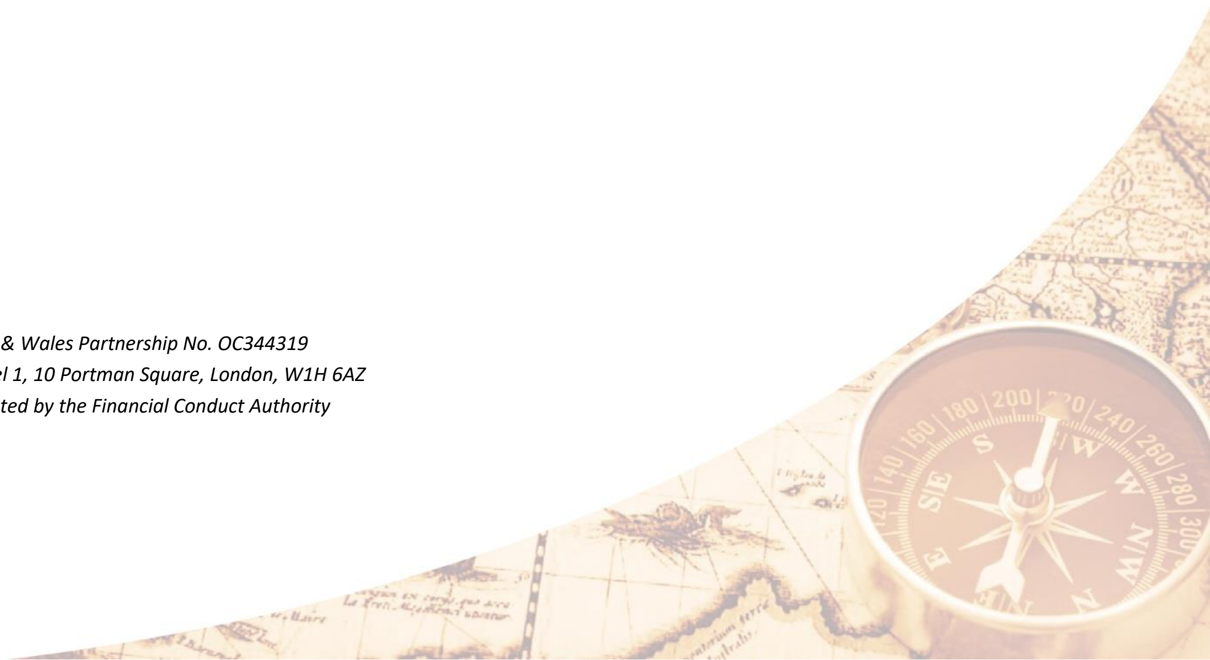
INDEPENDENT FRANCHISE PARTNERS™

2022 Stewardship Report

Prepared for the Financial Reporting Council



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Independent Franchise Partners, LLP at a glance at December 2022

Specialist investment partnership	Serve sophisticated institutional clients globally	Long-only, active, developed-market equities	Low turnover, buy-and-hold strategy
1 strategy, 3 flavours: Global Franchise, Global Franchise II and US Franchise	$14.5bn assets under management	30 employees, including 8 investors	Headquartered in London, UK

Foreword

"As long-term investors with concentrated positions, active stewardship is an important component of our investment approach. We see stewardship as a valuable tool to protect and enhance our clients' capital, and as such take our responsibilities in this area very seriously."

This is Franchise Partners' second Stewardship Report. In this report, we set out how we implement the twelve principles of the UK Stewardship Code 2020 and describe the key outcomes during the 2022 calendar year. This report applies to all our assets under management.

As long-term investors with concentrated positions, active stewardship is an important component of our investment approach. We see stewardship as a valuable tool to protect and enhance our clients' capital, and as such take our responsibilities in this area very seriously. Our stewardship work is carried out entirely within our investment team for this reason.

Like our approach to incorporating ESG considerations into our investment process, our approach to stewardship is returns led. This means we focus on financially material topics that impact a company's quality and valuation.

In 2022, we engaged with over two thirds of portfolio companies on ESG topics and met with 97% of our portfolio companies either virtually or in person[1]. This included several significant engagements, most notably with Terminix, News Corp and Fox, and GSK. We share the details of these in Principles 7, 9 and 12. As you will read, our concentrated portfolio allows us to take significant action in cases where we believe it is in our clients' best interests. Importantly, we also continued to undertake in-depth investment research to inform our engagement strategy in the years to come.

Across the Firm we also continued our efforts to address systemic risks and promote well-functioning financial markets, as we describe in Principle 4. This included becoming a signatory to the Net Zero Asset Manager's initiative (NZAMI) and setting two engagement targets, which we discuss in Principle 4.

We are mindful that progress in our engagement activities, both with portfolio companies and to address broader systemic risks, is often gradual and long-term in nature. Further, our engagement efforts may not always be successful, as we experienced with Terminix. Nonetheless, there were several positive developments during the year, as we describe in Principles 4, 7, 9 and 12.

We made further enhancements to our investment toolkit during the year to support our ESG and stewardship work. These included adding an ESG section to all new and updated company research notes, the development of a cloud-based engagement database that allows us to record, monitor and share with clients our engagement work, and a dashboard of ESG data points that monitors a selection of ESG data.

[1] Reflects meetings during 2022 held with companies in the three Franchise portfolios as at 31 December 2022.

