TROY
ASSET MANAGEMENT

July 2024

taml.co.uk

Responsible Investment Report N°·13

Election Mania and AGMs

This year has set a record for elections worldwide, with approximately two billion people, or half of the global adult population, eligible to vote in 2024 – the highest number in history. India hosted a tightly contested general election over the quarter, as did France following Macron's call for a snap election. The US will also decide its next president in November.

Quite apart from voting in the UK's General Election on July 4th, Troy's Investment Team has cast many votes this quarter. We have voted on a total of 1,292 items at 77 company Annual General Meetings (AGMs) so far this year, with the bulk falling into the second quarter. AGMs provide shareholders an annual opportunity to have their say on important corporate decisions and to ensure that our investee companies' governance aligns with our long-term goal of protecting and growing our investors' capital.

Our voting process

"The greatest mistake is to do nothing because you can only do a little."

- Zig Ziglar

We take 'active ownership' in its most literal form, diligently voting 100% of our shares in 2024. While this may not directly add investment value, it is crucial for being a good fiduciary. Each vote recommendation is carefully deliberated by our fund teams and approved by fund managers; we also make our voting activity publicly available on our website. The AGM process also provides an important opportunity to review material ESG matters, including company governance structures and climate commitments. Additionally, we communicate our reasons to companies when we vote against the board's recommendation. This process fosters constructive and deeper relationships with our investee companies.

Management teams

Good management teams are the cornerstone of great companies, with financial results stemming from a series of good (or poor) decisions over extended periods of time. A forward-looking approach, prudent capital allocation, and an entrepreneurial spirit are essential for creating real long-term value and entrenching a company's competitive advantage over time. That's why understanding and evaluating management is integral to Troy's research process.

Competent management teams are crucial, but they must be backed by effective governance structures that empower them whilst also serving to protect shareholder interests from poor decisions. This is why proper oversight from an independent board of directors is essential. AGM season provides us with an opportunity to reassess the governance of our investee companies and shape its formation.

Board independence

Effective governance starts with the board of directors. Boards oversee and challenge management, protecting against strategic missteps and short-term thinking. They should be independent, diverse, experienced, and of the highest calibre. The Chair plays a critical role in fostering open dialogue, holding management accountable, balancing differing stakeholder interests, and preserving organisational culture and values.

In the US, nearly half of S&P 500 companies combine the roles of CEO and Chair of the Board. We believe that this intermingling of the executive and its supervision compromises the board's independence. It is akin to a CEO marking their own homework. We vote against the Chairs of Nominating Committees where these roles are combined and communicate our reasons to investee companies, hoping to prompt reconsideration. Over the quarter, we voted against the re-election of 13 directors on these grounds.

Executive compensation

"Show me the incentives and I will show you the outcome"

– Charlie Munger

CEO pay is often the most complex and contentious item on the AGM agenda. We prefer compensation packages that are simple, transparent, and based on appropriate metrics. We advocate for executive compensation linked to operational performance that lies within management's control, such as organic growth, free cash flow, and returns on capital. We typically do not like remuneration plans that depend on share price performance because this can lead to a misalignment – management engage in 'managing the share price' instead of managing the business.

Remuneration policies should encourage ownership among executives and directors. We support reasonable stock ownership guidelines for senior executives and directors, favouring straight equity over options-based compensation. Over the period, Troy voted against five executive remuneration proposals due to various concerns including inappropriate metrics or excessive discretion used by the Remuneration Committee.

Excessively large executive pay packages have attracted significant media attention recently. While we do not set specific pay limits, we do seek to discourage unjustifiably high packages that may negatively impact stakeholders, including the workforce.

Remuneration plans should be assessed on a case-by-case basis and in the context of a company's competitive position. For instance, the growing divergence between US and UK CEO pay packages arguably makes it harder for UK-based multinationals to attract the top talent. As a result, we have supported UK companies' efforts to enhance pay competitiveness during this AGM season, including at Unilever, Bunzl, AstraZeneca, and the London Stock Exchange Group. Larger rewards are acceptable if they align with shareholder interests and result from superior performance.

