TROY
ASSET MANAGEMENT

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Responsible Investment Report N°·11

The natural world and its capital

"Only when the last tree is cut down, the last fish eaten, and the last stream poisoned, you will realise that you cannot eat money."

Cree Indian Proverb

As we bid farewell to the winter solstice, we embark on a new year with days slowly stretching longer. The promise of spring lies on the horizon, and we will soon witness nature's transformation. Amidst our admiration for nature's beauty and its wonder, there lies an often-overlooked question: what economic value does nature hold?

Natural capital in many ways forms the foundation for all other types of capital. It delivers essential services crucial for businesses and people, including providing resources (food, water, timber), regulating climate and disease, and supporting nutrient cycles and crop pollination. In 2019, the OECD estimated the annual value of natural ecosystems at $125-140 trillion, surpassing global GDP by more than one and a half times[1].

Over time, human activities have stressed natural ecosystems and reduced biodiversity. This degradation poses both business and financial risks, ranging from the increasing scarcity of raw materials to less stable supply chains.

New policies to protect the natural environment will also impact companies. For example, the EU's law on deforestation-free products, which impacts various sectors like agriculture, energy, construction, and infrastructure, ensures products consumed in Europe will not contribute to deforestation or forest degradation. The regulatory focus is only likely to increase for companies interacting with biodiversity and nature.

The Task Force on Nature-related Financial Disclosures (TNFD)

The financial realm has also found itself under intensified scrutiny. In September 2023, the TNFD released its highly anticipated disclosure framework. This is a global initiative pushing businesses to disclose and manage their impact on nature.

Investors will now have greater transparency from companies to evaluate the nature-related risks (and opportunities) impacting the financial sustainability of their investments. This in turn means that investment professionals will have to give greater thought as to how the loss of nature and increasing regulation has the capacity to impact the durability of long-term portfolio returns.

Given Troy's historically significant exposure to consumer staples companies, our focus on biodiversity, deforestation, and water scarcity has been an important part of our research and company analysis for some time.

In 2019, we first explored the topics of plastic use and palm oil and have since explored other nature-related themes. Our aim is to gauge the efforts that portfolio companies make to mitigate their impact on nature and prevent damage to natural ecosystems. This serves to safeguard the resilience of their businesses while mitigating regulatory and reputational risks.

Pernod Ricard and Diageo on sustainable agriculture

During the quarter, dedicated sustainability meetings with both Pernod Ricard and Diageo highlighted their efforts to protect raw materials against soil erosion and challenging farming conditions. Both companies rely on commodities such as grapes, barley, corn, wheat, and agave for premium spirits.

They seek to use these resources whilst reducing their own environmental impact by prioritising regenerative agricultural techniques that enhance the health of ecosystems. Pernod particularly focuses on preserving land in the Cognac and Champagne farming regions.

Not only is land degradation from human

[1] OECD

impact a long-term risk, climate change is also changing farming conditions. As summers become hotter, many grape varieties are becoming less acidic and sweeter, which may be problematic for cognac supply 20-30 years from now. Pernod is investing in the development of new grape varieties that can withstand the effects of climate change.

By investing in regenerative agriculture both Pernod and Diageo are shifting away from conventional practices to promote natural processes, minimising chemical use, and fostering local biodiversity. Pernod has been an early supporter of the International Union for Conservation of Nature's Agriculture and Land Health Initiative. This offers subsidies to farmers that adopt more efficient and environmentally friendly equipment. Through its Sustainable Solutions programme, Diageo collaborates closely with smallholder farmers, who supply up to 80% of their raw materials, emphasising strategic and long-term supplier relations to promote sustainable supply chains.

These conversations are encouraging for investors in these businesses. They reveal that Pernod and Diageo are proactive in taking a long-term approach and anticipating the lasting benefits that will flow from their sustainability initiatives. There is a lot of work ahead but we believe taking early action will position these companies favourably for the future.

Nestlé on deforestation

"Keeping your batting average high on future-focused projects has always been the hallmark of successful company management."

Mark Schneider, CEO of Nestlé

Nestlé's proactive stance on tackling commodity-driven deforestation has proven already to be a strategic advantage. The company invested in deforestation-free supply chains over a decade ago, committing to zero deforestation by 2025. This strategic move positioned the company ahead of regulatory changes, such as the recent EU regulations on deforestation-linked commodities.

In 2022, Nestlé achieved over 99% assessed deforestation-free status across many raw materials including meat, palm oil, pulp, soy, and sugar and is now targeting the same for coffee and cocoa. Their 'Forest Positive' strategy includes a reforestation goal of planting 200 million trees by 2030, emphasising support for suppliers and farmers in conservation and restoration initiatives.

