

LINDSELL TRAIN

ESG & Engagement Report

2022



Q1 ESG Update

Stewardship Code - we have recently published our second Annual Stewardship Report (covering the year 2021), 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](#).

Task Force on Climate-related Financial Disclosures (TCFD) – 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 pleased to share our inaugural TCFD report, available [here](#), confirming our public support of TCFD and its efforts to encourage companies to report their climate related disclosures and data in a uniform and consistent way. If we are exploring the behaviours of our portfolio companies in relation to climate change then we must also think about ours.

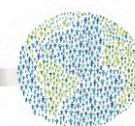
ESG resources - Reflecting on our increasing ESG efforts, effective of 1st April 2022, Madeline Wright (Deputy Portfolio Manager) will be responsible for coordinating the investment team’s ESG endeavours as Head of Investment ESG. This ancillary role reflects the increasing importance we place on coordinating and codifying the team’s work, as well as Madeline’s significant contribution to the investment team’s recent ESG advancements, specifically exemplified by the establishment of a proprietary ESG database (Sentinel) and the significant work that has been done to progress our company engagement strategy. Whilst Madeline will steer the team’s ESG research efforts and continue to represent the investment function alongside Nick Train as a member of the ESG Committee, all seven members of the investment team will continue to take shared responsibility for ensuring that ESG is fully integrated throughout the investment process. This reflects our continued belief that ESG should not represent a separate function but should be integral to all areas of the firm.

ESG Information Gathering - Madeline has made significant progress with her large-scale project to hold an ESG specific discussion with every company in our portfolios (just over 70 companies) to establish a baseline for our ongoing engagement. This project is now 80% complete.

Ukraine War – The following excerpt from Nick Train’s recent UK Equity Fund report certainly also deserves a place in our ESG report - “I am sorry we have all been reminded of the cruelty and waste of war. It has been hateful watching events unfold and I feel almost a sense of shame in having to respond to those events as a portfolio manager. The fluctuations of asset prices seem inconsequential in the face of suffering. Yet of course, our responsibility for our clients’ precious capital and savings is not diminished by the advent of war, or pestilence. Indeed, in such emotionally charged circumstances our responsibility is even weightier – if only because it is so much easier to make reflexive or irrational decisions when others are panicking (even more so, if you yourself are panicking). Over the quarter we have continued to run fully invested portfolios. There has been no change of strategy. We have had no problems providing liquidity to those of our clients who wished to reduce their exposure to our Funds or to Equity markets in general. Equally, we have looked to invest cash inflows on receipt, to capture as much of the dislocation to prices and values as we can.” From an engagement perspective, the investment team proactively reached out to all the companies in which we are invested where we suspected there could be exposure to Russia or Ukraine. This work confirmed that none of our portfolios have meaningful exposure to either country, and where exposure does exist company management have responded accordingly. We will of course continue to monitor the situation closely.

Engagement Activity – Q1 2022

As well as the engagement activity noted above, our investment team communicated with investor relations/management/board members of four of our portfolio holdings on specific matters arising. Details of these engagements have been provided below:



Initial and Ongoing Engagement

Unilever and Shiseido – Regular readers of this report will recall from our Q1 2021 report that, effective 1st May 2021, China removed mandatory animal testing requirements for imported cosmetics. This was welcome news for a number of our portfolio holdings, as animal testing of health and personal care products, cosmetics and fragrances was not only unnecessary but also acted as a significant barrier to the growing numbers of cruelty-conscious consumers globally. Given the potential implications for several of our companies, we have been monitoring these developments closely and seeking to both understand the nuances of the Chinese regulatory changes and gain a picture of the possible future opportunity for our portfolio companies. Through our engagement, we have established that the scope of animal testing in China has been significantly narrowed, however it has not entirely lifted. For example, products with ‘active ingredients’ or ‘special functions’ (e.g., sunscreens) still require animal testing. And for those products that no longer require testing, there are still regulatory hoops to jump through – and of course new protocols often come with teething problems! Nonetheless, notable progress has been made and clearly this has huge positive implications for many of our portfolio companies.