Shareholder resolutions

No commentary on voting season is complete without mentioning shareholder resolutions. These proposals, submitted by shareholders at companies' annual meetings, offer a direct way to influence corporate governance and policies. They have become increasingly significant as they allow investors to advocate for important environmental, social, or governance issues, by directly challenging management.

Over the quarter, there were 60 shareholder resolutions, with Troy voting in favour of 25% of these. The resolutions are varied, and we carefully evaluate each on its own merit. We lend our support to proposals only when we believe it will benefit long-term shareholder interests. Most shareholder proposals tend to be poorly drafted, making demands for companies to do things they are already adequately doing or focusing on trivial issues that fuel ongoing culture wars.

In contrast, some shareholder resolutions are thoughtful and highlight genuine material environmental or social risks faced by investee companies. Examples of shareholder resolutions we have supported this quarter include encouraging McDonald's to adopt an antibiotics policy (which received 14% shareholder approval), asking both Alphabet and Meta to report on the risks related to AI generated misinformation and disinformation (receiving 18% and 17% of shareholder approval respectively), and a proposal for confectioner Hershey's to commission a third-party supply chain assessment on achieving a living income for cocoa farmers (which received only 3% shareholder support).

Nestlé taken to task on healthy foods

Another notable shareholder resolution which has been highly contentious this AGM season was proposed at Nestlé's AGM. A coalition of investors urged Nestlé to set a target to increase sales from healthier products. Before casting our vote, Troy hosted a call with Nestlé's Global Head of Food to discuss the company's nutrition strategy.

This discussion revealed Nestlé's alignment with the proposal's aim since the company has set a target to boost health food sales by CHF 25-30 billion by 2030. Despite the shared aim to tilt

Nestlé's portfolio towards healthier categories, the proponents of the shareholder proposal took issue with the company setting an absolute sales target rather than one that targeted a percentage of sales.

Our view is that the latter could harm the business by forcing the sale of assets. It could also risk those assets falling into the hands of less responsible owners. For example, Nestlé has restricted the paid media advertising of confectionery items to individuals under the age of 16, demonstrating their commitment to responsible marketing. It is not clear that another owner of Nestlé's chocolate brands would do the same. After our discussion with Nestlé, we felt the company's approach adequately addressed the proposal's concerns. Consequently, we did not support the proposal, which ultimately did not pass as it received only 11% shareholder approval.

Being active owners

Being a responsible fiduciary of our investors' assets requires us to be active stewards of the shares under our management. As public market investors, our direct influence on company governance is limited. We use company management meetings to informally make suggestions to senior executives. We formally engage with management and the boards of directors when we want to be more forceful. AGMs offer an annual opportunity to formally make our voice heard.

Our companies are selected, in part, on the strength of their sound management practices and governance structures. Where we see opportunities for improvement, we will act to encourage reform. This approach aims to create long-term value, even if our impacts are harder to measure. Much like voting in elections, we cannot hope to drive change without participating in the process.

