes were not captured this year. This is disappointing but not indicative of no progress and Sage's management have every expectation that these improvements will be reflected in their revised score when the Benchmark is republished later in 2025.

**eBay** – During the quarter, we spoke to management on two occasions with the objective of reviewing capital allocation and strategic priorities and reminding management of our views on compensation best practice. In October 2024, eBay announced that it is removing selling fees for consumer-to-consumer ("C2C") sellers in the UK. A similar initiative was introduced in Germany last year and results show that eliminating selling fees has strengthened eBay's marketplace by lowering the barriers to C2C selling, which improves the

breadth and depth of inventory. The company has a robust monetization roadmap in place to ensure these changes are positive for both customers and the business overall, and management re-assured us that these changes are being made from a position of strength (given the company's strong results in the third quarter of 2024).

In December 2024, we re-ignited our engagement with eBay to share our views regarding compensation best practice and continue to believe that the company could foster greater shareholder alignment through improved compensation structures. In accordance with our escalation process, during the most recent voting season we voted against eBay's resolutions. Management commented that the current compensation structure is in place to retain and recruit talent but re-assured us that our feedback will be shared with the company's compensation committee.

**Shiseido** – it continues to be a challenging year for our Japanese holding, Shiseido. To recap, the company has been hit with a decline in sales since 2023 due to weakened demand from Chinese consumers that account for c.40% of the company's sales. To add to this, sales in the USA had been held back thanks to self-inflicted problems related to the poor implementation of a new (highly customised) manufacturing ERP system. In December 2024, we met with the CEO of Shiseido, Kentaro Fujiwara, with the objective of reviewing strategic priorities and understanding the company's response to these issues. Fujiwara explained that the US problems are now resolved. Fujiwara also mentioned that a focus on seven brands in Japan has seen Japanese sales grow at double digits this year. Profits in Japan have rebounded thanks to these sales increases and the company's fixed costs reductions (including personnel), which have now been extended to other locations.

## Escalation

**Remuneration** – During Q4, the Investment Team wrote to the remuneration committee of Oracle (held within our North American strategy) to share our views regarding compensation best practice and to encourage greater shareholder alignment through improved compensation structures. The team also explained their reasons for voting against executive compensation.

## Results

**PayPal** - Longer-term readers of this report will recall that Lindsell Train has been engaging with the compensation committee of PayPal since 2023 to share our views regarding compensation best practice. In November 2024, we met with PayPal and management confirmed that its compensation committee has heard investor feedback (ours included) and as of mid-2024 both the annual and long-term incentive plans (AIP and LTI) account for stock-based compensation when assessing performance.

Although these changes are positive, we continue to believe that PayPal could foster greater shareholder alignment through improved compensation structures and will monitor the company closely

## Collaboration

There are no examples of collaboration to report this quarter.

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