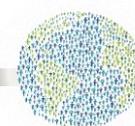
From a regulatory perspective, these developments recognise the regulators’ awareness of the rising consumer demand for cruelty-free products and the continuing global alignment of ethical standards and expectations, which should be commended. Of course, for our portfolio companies there are also significant positive implications: being able to serve the Chinese market whilst retaining – or indeed gaining – a company-wide “cruelty free” marque is hugely valuable (and hitherto impossible). In the case of Unilever, the removal of mandatory testing concludes 10 years of hard work to ban this practice and significantly broadens the cross-border ecommerce opportunities for several of their brands. This is particularly relevant as an opportunity for Unilever's Prestige brands, for which China is a key market for the category globally. Shiseido and Estee Lauder alluded to similar tailwinds when we engaged with them on the matter, but did alert us to the fact that there is still much to be done in order to operate in compliance with the laws and regulations applicable to each product category and the country of production. We will continue to monitor the implications of these changes where relevant.

Escalation

Intuit, Disney - we wrote to the management of these two portfolio holdings, outlining our reasons for voting against the resolutions concerning compensation at their respective FY 2021 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

Unilever – we engaged with the CEO and Chairman of Unilever following the announcement of Unilever’s attempted purchase of GlaxoSmithKline’s consumer healthcare business. It’s a business that we’ve been following in the knowledge that it was likely to be divested and as a general proposition is a consumer franchise category we admire. Unilever was prepared to pay 5x sales, which we felt was justified by the quality of the GSK business, particularly when considering the synergies with Unilever’s existing business. Our real gripe though was the proposed issuance of Unilever shares to fund part of the acquisition at current depressed prices. With GSK having rejected the offer and Unilever committing not to raise its price, it seems the deal is off but it’s clear the company has an urgent strategic imperative to continue reorientating its portfolio towards faster growing health and hygiene at the expense of food.



Collaboration

There were no collaborations to report this quarter.

Q2 ESG Update

Find It, Fix It, Prevent It – Lindsell Train is pleased to confirm its support of CCLA-founded initiative Find It, Fix It, Prevent It, which is exclusively focussed on the abolition of modern slavery. As investors in several FMCG companies, we are particularly alert to modern slavery in the supply chain and the business risks it poses. Working with CCLA and other signatories, we will collaborate for change, by encouraging all our companies to proactively identify and address any incidences of modern slavery in their supply chains.

ESG Training – In June we hosted our fourth annual ESG training event, which seeks to remind Lindsell Train staff about the key principles of Responsible Investing, to update them on industry and regulatory developments, to confirm how Lindsell Train integrates such principles into our investment process and business strategy, and to discuss milestones achieved and future priorities. The training also sought to help our staff better understand the importance of a successful engagement strategy.

We were therefore extremely grateful to have been supported by longstanding portfolio company, Mondelez, who provided an update on their global cocoa sustainability programme, Cocoa Life. Cocoa Life has committed to invest \$400m over 10 years to empower 200,000 cocoa farmers and improve the lives of more than 1 million people in cocoa communities. The success of this programme demonstrated to us the scale of impact that our companies can achieve, and the opportunities (increased production and brand enhancement, amongst others) offered by an effective ESG strategy.

ESG Information Gathering – Madeline Wright, Deputy Portfolio Manager and Head of Investment ESG, has made significant progress with her large-scale project to hold an ESG specific discussion with every company in our portfolios (70 companies) to establish a baseline for our ongoing engagement. This project is now 95% complete.

Investment Insights - Following on from her look at our portfolio companies' efforts to reduce emissions in their value chains, Madeline's latest Insight – Muddy Waters – is an exploration of the growing issues around water use, and how some of our portfolio companies are responding to the challenge (in case you missed it, the report is available [here](#)).

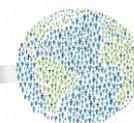
Engagement Activity – Q2 2022

As well as the engagement activity noted above, our investment team communicated with investor relations/management/board members of four of our portfolio holdings on specific matters we had identified. Details of these engagements have been provided below:

Initial and Ongoing Engagement

Unilever – We continue our engagement with the management of Unilever and spoke to the Chair, Nils Andersen, in June. This follows two engagements earlier in the year, related to capital allocation (following news of the failed bid for GSK's consumer healthcare division) and animal testing.

In this instance, our engagement centred on the recent news of the appointment of activist investor, Nelson Peltz of Trian Fund Management, to its board as a non-executive director, after his purchase of 1.5% of Unilever's shares. As Trian's objectives are ostensibly in line with our own, we had no objection to the appointment despite being somewhat surprised at the low ticket-price to get a seat at the table. We did



however take the opportunity to urge the board to resist any proposals that merely boost short-term value. Andersen confirmed that the board remain committed to their long-term strategy and are focussed on protecting the strategic value of Unilever's assets.