Many of Nestlé's suppliers are smallholder farmers. Deforesting land to increase their farmed land is often an economically advantageous choice, but one that comes at a cost to the wider environment. Nestle's strategy therefore strongly emphasises long-term supplier partnerships and education, providing financial support and forward planning to ensure farmers are not thrust further into poverty due to global efforts to preserve forests.

Nestlé is in the process of finding ways to communicate these efforts to consumers, so that brand perception and consumer loyalty are enhanced. The company is a prime example of what it takes to build and nurture enduring brands. A proactive commitment to environmental responsibility is aimed at remaining competitive in a dynamic and changing environment. This provides insight into Nestlé's corporate culture and management's foresight.

Large multinationals like Nestlé often face difficult trade-offs; aligning increased volumes with environmental responsibility is not without its challenges. Navigating this delicate balance requires strategic decision-making to ensure sustained growth without compromising on sustainability goals. Nestlé consistently strives for improvements and acknowledges that there's more to do. While not perfect, Nestlé is an exemplar of a company that is rising to this complex challenge.

Nature and investing

In contrast to nature's innate processes, as humans, we must exercise greater intentionality in our behaviours and acknowledge the need for change. Our activities over extended periods have led to the gradual degradation of nature, however, there is an opportunity for us to actively participate in its restoration. This involves providing nature the necessary space to rejuvenate and self-repair.

Both corporations and investors will need to adopt a thoughtful approach. The TNFD serves as a valuable framework for organisations to report and address evolving nature-related dependencies, impacts, risks, and opportunities.

As long-term investors, our goal is to invest in companies that can deliver sustainable and growing returns on capital. Climate change and nature degradation, coupled with increased regulation, pose significant risks to our portfolio companies over the timescales that we invest.

Our deep research and ongoing engagements with companies aim to ensure their business models are founded on sustainable practices, and the TNFD's improved disclosures will further enhance our efforts.

While there is considerable work ahead, we recognise the importance of adapting. Just as ecosystems can thrive through gradual change, long-term investors must adapt to address the growing challenges posed by nature and climate change.

Sian-Azilis Evans January 2024

Responsible Investment at Troy

Signatory of: UK Stewardship Code 2021

Signatory of: PRI Principles for Responsible Investment

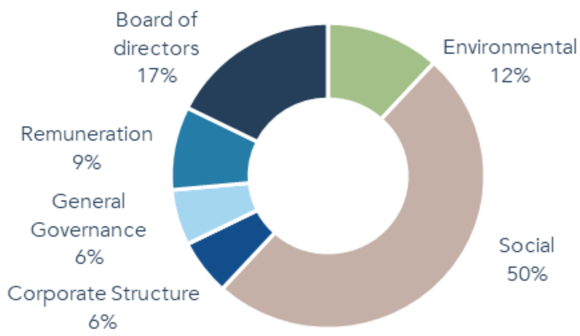
Net Zero Asset Managers Initiative

Voting

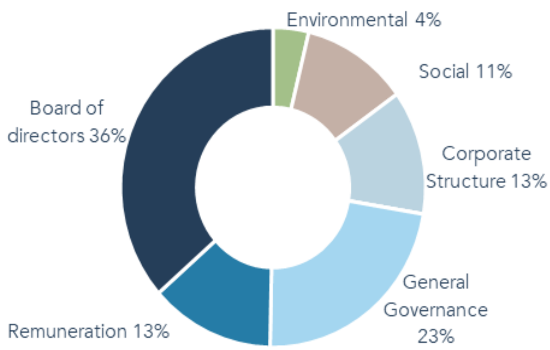
	2022	2023
Meetings Held	108	98
Meetings voted	100%	100%
Meetings with at least 1 vote Against Management*	29%	48%
Management Resolutions		
Total management resolutions	1,643	1,618
Votes against management resolutions*	4%	8%
Votes against ISS recommendations	4%	10%
Shareholder Resolutions		
Total shareholder resolutions	95	79
Votes in favour of shareholder resolutions	28%	43%
Votes against ISS recommendations	17%	24%

Source: ISS. *This may include abstentions.