We continue to be committed to improving our communication with clients on our ESG and stewardship activities. We therefore released our inaugural ESG and Stewardship Report, along with our first Stewardship Report, during the year. We describe our reporting in more detail under Principle 6.

Looking ahead, we will continue to be active stewards of our clients' capital and undertake in-depth ESG research to improve our understanding of a company's quality and valuation. We will also further refine our investment toolkit and our communication of our ESG and stewardship work.

The Firm's partners have reviewed and approved our 2022 Stewardship Report[2].

Jayson

Jayson Vowles, CFA
Managing Partner & Co-Lead Investor

Michael Allison, CFA
Partner & Co-Lead Investor

Richard Crosthwaite
Partner & Investor

Sandeep Ghela
Partner & Chief Operating Officer

Karim Ladha, CFA
Partner & Investor

[2] Information in this report is as at 31 December 2022 for the 2022 calendar year, unless stated otherwise. This reflects the partnership structure as at the date of publication, in October 2023. During 2022, there were six partners of the Firm. Hassan Elmasry was the Managing Partner and, for the first half of 2022, he was a member of the investment team. Hassan retired from his day-to-day responsibilities at the Firm effective 1 January 2023 and has served as non-Executive Chair during 2023.

Purpose and governance: Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Context

Purpose

Our purpose is to deliver attractive, long-term investment returns for our clients while taking as little commercial and valuation risk as possible. Our enduring client relationships and long-term investment results are the markers we use to help measure our success in achieving this purpose.

Business model and strategy

Independent Franchise Partners, LLP is an active, global equity manager established in June 2009 as an owner-managed partnership.

The Firm's business model and strategy is designed to support our purpose of delivering attractive investment returns for our clients. We believe the most effective way to achieve this is through a focused, specialist investment management partnership. The Firm is managed by its five partners, four of whom are investors[3]. The fifth partner is our Chief Operating Officer, who is responsible for the non-investment activities of the Firm. Our partnership structure supports a focus on a single investment discipline; directly aligns our interests with our clients' portfolio returns; and ensures ownership stability and the consistency of commercial priorities.

We focus exclusively on a single investment discipline – Franchise investing – that is available to institutional clients. The Franchise investment approach is discussed below. We offer three portfolios: Global Franchise (global equities), Global Franchise II (global equities excluding tobacco) and US Franchise (US equities). This focus on a single investment discipline ensures all our investment resources are dedicated to identifying and monitoring high-quality Franchise companies.

We have deliberately capped the size of the assets we manage to ensure we do not compromise our ability to deliver attractive returns and high-quality client service. We managed $14.5bn on behalf of our clients as at 31 December 2022. In addition, we have chosen to share the benefits of scale with our clients by lowering our average management fee in line with asset growth. Along with the cap on capacity, this helps align the Firm's interests with our clients' interests.

One of the key organising principles when we established the Firm was to keep it small and manageable. The Firm had 30 employees across portfolio management, trading, investment tools, client service, operations, legal and compliance at the end of December 2022. Our small size allows us to concentrate on what matters most to our clients: investment research, portfolio management, stewardship, trading and client service. To enable our investment and client service focus, we partner with best-in-class service providers across a range of functions including fund administration,

[3] This reflects the Firm's partnership structure as at the date of publication, in October 2023. During 2022, there were six partners of the Firm. Hassan Elmasry was the Managing Partner and, for the first half of 2022, he was a member of the investment team. Hassan retired from his day-to-day responsibilities at the Firm effective 1 January 2023 and has served as non-Executive Chair during 2023.

compliance and technology.

Investment beliefs

As long-term investors, our investment goals are inherently aligned with the principles of the Stewardship Code. First, our long-term time horizon requires us to consider a broad range of factors that may impact the durability of a business. This naturally leads us to incorporate ESG factors, many of which are long-term in nature. Further, frequent and active engagement with our portfolio companies is a crucial component of our buy-and-hold strategy. This allows us to test our investment thesis through regular meetings with our portfolio companies and to advocate for change at companies where we believe it is in our clients' best interests. We describe our approach to voting and engagement in more detail in Principles 9 to 12.

The Franchise investment philosophy

The Franchise investment approach is founded on the belief that a concentrated portfolio of exceptionally high-quality companies, whose primary competitive advantage is supported by a dominant intangible asset, will earn attractive long-term returns with less than average volatility. These characteristics are typically found in companies producing branded consumer goods, pharmaceuticals, media and publishing, and in the software and information services sectors. Similarly, these qualities are generally not found in capital-hungry industries such as oil and gas exploration and production, and utilities.

We are highly selective about what qualifies a business to be a Franchise, and therefore consider all financially material risks and opportunities when making this judgement, including analysing ESG factors. We take a broad view of materiality and consider how ESG factors impact a company's brand, reputation, and its appeal to employees. These are hard to quantify but can be important factors in maintaining the health of a company's intangible assets. Franchise portfolios are concentrated and typically contain between 20 and 40 stocks.

Once identified, we believe a patient, buy-and-hold approach is the best way to allow these companies to compound wealth for shareholders over the long term. We will hold investments as long as the company's valuation remains attractive and it continues to demonstrate strong franchise quality characteristics. This buy-and-hold approach is reflected in low annual turnover typically in the range of 15-25%. This implies a typical holding period in the region of four to seven years, although many positions have been held for over ten years.