Sian-Azilis Evans July 2024

Responsible Investment at Troy

Signatory of: UK STEWARDSHIP CODE | 2021

Signatory of: PRI Principles for Responsible Investment

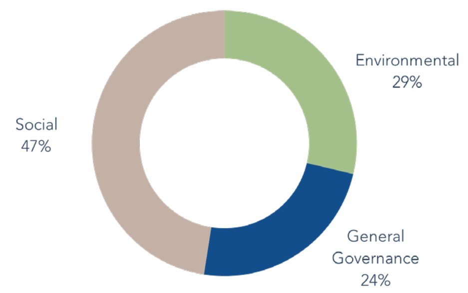
NET ZERO ASSET MANAGERS INITIATIVE

Voting

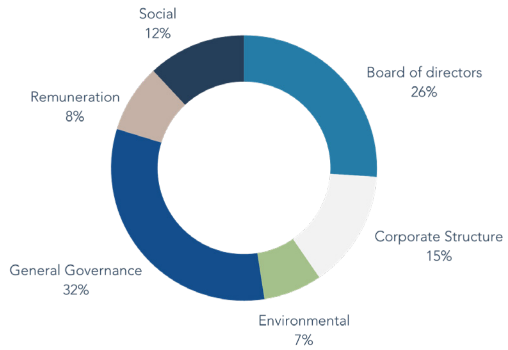
	2023	2024 YTD
Meetings Held	98	77
Meetings voted	100%	100%
Meetings with at least 1 vote Against Management*	48%	44%
Management Resolutions		
Total management resolutions	1,618	1,229
Votes against management resolutions*	8%	5%
Votes against ISS recommendations	10%	7%
Shareholder Resolutions		
Total shareholder resolutions	79	63
Votes in favour of shareholder resolutions	43%	33%
Votes against ISS recommendations	24%	21%

Source: ISS. *This may include abstentions.

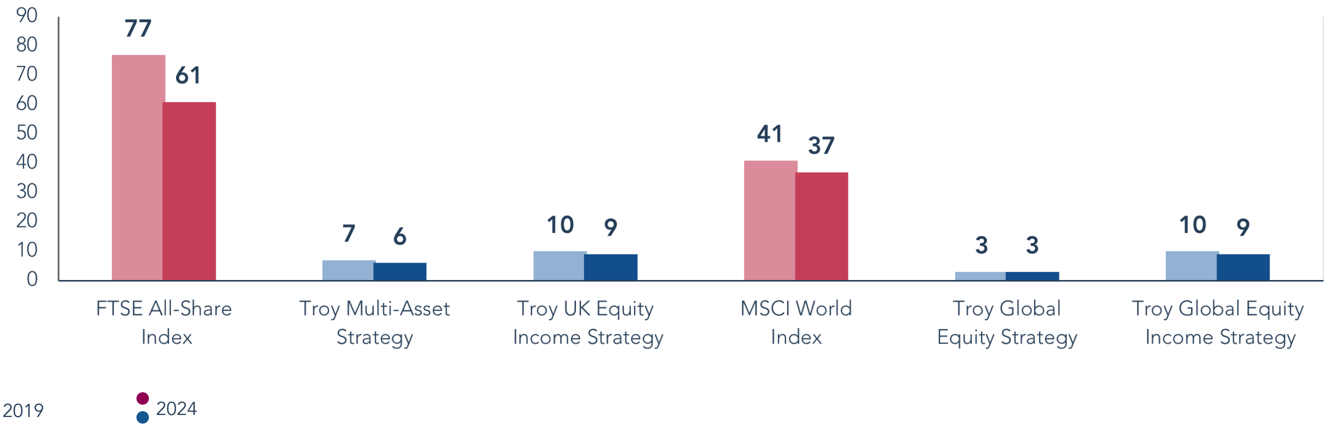
VOTES IN FAVOUR OF SHAREHOLDER RESOLUTIONS – 2024 YTD



VOTES AGAINST MANAGEMENT RECOMMENDATIONS - 2024 YTD (BOTH MANAGEMENT AND SHAREHOLDER RESOLUTIONS)