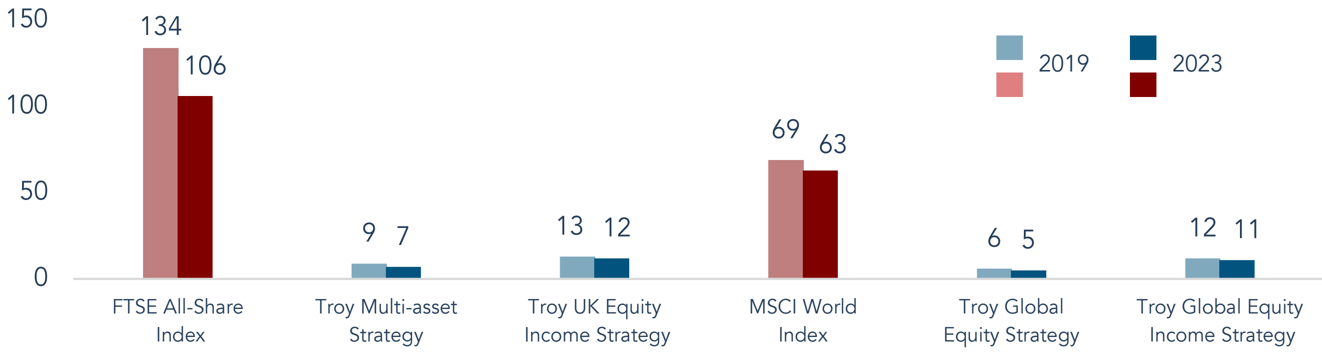
VOTES IN FAVOUR OF SHAREHOLDER RESOLUTIONS – 2023



VOTES AGAINST MANAGEMENT RECOMMENDATIONS - 2023 (BOTH MANAGEMENT AND SHAREHOLDER RESOLUTIONS)

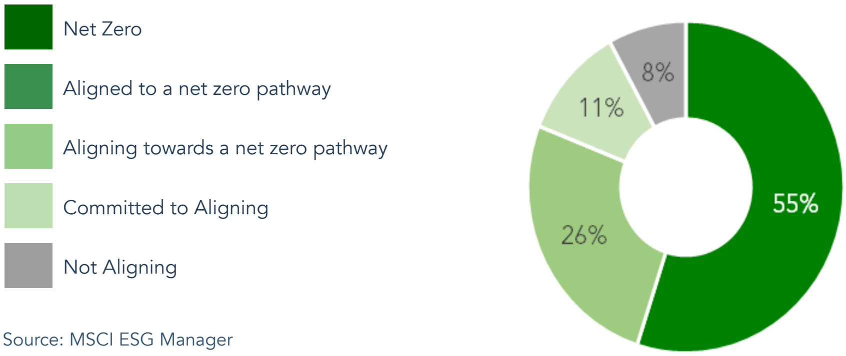


Portfolio Carbon Footprint (Tons CO2e / $M Invested)*



*Carbon footprint calculated using market capitalisation.
Source: MSCI ESG Manager, portfolio holdings as at 31 December 2023 and data as at 4 January 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

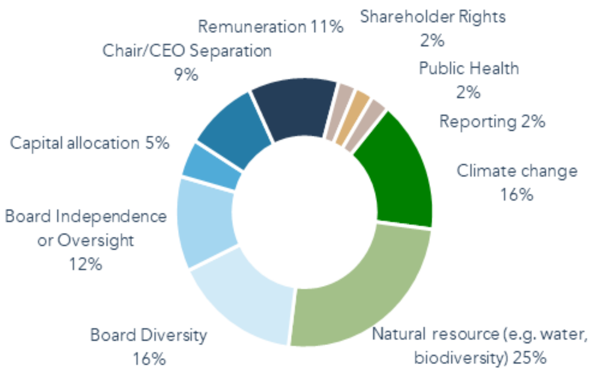


Source: MSCI ESG Manager

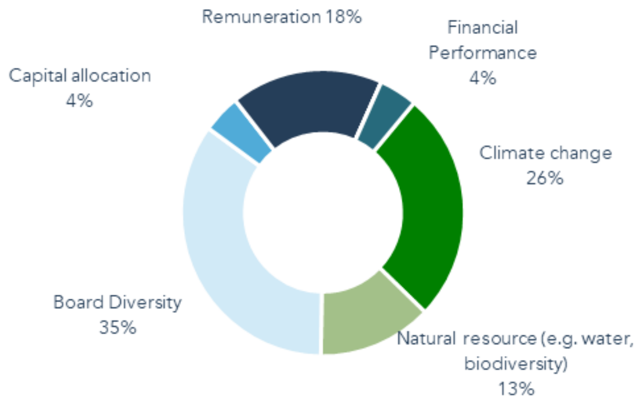
Troy has categorised all equity holdings along an alignment maturity scale in accordance with the Institutional Investors Group on Climate Change's (IIGCC) Net Zero Investment Framework methodology. This reflects our commitment under the Net Zero Asset Managers initiative to ensure our investments are 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

2022 - 44 ENGAGEMENTS WITH 29 COMPANIES



2023 - 23 ENGAGEMENTS WITH 18 COMPANIES



Source: Troy Asset Management, 31 December 2023. *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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