Culture and values

We have deliberately structured the Firm as a focused, independent partnership to foster a client-focused culture and set of values. Our cap on assets under management further supports this mindset. We are not beholden to asset gathering targets, which allows us to focus purely on investment returns and quality client service. It also enables us to invest in the best people, technology and tools without intervention from a third party.

The Firm's mission statement sets out the values and culture we uphold in achieving the Firm's purpose. We strive to:

- Listen attentively to our clients.
- Communicate clearly and concisely how well our investment strategies and results are fulfilling our clients' investment objectives.

- Invest continuously in our people, technology and investment tools to remain at the intellectual and technological frontier of our industry.
- Manage the growth of the Firm to preserve and enhance the quality of our service.
- Maintain a culture and work environment that promote teamwork and enable us to attract and retain the highest calibre of people, and to foster their growth and satisfaction.
- Uphold the highest standards of ethics and integrity.

Activity

Business model and strategy

Our independence, simple business model and partnership structure allow us to remain focused on delivering attractive investment returns and high-quality client service.

We have invested in the human capital, tools and resources that we need to ensure effective stewardship without external constraints. We discuss the development of our ESG integration process, toolkit and resources in Principles 2 and 7. Further, we have been able to advocate assertively in our engagements with companies and industry bodies without being concerned about conflicts of interest or external pressures. We describe these engagements in more detail in Principles 4, 7 and 9.

Investment beliefs

Our core investment beliefs are the same today as when we founded the Firm in 2009. Indeed, they have remained consistent since we started managing the strategy at Morgan Stanley Investment Management (MSIM) in 2003. However, just as we have evolved our toolkit over time in other areas such as accounting quality, we have also evolved our approach to ESG risks over the last three years. In 2020, the investment team developed a set of proprietary tools to enable us to incorporate ESG considerations into our investment decision-making process and our stewardship activities. We describe these in more detail in Principle 7.

In 2022, we refined these tools and processes further:

- An ESG section in all new and updated company investment notes. This highlights any financially material ESG risks, their impact on the quality and valuation assessment, and any stewardship priorities.
- Development of a cloud-based engagement database that allows us to record, monitor and share with clients our engagement work.
- A dashboard of ESG data points that monitors a selection of ESG data across the portfolios, investment universe and benchmarks.
- Continuation of our climate engagement work, including becoming a signatory to NZAMI. We provide more detail on this in Principles 7 and 9.

Culture and values

We continue to promote a client-focused culture. Our interactions with clients are valuable opportunities to learn more about what is important to them and how we can serve them better. We typically try to meet with clients or their consultants at least annually to discuss their portfolio and seek any feedback. We also provide a range of reporting to help clients understand what is happening at the Firm and in their portfolios. This reporting is discussed in more detail in Principle 6.

In early 2020, we engaged a third party to undertake a survey of a number of our clients and their consultants, as well as former clients. The objective was to better understand their priorities, as well as identify how we could better serve them. We were pleased with the feedback, which highlighted the strong relationships we have with many of our clients as well as areas for us to address. Since the survey, we have reduced our investment management fees for all clients, evolved how we integrate ESG considerations into our investment decision-making and improved our communication and reporting on ESG. This is discussed in more detail in Principle 6.

In 2022, we appointed an ESG lead within our client service team. This individual works closely with the ESG analyst in the investment team to help us to continue to improve the communication of our ESG integration and stewardship work to our clients. In addition, in 2022 we expanded the client service team by adding another senior hire to further support our communication and relationships with our clients.

We recognise the importance of continuing to invest in our people. In 2022, we supported three employees in their post-graduate and industry qualifications, providing full tuition fees and study leave.

We strive to maintain a supportive culture and work environment that promotes teamwork and upholds the highest standards of ethics and integrity. As such, we promote a culture where all staff are treated with dignity and respect.

As part of the Firm's culture of continuous improvement, we hold 360-degree evaluations for all partners and employees every two years. The most recent 360 process was undertaken in 2021, and the next will take place in 2023.

Outcome

As we have explained, our purpose and investment beliefs have guided our stewardship activities, investment strategy and decision-making. We believe we have been effective in serving our clients' best interests. We measure our success in this through the strength of our relationships with our clients, and our long-term investment performance.

The average tenure of our clients by asset value is nearly seven years[4]. Given the Firm was launched in 2009, we believe this demonstrates the effectiveness of our client-centric business model, culture and values in meeting the needs of our clients.

The Franchise strategy has generated attractive returns compared to the broader equity market. The Global Franchise strategy generated a total return of 422% in USD net of fees, compared to the MSCI World (Net) Index total return of 213% since 28 February 2005[5], including returns from the

[4] Reflects full fee-paying investors only.
[5] The investment returns provided reflect returns for the Morgan Stanley Global Franchise Equity Composite for the period 28 February 2005 to 31 May 2009 and for the Independent Franchise Partners, LLP Global Franchise Equity Composite from 1 June 2009 to 31 December 2022. Past investment returns are no guarantee of future results. The returns are shown net of investment advisory fees, are quoted in USD and include the reinvestment of dividends and income. Net returns are shown after the impact of transaction costs and

investment team's time at MSIM. This translates into an annualised return of 9.7% for Global Franchise and 6.6% for the MSCI World (Net) Index. These returns have been achieved with lower volatility than the broader equity market. The annualised standard deviation for Global Franchise was 13.6% versus 15.8% for the index. This return also ranks favourably with other active equity managers. On a risk-adjusted basis, the strategy ranks in the top five percent of eVestment's Global Large Cap Equity peer group[6].

