



Response to ESG Questionnaire Troy Asset Management

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Introduction

The issue of defining ESG and how individual companies express their specific values is now at the forefront of many of our clients' minds. We have researched SRI funds for many years now and have a separate rating category, but we acknowledge that this is now a mainstream strategy for an increasing number of investors and ESG issues are impacting all funds, not just those designated responsible or SRI.

In order to understand each company's stance on ESG factors at the corporate level, and how this is built into the investment managers' research and process we ask all our rated fund managers four questions:

- Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.
- Please provide an overview of how ESG is integrated into your business.
- Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.
- What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

The responses given by Troy Asset Management are shown here.

1. Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.

Troy's purpose is to preserve, grow and be a responsible steward of our clients' irreplaceable capital over the long term. We have developed several reports and policies to help govern our ESG and stewardship practices, which is overseen by our internal Responsible Investment & Climate Committee. Our long holding periods promote the role of active ownership in our process which allows us to deepen our understanding of ESG issues over time.

Our approach to stewardship has evolved significantly since Troy was founded in 2000. Each market cycle has played its part in that evolution, reinforcing our view that companies that do not emphasise strong corporate governance or proactively manage their social impact and environmental footprint, will likely suffer from greater regulation and declining support from investors and shareholders.

Investment in high quality equities is at the core of Troy's investment strategy, with corporate behaviour and good governance identified as key elements of quality. We also recognise that the materiality of environmental and social factors has increased as consumers and regulators have sought to differentiate between those companies acting in a responsible and sustainable way and those who do not. The availability of climate and social impact data has also improved. These changes have resulted in a commensurate increase in our actions and focus on stewardship throughout our investment process.

Over the last two years we have evolved our engagement strategy in relation climate risk. It has become increasingly urgent for companies to evidence their preparedness for the low carbon transition and resilience to climate change by aligning their business models with the goals of the Paris Agreement. Such efforts include setting net zero commitments, developing decarbonisation strategies and adopting short- to medium-term reduction targets. Where these are lacking, we seek to engage with companies to encourage their adoption. Priority is based on the perceived impact on the relevant portfolio in relation to climate change mitigation.

As the materiality of climate change has evolved, so too has Troy's integrated analysis of climate risks and opportunities into the fundamental analysis of all existing and prospective investments. While our exposure to high impact sectors remains limited given our bias towards capital-light and less cyclical businesses, we analyse greenhouse gas emissions and associated mitigation strategies of all investee companies in order to reduce climate change risks.

Our approach to climate risk continues to evolve. Like others in our industry, we are developing and utilising new tools to understand and respond to climate change and we recognise the role that collaborative action can play in achieving this. As a result, Troy has expanded its membership of collaborative engagement and policy-focused organisations. In 2021, Troy committed to developing its climate strategy in alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and as part of this strategic approach we became a signatory to Net Zero Asset Managers initiative (NZAM) and the Carbon Disclosure Project (CDP), a member of the International Investors Group on Climate Change (IIGCC) and a participant in Climate Action 100+. Troy has been a signatory to the UN PRI since 2016 and The Investor Forum since 2019.

2. Please provide an overview of how ESG is integrated into your business.

We are long-term investors focusing on delivering absolute returns whilst exposing our investors to lower than average volatility. It is within this context that we integrate ESG considerations into our investment process and approach active ownership. We attach great importance to the sustainability of a company's returns over the long-term, and experience has taught us that non-financial factors can materially affect the prospects and durability of a company.

All of Troy's mandates are populated from Troy's central investment universe. ESG factors are integrated within our bottom-up fundamental analysis which is applied to all of Troy's strategies. Our aim is to evaluate how these factors can either help or impede a company's ability to generate sustainable returns and affect its revenue growth, profitability, asset value and valuation over the long term. To achieve this, we combine in-depth stock specific analysis with thematic ESG research. We judge each company on its individual exposures to ESG factors, aided by third party research and our own materiality analysis. We do not have a prescriptive checklist for assessing ESG factors, instead our focus remains specific to each company, industry and our view of their materiality. In practice, ESG analysis is embedded in our in-house research notes and forms part of our monitoring process during meetings and reviews, which is particularly important given the dynamic nature of materiality. Governance and climate risk are systematically reviewed as part of the annual AGM voting process. Stock specific ESG integration also informs our engagement and voting activities where we feel a company is performing inadequately on a material ESG factor.

As part of our investment research and monitoring process, ESG risks are considered alongside other types of risk such as business risk, financial risk and valuation risk. Where we believe ESG factors pose a material and probable risk to the sustainability of returns, we may choose either not to invest or to invest with a greater margin of safety by using engagement to mitigate the risks. We would seek to avoid investing in a company that is exposed to ESG risks which we consider to be intolerably high, particularly where our analysis reveals that such risks are not adequately managed and may impair our ability to generate good risk-adjusted returns for our investors. Our equity selection has remained absolutely focussed on quality companies. We conduct thematic research on systemic ESG risks and opportunities to better understand issues that affect a number of our holdings or to explore the exposure of our portfolios to significant and material ESG themes. This is particularly useful when developing our understanding of rapidly evolving social and environmental factors.

Our thematic research often allows us to identify leaders and laggards on a given ESG topic, and guides our understanding of best practice against which individual companies may fall short. Thematic research also

helps direct proactive engagement activities aiming to encourage the adoption of best practice, for example in relation to plastics, supply chain labour risk and climate change. Other examples of recent thematic research topics explored over the last year include digital rights and data privacy, health and nutrition, and deforestation.

3. Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.

Troy manages an ethical fund product range which employs negative screening in accordance with its published ethical exclusion criteria in relation to fossil fuels, gambling, alcohol, high interest rate lending, pornography, tobacco and certain types of armaments. The relevant Fund Manager is responsible for the implementation of the screening process applied to each fund by utilising Moody's ESG Solutions which provides us with research and analysis for monitoring the behaviour and activities of our holding companies. The negative screens are predominantly based on revenue thresholds and are not impacted by valuation or other factors.

Troy's other funds are not subject to any formal firm-wide ethical exclusions, however our exposure to high-impact sectors remains limited given our bias towards capital-light and non-cyclical businesses. As such, Troy has always had an emphasis on investing in quality companies with sustainable returns. This approach means that we avoid investing in certain sectors that may pose reputational risks for our investors such as mining, gambling, arms and ammunition. ESG analysis forms part of the wider investment thesis and is considered alongside other factors such as stability of business model, competitive advantages and valuation, in order to make an investment decision.

4. What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

At the end of 2022, Troy approached ISS to create a custom voting policy to provide Troy's Investment Team with customised voting recommendations, particularly where we found ourselves frequently voting against ISS's recommendations. This also promotes consistent voting across Troy's strategies for such issues as Chair independence, director tenure, CEO/Chair separation and a minimum of 30% female representation at board level. Troy's custom voting policy came into effect in 2023.

We will continue to steer investee companies towards the achievement of net zero and will increasingly focus on addressing any shortfalls in the climate strategies of investee companies. To date, we have had a number of successful engagements with companies that were identified as not aligning.

Important Notice

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