Square Enix – During May we engaged with the Corporate Strategy Division of Square Enix, a Japanese gaming company, following the announcement that the company had entered into an agreement to sell several of its western development studios and a catalogue of intellectual property (IP) to Embracer Group, a Swedish video game and media holding group. Our engagement stemmed from our philosophical reluctance for any of our companies to part with their valuable IP and hence our desire to gain a better understanding of the rationale for these divestitures. We were aware that financial performance from these studios had been underwhelming and so it made sense to us when management explained that, with the aim of bolstering profitability, they had decided to divest these assets rather than restructure or pursue an alternative course of action. In conjunction with the divestitures, management also confirmed that they have streamlined their publishing structure by centralising functions under a Chief Publishing Officer. We trust that these initiatives, combined with continued steady operating performance in other parts of the business, should lead to margin improvement and close the gap with competition, who have been able to attain much higher operating margins.

Escalation

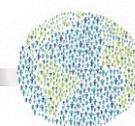
WWE, Mondelez, PayPal, eBay - We have engaged with all four companies on several occasions to share our views regarding compensation best practice and continue to believe that all four companies could foster greater shareholder alignment through improved compensation structures. In accordance with our escalation process, during the most recent voting season we abstained on the resolutions concerning compensation for Mondelez and WWE and voted against PayPal and eBay's resolutions. We wrote to the management of all four companies, outlining the reasons for our votes, and encouraging them to review their compensation structures.

Results

Kirin Holdings – longer-term 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 brewery venture in Myanmar (Myanmar Brewery) arranged as a joint venture with the Myanmar Economic Holdings Public Company Limited (MEH). MEH has been accused by Amnesty International and the UN of using the proceeds of this joint venture to finance a military that has been associated with human rights abuses, particularly against the Rohingya people.

Following a lengthy engagement with Kirin (2+ years), earlier this year Kirin announced that it would be exiting completely from Myanmar and the joint venture with MEH. Prior to this decision, Kirin had engaged in multiple discussions with MEH (via an arbitration process in Singapore) in an attempt to persuade them to exit the JV and leave Kirin as the sole operator in Myanmar, but this proved fruitless and was taking too long. Kirin had also sought an outside buyer for its stake in Myanmar Brewery, but this too failed to come to fruition. Kirin will instead sell its entire 51% stake in the joint venture back to Myanmar Brewery, structured as a share buyback.

From a financial perspective, by engineering a sale rather than a straight liquidation, Kirin has recovered some of its initial investment. Additionally, with the reversal of some of the initial impairment losses the company had already recognised, the impact on profitability is somewhat better than we had initially expected, although this does not account for the opportunity loss of the potential future growth from this geography.



From a human rights perspective there was no perfect solution, however it is clear that Kirin has considered the impact on local staff and business partners, as well as its commitment to shareholders. We believe the company reacted responsibly from the point it became aware of its implicit involvement in human rights atrocities, in particular that Myanmar Brewery 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.

Collaboration

Other than the two collaborations mentioned in the first section of this report (ESG training with Mondelez and our commitment to Find It, Fix It, Prevent It), there were no other collaborations to report this quarter.

Q3 ESG Update

NZAM – We have been working hard to finalise our interim targets, amongst other commitments, ahead of our disclosure deadline of November – a year on from signing up to the initiative. Careful deliberation has gone into ensuring that our targets are sufficiently ambitious whilst being achievable and appropriate for Lindsell Train’s investment approach - in particular, recognising our unusually low turnover and the already exceptionally low carbon footprint of our portfolios. We look forward to sharing the details of our initial disclosure with you next quarter once it’s been published.

The UK Stewardship Code

We recently received confirmation from the FRC that our latest Stewardship Report (submitted on 30th March 2022) continues to meet the expected standard of reporting and as such we remain a signatory to this important Code.

ESG Information Gathering – Madeline Wright, Deputy Portfolio Manager and Head of Investment ESG, has now completed her project to hold an ESG specific discussion with every company in our portfolios (70 companies) to establish a baseline for our ongoing engagement. During these calls, it became apparent that one of the trickiest issues for companies striving for Net Zero is how they 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.