We believe this attractive performance demonstrates the effectiveness of our investment beliefs and strategy in creating long-term value for our clients.

Purpose and governance: Principle 2

Signatories' governance, resources and incentives support stewardship.

Activity

Governance, resources and oversight to enable effective stewardship

We have designed our business model and governance structures to support our sole focus on long-term investment returns and client relationships.

The Firm is an owner-managed partnership. Four of the five partners are members of the investment team[7]. The fifth partner is our Chief Operating Officer, who is responsible for the non-investment activities of the Firm.

The partners form the Firm's governing body and all significant business decisions are made by the partners, with input from the Firm's employees. This partnership structure promotes long-term stability, consistency in our commercial priorities and an investment-first mindset. Similarly, our conservative approach to managing our assets under management ensures that we focus on investment performance for our existing client base rather than asset gathering. Our independence means we are unrestricted in our ability to allocate resources towards achieving our investment goals and serving our clients.

We see stewardship as an important tool to help us achieve our purpose of delivering attractive long-term investment returns for our clients, and we invest appropriate time and resources in this element of our investment process. The most important example of this is that we have deliberately allocated responsibility for stewardship and ESG integration to the investors. We do not outsource

management fees, applied using the fee that would have been effective at the time. The impact of fees is applied on a daily, time-weighted, geometric basis. Long-term return data has been provided for informational purposes only as an indication of the investment team's record in managing Global Franchise portfolios at MSIM. The comparison index is the MSCI World (Net) Index. The composition and volatility of the index shown may vary materially from the securities comprising the portfolio. Please refer to the disclosure at the end of this document for further detail about the composite and the benchmark.

[6] Source: eVestment. From 28 February 2005 to 31 December 2022. The eVestment Global Large Cap Equity peer group comprises Global, ACWI, or Global ex-Japan Equity products that primarily invest in large capitalisation stocks regardless of the style (growth, value, or core) focus. The Global Large Cap Equity peer group included 121 products for the period shown.

[7] This reflects the Firm's partnership structure as at the date of publication, in October 2023. During 2022, there were six partners of the Firm. Hassan Elmasry was the Managing Partner and, for the first half of 2022, he was a member of the investment team. Hassan retired from his day-to-day responsibilities at the Firm effective 1 January 2023 and has served as non-Executive Chair during 2023.

any aspect of our ESG incorporation or stewardship to a third party, just as we do not outsource any other element of our investment process.

This means that the lead investor for each portfolio company is responsible for identifying, assessing and incorporating financially material ESG risks and opportunities into their assessment of franchise quality, valuation and ultimately the investment decision. The lead investor is also responsible for voting their companies' proxies and conducting engagement work. The investment team is supported by an ESG analyst who provides specialist support and expertise.

Our investment team had eight members with an average of fourteen years' industry experience at the end of December 2022. Two of the eight investors are women and six are men. One of the investors has two or more ethnicities, and the remaining investors identify as white. Further, our investment team has a variety of academic backgrounds, ranging from English literature and Russian, to accounting and finance.

Diversity of thought is important in investing, and we make a specific effort to identify diverse candidates for every role we recruit, not just the investment team. We do this in a variety of ways, including the use of specialist recruiters, ensuring a diverse pool of candidates, and by ensuring our interview panel is diverse. Gender diversity has been a particular focus of the investment team in more recent years, and we note that two of the past three hires to the investment team have been women. We also recognise that diversity has been a challenge for the finance industry more broadly. We have therefore been active participants in the Girls Are Investors (GAIN) and 10,000 Black Interns programmes to support and strengthen the pipeline for more diverse candidates at a grassroots level.

Below we provide short biographies of Karim Ladha, the partner and investor who has direct responsibility for our ESG work, and Lottie Meggitt, the Firm's ESG analyst.

Karim Ladha, CFA: *Karim joined the Firm in May 2011 and has sixteen years of investment experience. Prior to joining the Firm, Karim worked at Neptune Investment Management in London. Previously, Karim performed both equity and fixed income research at Morgan Stanley Investment Management, including working with the Franchise team. Karim has a B.A. in Philosophy, Politics and Economics from St John's College, University of Oxford and an MBA from the University of Chicago, and is a CFA® Charterholder.*

Lottie Meggitt, CFA: *Lottie joined the Firm in June 2020 and has nine years of industry experience. Lottie was previously at Newton Investment Management where she led their ESG integration and engagement efforts in the consumer sectors. Lottie has an M.A. in Classics from the University of Cambridge, a Masters in Finance from London Business School, and is a CFA® Charterholder.*

Alignment

We believe stewardship is integral to the success of a long-term buy-and-hold investment approach, therefore the members of the investment team are well-incentivised to fulfil the Firm's stewardship priorities to the best of their ability.

Further, compensation, and specifically above-base compensation, is determined for the members of the investment team by investment performance, as well as factors such as contribution to the overall development of the Firm, maintaining the Firm's culture and ethical standards, and the enhancement of the Franchise investment toolkit. Our evaluation of an investor's contribution incorporates an assessment of the quality of their entire research work, which includes the incorporation of financially material ESG factors and engagement activities.