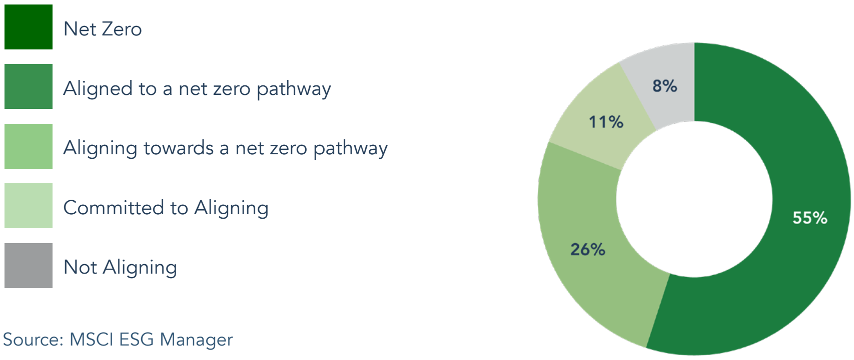


Portfolio Carbon Footprint (Tons CO2e / $M Invested)*



*Carbon footprint calculated EVIC (Enterprise Value Including Cash).
Source: MSCI ESG Manager, portfolio holdings as at 30 June 2024. Asset Allocation subject to change. The information provided is based on calculations relating to corporate securities only. Where the fund holds other asset classes, such as cash or government bonds, these are excluded from the portfolio. The information shown relates to a mandate which is representative of, and has been managed in accordance with, the relevant Troy Strategy. Past performance is not a guide to future performance. All references to benchmarks are for comparative purposes only.

Current Alignment of our Holdings with Net Zero by 2050

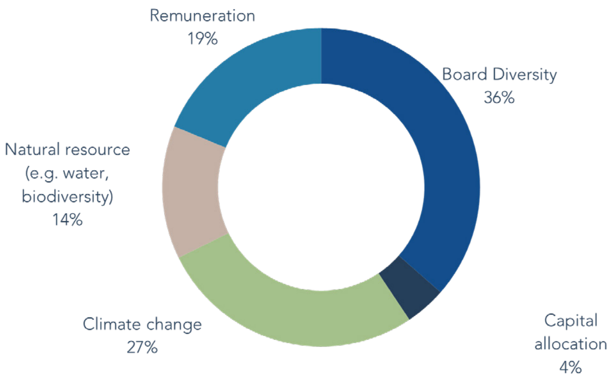


Source: MSCI ESG Manager

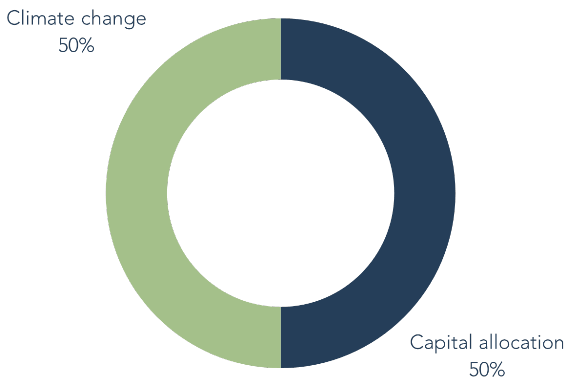
Troy has categorised all equity holdings along an alignment maturity scale in accordance with the Institutional Investors Group on Climate Change's (IIGCC) Net Zero Investment Framework methodology. This reflects our commitment under the Net Zero Asset Managers initiative to ensure our investments are on track to meet global ambitions of net zero emissions by 2050 or sooner. We currently have engagements underway with all holdings deemed 'not aligning', our goal is to move all holdings along the climate maturity scale with the ultimate objective of achieving net zero. For further information please see Troy's Climate Change Mitigation Policy.[2]

Engagements

2023 - 23 ENGAGEMENTS WITH 18 COMPANIES



2024 YTD - 2 ENGAGEMENTS 2 COMPANIES



Source: Troy Asset Management, 30 June 2024. *Environmental, Social or Governance
[2]This policy outlines the consideration of climate risk in our investment decision-making process for mandates which meet the criteria under Article 8 of the European Union's Sustainable Finance Disclosure Regulation.

Disclaimer

Further information relating to how ESG integration is applied to the fund can be found in the fund prospectus and investor disclosure document. For further information relating to Troy's approach to company voting and engagement, please see Troy's Responsible Investment and Stewardship Policy available at www.taml.co.uk.

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