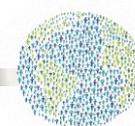
Engagement Activity – Q3 2022

As well as the engagement activity undertaken by Madeline, our investment team communicated with investor relations/management/board members of three of our portfolio holdings on specific matters we had identified. Details of these engagements are provided below:

Initial and Ongoing Engagement

WWE – following allegations of misconduct against the CEO Vince McMahon and his subsequent stepping down, and amidst rumours that WWE might be put up for sale, we held a call with board members and senior management, when we also discussed the ongoing issue of remuneration.

We began by emphasising that Lindsell Train look to be truly long-term shareholders, which is becoming increasingly rare; that we think the market dramatically undervalues WWE’s potential and that a sale at these levels would be disappointing; and, referencing the recent Vince allegations, that we value good stewardship. We were reassured by the new co-CEO that they believe they have a great team in place, and they want to invest behind it, and the company. However, she added that there are ‘levels of complexity’.



Moving onto remuneration, they confirmed that they have taken our thoughts over the years on board and will be setting out a new compensation structure. Although it's not finalised yet, we learnt that a number of our concerns are being addressed. In particular, they are moving to a 3 year measurement period, so that their short and long term incentive plans no longer overlap. However, when we reiterated our reasons for not liking the use of stock as an incentive, they responded that this approach is fairly typical in the US and is not an issue for the large majority of their shareholders.

Burberry & Young's – working both with Aon and Find It, Fix It, Prevent It (to which Linsell Train is a signatory) we engaged with these two companies to understand their approach to modern slavery. Both companies already have formal Modern Slavery policies in place and we came away reassured by the emphasis both place on the issue and the resources they continue to devote to the challenge.

According to Burberry, modern slavery has been found in its supply chain “and if any company says no, they haven't looked hard enough”. The company was understandably discreet about the details of detection and remediation; it's essential to preserve trust with supply chain partners to promote cooperation and Burberry also has to be careful about the privacy and dignity of the victims of modern slavery. However, management reassured us that their policies are robust and moreover are always supported by NGO input.

As well as hearing that there are certain regions in which Burberry won't manufacture due to elevated risk, we were told that the company is willing to terminate supplier relationships in the event of repeated underperformance related to e.g. working hours or incorrect documentation. These are exactly the kind of issues that are easier to spot because Burberry goes into facilities in person (managed by its 38-person sustainability team, which is spread out around the world with local leadership to audit facilities themselves).

So far Young's has not found modern slavery in its supply chain. They revealed that 90% of their pub food is British and comes from just six suppliers; for drinks the company works with just six big brands, all of which have established and rigorous modern slavery policies. The areas of greatest risk are the use of agencies to supply workers (although these comprise less than 5% of all staff), and employees working without the correct documentation. Both these areas are being addressed, helped by Young's newly set up Ram Agency: a platform to facilitate registration, training and shift choice; anyone who registers has to be validated to make sure they're eligible to work in the UK.

Young's stated that the regulatory environment is becoming tougher and in response the company is strengthening its due diligence. It now requires suppliers to register on the Sedex platform (set up to help companies to manage and improve working conditions in global supply chains) and from this Young's can establish supply chain transparency and pick out any risk areas. Most big suppliers are already on Sedex, and overall the aim is to get 100% of suppliers and agencies onto the platform for complete coverage.

Escalation

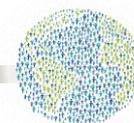
No escalations to report.

Results

No results to report.

Collaboration

Other than our work with Aon in conjunction with Find It, Fix It, Prevent It, described above, there were no other collaborations to report this quarter.



Q4 ESG Update

Net Zero Asset Managers Initiative (NZAM) – As signatories of NZAM we are committed as a firm to support the goal of net zero greenhouse gas emissions by 2050 or sooner. In accordance with the initiative, during Q4 we established and disclosed our interim target, in line with the Paris Aligned Investment Initiative (PAII) Net Zero Investment Framework. In recognition of Lindsell Train's investment approach we believe it most appropriate to adopt 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. The portfolio coverage target Lindsell Train has set has an objective of increasing the percentage of our AUM achieving aligned status from 36% in August 2022 (baseline) to 55% in 2030. We expect the improvement to be driven mainly by targeted engagement with management, as opposed to divestment.