Within the partnership, our compensation structure ensures the direct, long-term alignment of our partners' interests with the interests of our clients. All partners co-invest at least one third of their after-tax annual remuneration alongside clients in the Franchise portfolios. These co-investments accumulate for their full length of service and promote substantial financial alignment with our clients. Finally, each partner's investment is subject to a staggered five-year release period after their departure. This means that it is in the partners' interests to invest in the Firm in a way that protects its long-term sustainability.

Investment in people, systems, research and analysis

We believe it is important to invest in our people, and strongly support the ongoing education and development of our employees. The Firm offers all staff full financial reimbursement for the costs associated with further education and training. A significant proportion of the Firm's employees have taken advantage of this reimbursement programme, with eight people undertaking post-graduate degrees and other industry qualifications in business, finance, data science and cybersecurity since the launch of the Firm.

Our investment process is built on proprietary, in-house research and stewardship, therefore investing in our toolkit, data and information sets is vital. Our independence means the investment team has full discretion in this investment.

We subscribe to a broad variety of research from over 70 providers, including traditional sell-side houses, specialist research firms and external consulting firms. We source data from over 30 different providers on a range of subjects from employee satisfaction to mobile app usage. Two full-time employees are dedicated to developing and managing our investment tools and data sets. The level of investment in our research, trading and investment toolkit is material for a firm of our size and represents the Firm's second largest expense.

We apply the same approach to our stewardship providers. We obtain data, research and expertise from best-in-class third parties to inform our stewardship work. Below we list these third parties.

Arkadiko Partners	Arkadiko Partners is a consultancy focused on implementing ESG and stewardship within the investment process. Arkadiko provides a valuable external viewpoint and industry knowledge which feeds into the Firm's ESG and stewardship strategy.
ESG data	Our primary environmental data providers are MSCI ESG, Trucost, the Science Based Targets initiative (SBTi) and the Carbon Disclosure Project (CDP). We source our social and governance metrics from MSCI ESG, Bloomberg and Institutional Shareholder Services (ISS). We also make use of a variety of sector-specific raw data. We use all of these data points to inform our ESG analysis and engagement work.
ESG scores	MSCI is our primary provider of ESG scores for the portfolio. We also have access to the headline scores of other providers through Bloomberg. Finally, we make use of scores and rankings from specialist groups such as the Tobacco Transformation Index, the CDP and the Access to Nutrition Index.

Proxy research	We obtain proxy research from ISS. We use this research to inform our voting decisions, but it does not dictate how we vote.
External Research	This includes ESG research from sell-side brokers and smaller, specialist firms.
Industry consultants	We harness the insights of industry specialists through consultants and our own networks. This includes individuals from industry, academia and independent research groups.

Outcome

We believe our current governance structures and resources provide the oversight, experience and expertise required to fulfil our stewardship priorities effectively within the investment team. In 2022, our investment team voted on 615 proposals at 35 general meetings. We engaged with companies 53 times on ESG matters, including writing seven formal letters. We provide examples of these engagements, voting activities and their outcomes in Principles 9, 11 and 12.

We are committed to the ongoing development of our investment process and stewardship work to ensure we achieve our purpose of generating long-term attractive returns for our clients. An important example of this has been the development of our ESG toolkit, which we set out in Principle 7. These developments have enabled us to broaden our stewardship activities to include engagement on climate risk management. We describe our climate engagement work in Principle 7 and 9.

Our drive for improvement within the investment team helps us gain a deeper understanding of the material ESG risks faced by our portfolio companies. This means that undertaking further in-depth, ESG work is a priority for the coming years. This will help us to identify our ESG engagement priorities.

Finally, we strengthened our client reporting in 2022 to provide greater transparency to clients of our stewardship activities following client feedback. This included: the release of our 2021 inaugural ESG annual report in early 2022; the publication of our 2021 UK Stewardship Code report; blog posts on key engagement activity with News Corp and Fox, as well as with Terminix, which we describe in Principle 7; and a blog post on Franchise Partners becoming a signatory to NZAMI, which we discuss in Principle 4.

We also appointed an ESG lead within our client service team. This individual works closely with the ESG analyst in the investment team to improve the communication of our stewardship work to clients. This role should help us to better capture client feedback in our stewardship strategy.

Purpose and governance: Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Context

The Firm's business model and ownership structure help to minimise exposure to conflicts of interest. However, as an asset management firm with multiple clients, we nonetheless face a variety of potential conflicts of interest. These conflicts relate to our trading and investment activities, our clients and our staff.

Overall, there are two tenets which underly our approach to managing these conflicts:

- The Firm should act in the best interests of clients at all times.
- All clients should be treated fairly.

Below, we describe our approach to managing key conflicts in more detail. A detailed summary of our conflicts of interest policy is available on our website.

Ownership structure and business model

Our independent partnership structure minimises the Firm's exposure to conflicts of interest. We are not affiliated with any other investment management company, fund distributor or bank. This allows us to focus completely on delivering attractive returns for our clients and eliminates many of the competing interests faced by larger, more diversified or distribution-driven organisations.

One example of how this ownership structure enables us to put clients' interests first is the cap we have placed on the Firm's assets. While this limits the Firm's income, it helps to ensure a high standard of client service and the sustainability of investment results.