We are pleased to confirm that our target has been approved by the IIGCC. Further details available on their website [here](#). We will continue to review other targets but for the time being we have concluded that this target is most applicable given the strategic nature of our investing and the well below average carbon footprints of our portfolios.

PRI Assessment – We are pleased to confirm our calendar year 2020 PRI scores as follows:

- Investment & Stewardship Policy – 72%, 4 Stars
- Direct – Listed Equity- Active fundamental – incorporation – 59%, 3 stars
- Direct – Listed Equity- Active fundamental – voting – 60%, 3 Stars

We would like to note that these scores pre-date several significant enhancements made over the past two calendar years, including but by no means limited to: the establishment of our ESG Committee; the introduction of our internal proprietary ESG database to help centralise and formalise the investment team's ESG research; our support of various ESG focussed initiatives; the updating of our ESG policies; and the publication of our inaugural TCFD report in early 2022. We hope that our submission in April this year will better showcase our firms standing in relation to ESG.

Lindsell Train's PRI Assessment and Transparency Reports are available upon request.

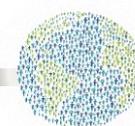
Combatting Modern Slavery – In November, Madeline Wright, Deputy Portfolio Manager & Head of Investment ESG at Lindsell Train, was invited by consulting firm, Aon to speak on a panel addressing how pension fund investors and asset managers can support better outcomes regarding modern slavery. This drew upon our practical experience of analysing modern slavery risks within the supply chains of our investee companies. Madeline shared how, as a signatory of Find It, Fix It, Prevent It, we have implemented their framework to support our engagement activities.

ESG Survey – To ensure that we continue to meet our clients' needs and expectations, each year we ask for our clients' feedback on our approach to ESG. On which basis, we would be grateful if you could spare a moment to complete the following short survey (5 questions!). The feedback is invaluable in shaping our future priorities and informs our commitment to the UK Stewardship Code and other ESG initiatives.

The survey can be found [here](#).

Engagement Activity – Q4 2022

Our investment team communicated with investor relations/management/board members of three of our portfolio holdings on specific matters we had identified. Details of these engagements have been provided below:



Initial and Ongoing Engagement

Juventus – we spoke to the company on three separate occasions during the quarter, initially regarding financial strategy and management compensation. With regards to the latter, we emphasised our preference for the long-term incentive plan to include return metrics and a commitment to reduce debt. Juventus acknowledged our comments and noted that their plan is to become more sustainable, with debt reduction a focus.

Our subsequent conversations with Juventus centred around the resignation of the board and the plans for improving overall governance with a new board focused on the accounting and regulatory issues and the legal proceedings that the company faces. Since the news broke of the Italian prosecutor's case against Juventus, we have met with the outgoing chairman and chief executive, as well as the chief executive of the controlling shareholder of Juventus, Exor. The latter detailed its proposals to restore the good reputation of the company by cooperating with the authorities through any investigation. Exor has its own good reputation as a global corporate actor to consider, as well as potentially billions of Euros' value at stake in Juventus. These considerations give us comfort that aligning our clients' interests with those of the majority shareholder is the most appropriate course from a governance point of view and for protecting our clients' capital. We expressed our support to Exor to resolve the current issues as expediently as possible.

Burberry – given recent personal turnover within Burberry, we spoke with the outgoing CFO, Julie Brown, to understand her rationale for leaving. Julie noted that her decision was simply one of opportunity (at GSK), but it was a difficult decision. Having been at Burberry for six years and having largely completed the major milestones she delivered for the brand, she felt that the incremental value she can add to the brand is lower. She reiterated that it was nothing to do with the brand, or the future of Burberry; GSK was just a bigger opportunity for her.

Intuit – we reiterated our views to management on their stock compensation policy. Management acknowledged that stock compensation is high, however, until existing vesting periods expire there is limited scope to change their policy. Stock compensation is also an important part of their talent retention strategy. Management noted there needs to be a turn in the employment environment to help make this change and pointed to a shift in the war for talent as layoffs continue elsewhere in the industry.

Escalation

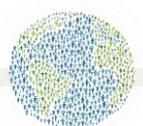
No escalations to report.

Results

No results to report.

Collaboration

Other than our work with Aon in conjunction with Find It, Fix It, Prevent It, described above, there were no other collaborations to report this quarter.



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.

9 January 2023 LTL 000-271-8