Our independence means we are able to conduct our corporate engagement and proxy voting in a manner aligned with the best interests of our clients. We are not subject to the interests or sensitivities of a third-party organisation.

Finally, the partners' remuneration framework aligns them with our clients' interests, which naturally minimises conflicts of interests with our clients.

Clients

We believe strongly that all clients should be treated fairly. Therefore, we do not accept any side letters or terms that would give preferential treatment to one client over another. Over time we have lowered our average management fee in line with asset growth, sharing the benefits of scale with all clients.

Finally, we consider all strategies when making an investment decision. All accounts within the same strategy are managed in line with each other. Further, under the Firm's allocation policy, all trades are allocated on a pro rata basis as standard.

Voting and engagement

Our voting and stewardship policies set out our approach to managing conflicts of interest in our voting and engagement work. As previously mentioned, our independence enables us to vote and engage with companies in a manner consistent with long-term investment performance, not the interests of a third party.

We do not currently manage assets for any of the companies in our investment universe. This eliminates conflicts that could emerge as a result of voting at our clients' AGMs. Further, as our sole business is asset management, we do not encounter conflicts of interest through providing additional services to the companies in our investment universe.

Staff

Our gifts and entertainment policies ensure our investment, trading and outsourcing decisions are made in the best interests of clients and are not unduly influenced by third parties. We require staff to obtain pre-approval for any external directorships or business interests to ensure that any conflicts are identified and appropriately managed. Finally, staff are not permitted to trade personally in securities held in the Franchise portfolios or the universe of securities in which we invest.

Outcome

We did not identify any material conflicts of interest in 2022.

Where conflicts arise, they are managed on a case-by-case basis. The partners, general counsel, compliance and other support and control functions will determine the appropriate course of action. These actions could include:

- The Firm is unable to manage the conflict and should decline to act.
- The Firm can manage the conflict and put in place appropriate internal procedures to remediate the recurrence of the conflict.
- The conflict can be eliminated by a change in business practice or removal of the competing interest.

Purpose and governance: Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Activity

Our long-term time horizon means we must apply an equally long-term approach to the management of systemic risks that may impact our portfolio companies and our own business.

Within our investment portfolio, the investment team identifies market-wide and systemic risks primarily through our bottom-up, proprietary research work and our regular engagement with company management. These potential risks, and how we intend to address them, are discussed and agreed in our weekly investment meetings and as part of our research feedback process.

Other areas of the Firm such as trading, compliance and legal also play an important role in identifying and managing market-wide and systemic risks that may impact our investments and the Firm. These teams identify and monitor potential risks through a wide range of sources. These include industry publications, brokers, consultants, external legal and compliance firms, trusted service provider relationships, participation and attendance at industry events, and other asset managers. The teams typically raise and discuss material risks with the broader business team and the Firm's Chief Operating Officer at twice monthly business meetings, on an ad hoc basis with one of the partners, or with all of the partners at the quarterly partners meeting, depending on the nature of the risk. Further, on a quarterly basis, the partners and Compliance Manager undertake a structured review process to identify and assess the Firm's material risks, including regulatory and market-wide risks.

We manage systemic risks in two ways: direct engagement with companies, and contribution to a variety of industry initiatives that promote well-functioning financial markets. In both company and industry engagements, we focus our efforts on the topics that are most aligned with our returns-led focus, our investment approach and our business model.

We are a small firm by number of employees, nonetheless, we actively contribute to industry-wide initiatives that help us in our purpose of delivering attractive investment returns for our clients. An important component of our work in this area is to represent smaller firms and their clients so that these debates are not dominated by the larger firms in the industry.

Two key themes in managing systemic risks

Climate change and financial reporting are the two primary themes of our current work to address systemic risks. These are discussed below.

Climate change

Through our investment research we identified climate change as a long-term risk to our investments and the financial system as a whole. We have developed a climate risk framework to guide our analysis and inform our voting and engagement work. We provide the framework in full in Principle 7. We have used this framework to help us identify candidates for engagement to improve their climate risk management. We have prioritised the laggards in our portfolio, focusing on companies that lacked emissions reduction targets or which did not disclose to the CDP.

We have engaged with nine portfolio companies during the past two years, six of them in 2022. We engaged both collaboratively through the CDP, and individually. There was positive progress at four of the companies in 2022. This included one company disclosing to the CDP and another submitting emissions reduction targets to the Science Based Targets initiative (SBTI), both for the first time. We describe the outcomes of our engagements in more detail in our response to Principle 9.

We also formalised our climate engagement work by becoming a signatory to NZAMI in 2022 and setting two portfolio engagement targets:

1. 100% of the Firm's AUM[8] to have a science-based emissions reduction target by 2030.
2. 100% of the Firm's AUM[9] to disclose to the CDP by 2025.

Consistent with our investment approach, we will seek to achieve these targets through active and persistent engagement with our portfolio companies, rather than through divestment or exclusion.

Financial reporting

Our Firm and the broader investment community rely on high-quality disclosure and transparency. We therefore believe promoting this is in our clients' best interests.

Our investment team, through their investment research work, identified certain financial accounting and reporting areas where the quality of company disclosures could be improved and standardised. In response, Terence Fisher, a member of the investment team and an accounting specialist, joined the International Accounting Standards Board's (IASB) Capital Markets Advisory Committee (CMAC) in 2019. The committee's role is to provide the IASB with investors' views on the development of accounting standards. The committee meets three times a year. It provides input throughout the standard setting process, from early stages through to the post implementation review, while also advising on areas for future work.

We have chosen to contribute our time to this committee because it directly influences the decision making of the IASB and therefore represents an important avenue to help improve the quality of financial disclosure that investors receive. Participating in this process means we can help draw attention to, and give our perspective on, the areas of accounting and financial disclosure that we believe require improvement.

During 2022, Terence helped to shape the CMAC's response on a range of accounting topics. These included the development of an exposure draft[10] on Supplier Finance Arrangements, which the IASB finalised and issued in May 2023. We felt this was an area of financial disclosure in need of significant improvement given the increasing use of supply chain financing. We think the new requirements should provide investors with greater transparency on the impact of supply chain financing on companies' liabilities and cash flows. Other topics Terence provided input on in 2022 included the Primary Financial Statements exposure draft, which aims to create more consistency and comparability across companies by providing guidance on what companies can adjust when preparing adjusted earnings.

Contribution to industry initiatives

We contribute to a variety of industry initiatives that help to promote well-functioning financial markets and pursue outcomes in our clients' best interests. These are listed below, in alphabetical order.

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[8] AUM represents assets under management. 100% of the Firm's AUM, excluding cash holdings.
[9] Excluding cash holdings.
[10] An exposure draft is a document produced by the IASB that is designed to elicit feedback from stakeholders as part of the accounting standards development process.

Board Director Training Institute of Japan (BDTI)	BDTI is a non-profit operating in Japan which aims to improve corporate governance and promote effective management in the region. BDTI achieves this by providing training programmes designed to enhance directors' skills and knowledge. It is important for the Firm to support the BDTI's mission as we hold Japanese companies in our portfolios. Therefore, we provide an annual donation to the BDTI to support its ongoing work. In the past, we have used BDTI's services to assist our engagements with portfolio companies.
Carbon Disclosure Project (CDP)	We support the CDP's efforts to improve corporate disclosure on material climate change risks and opportunities, and provide a financial contribution for our membership. We use companies' CDP disclosure and scores in our risk assessments. We have found collaborative engagement with the CDP to be an effective method to improve climate risk disclosure at our portfolio companies. In 2021, we participated in the CDP's non-disclosure campaign for the first time. We again participated in the campaign in 2022, writing to two portfolio companies. During the year, one company disclosed to the CDP for the first time, and another disclosed its scope 3 emissions to the CDP for the first time. Please see Principle 9 for a more detailed discussion of this engagement work.
Diversity and inclusion initiatives	In 2022, we took part in two initiatives aimed at improving diversity within the investment industry by increasing representation at the early-career level. Investing is an activity that benefits from diverse viewpoints and perspectives. We believe that addressing diversity from the bottom up should help to contribute to the sustainability of the investment industry more broadly. **10,000 Black Interns** This programme offers internships in the financial services sector to black students studying in the UK to help improve racial diversity within investment teams. In summer 2021, our investment team hosted three interns from the programme at different stages of their academic careers. In 2022, we supported the 10,000 Black Interns initiative with a financial contribution. **Girls Are Investors (GAIN)** GAIN aims to promote diversity within the fund management industry by increasing the number of female applicants for entry-level investment roles. GAIN seeks to achieve this by providing female students with role models who speak to them about the opportunities and benefits of a career in the investment industry. In 2022, our investment team hosted two interns from the programme. During their time with us, the interns developed their own investment recommendations using our quality and valuation framework, receiving feedback at every stage. We believe the programme helped to further develop the interns' research and analysis skills, and we received positive feedback.
Independent Investment Management Initiative's (IIMI) ESG group	This group provides a helpful forum to discuss the challenges and benefits of ESG and stewardship for smaller firms. The primary value for us in our membership of this group in 2022 came from knowledge sharing with our peers. Our involvement with the IIMI will increase in 2023 as the Firm's General Counsel, Philip Reed, joined the board.
Investment Association (IA)	The IA is the trade body that represents UK investment management firms. We have chosen to play an active role at board level and within a select group of

	committees as we feel it is important to represent the views of small, independent investment management firms and their clients. Hassan Elmasry, who was the Firm's Managing Partner in 2022 and is now our non-Executive Chair, joined the board of the IA in 2021 and serves on the Finance, Audit and Risk Committee. This committee oversees the organisation's overall health and governance, including the IA's stewardship work and the Institutional Voting Information Service, the IA's corporate governance research arm. In 2022, Hassan contributed the Firm's views towards the development of the IA's position on UK and European Union sustainability disclosure requirements. Hassan's term of service will expire at the end of 2023. The Firm's General Counsel, Philip Reed, is a member of the IA's Trade & Investment Committee and the Advocacy Committee, a sub-committee of the Corporate Affairs Committee. As part of his contribution to the IA, Philip engaged politicians, regulators and peers on items of political policy and regulation relevant to the Firm and the industry. During the year, we also provided feedback to the IA as part of the consultation on the Financial Conduct Authority's (FCA) proposed Sustainability Disclosure Requirements. Our input helped to inform the IA's response to the proposed requirements, which was sent to the FCA in early 2023.
Net Zero Asset Managers initiative (NZAMI)	In 2022, the Firm became a member of NZAMI, an international group of over 300 asset managers supporting net zero emissions by 2050. As a member of the initiative, we developed two portfolio engagement targets to drive improvements in climate risk management at our portfolio companies. We became a signatory to formalise our climate engagement work and to signal to our portfolio companies the importance we attach to this topic. In our experience, membership of groups such as NZAMI can increase the likelihood of engagement success.
Trading-related initiatives and events	The Firm has concentrated positions with lengthy holding periods. As such, it is vital for us to engage with both regulators and the industry on market structure topics. We engage with regulators though a variety of channels. For example, the Firm has advocated for many years across various forums for the creation of a pre-trade consolidated tape (CT) in both the European Union and UK to help mitigate the impact of exchange outages. We were pleased that in 2023 the European Union agreed on the specification of a CT, while the FCA in the UK is currently consulting on the topic. In 2021 and 2022, we also engaged on Europe's overly complex trade reporting requirements that resulted from MIFID II. We provided our opinion on this topic, as well as other trade-related topics, as part of an FCA consultation paper. Our General Counsel also discussed it as part of his work with the IA. We were pleased when the FCA announced in 2023 it will adopt many of the changes we supported. We believe these should help reduce the complexity of trade reporting requirements and therefore improve data quality. We regularly participate in industry initiatives to advocate for a vibrant ecosystem of market actors, deep liquidity, efficient price formation and mechanisms to limit information leakage in global capital markets. Taking part in such initiatives also allows us to discuss and share trading best practice with our peers. During 2022, our trading team was an active participant in events organised by Institutional Investor, Trade, Rosenblatt Securities, The Hive, The Buy-Side Trading Community and TradeTech (WBR). The team was asked to speak on a number of panels, which we think reflects the team's good standing in the trading community.

	The topics discussed included regulatory change, payment for order flow, market resilience, innovations in trading algorithms, transaction cost analysis and best execution.
UK Investor Forum	Our membership of the Investor Forum provides opportunities for collaborative engagement with UK-based companies. We provide a financial contribution to the Forum as part of our ongoing membership. In 2022, we commissioned a survey of fellow UK-based investors through the Investor Forum. The results of the survey led us to co-ordinate a group letter with other members of the Forum to a portfolio company, GSK. In the letter, we urged GSK to improve its disclosure of its vaccines business. There are preliminary, positive signs that the company is open to better disclosure in relation to its vaccines business. We discuss this collaborative engagement in more detail in our response to Principle 9.
UN Principles for Responsible Investment (PRI)	We support the PRI's mission to bring increased transparency and rigor to responsible investment and we provide a financial contribution to be a member. Membership of the PRI keeps us informed of practices within ESG investing and stewardship. We also recognise that our clients value the transparency and consistent reporting which is enabled by the PRI's reporting process. We provided our first PRI Transparency Report to the PRI in 2021. While there was no reporting cycle in 2022, we submitted a report for public assessment in relation to the 2022 calendar year in 2023.

Outcome

We have committed a significant amount of resource to try to address systemic risks that may impact our clients' investments and our business. We believe our methods for identifying systemic risks are appropriate given our single investment discipline, the size of our Firm and our simple business structure.

However, assessing the effectiveness of our work is challenging. Many of the initiatives we are involved with are ongoing and complex, and change is likely to be gradual. It can also be very difficult to identify whether a specific initiative has led to regulatory or legislative change. Nonetheless, there have been several positive developments on some of the topics that we, in conjunction with other investors and asset managers, have engaged on during the past few years. These include:

- **Climate change**
  We have seen steady improvements in the climate risk management of some of our portfolio companies, including several positive developments in 2022, as discussed in Principle 9.

- **Financial reporting**
  The IASB has announced several amendments to its financial reporting and accounting standards designed to improve disclosure and transparency, which our forensic accounting specialist Terence Fisher has helped shape through his role on the CMAC. This includes its Supplier Finance Arrangements requirements, issued in 2023, which should help investors to better assess the impact of supplier financing activities on companies' liabilities and cash flows.

- **Trading-related initiatives**
  In 2023, the FCA announced changes that should reduce trade reporting complexity for our Firm and other buy-side firms, as discussed above. We were pleased that many of the changes we supported were adopted.

Purpose and governance: Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Activity

The Firm has three policies that guide our stewardship work. These are:

- ESG integration policy
- Stewardship policy
- Voting policy

We follow the same approach to the review and assurance of our stewardship-related policies as we do with our other policies. Each policy is reviewed annually and approved by the partners. During this process, we consider developments in industry practices, client feedback and regulatory changes. The review is overseen by our compliance function and incorporates a review by our ESG analyst and, as needed, advice from an independent stewardship consultant. The partners formally approve the policies to ensure senior accountability and oversight. We have adopted this approach because the Firm's small size and simple structure enable the partners to have direct oversight of our stewardship activities.

In addition to this, our proxy voting process is reviewed by external independent auditors as part of our internal controls audit. This audit incorporates a review of ISS's systems to confirm that we have submitted our voting decisions ahead of the relevant deadlines, and that we cast our votes in accordance with the Firm's voting policy.

For our stewardship reporting to clients and regulators, we make use of external specialists to advise us on best practices. All ESG-related marketing communications, such as our annual ESG and Stewardship report and blog posts on our client portal, require a three-level sign off which includes the author of the piece, compliance and a partner. This is to ensure that all information is accurate and we can substantiate the report's content.

We regularly review the effectiveness of our stewardship activities as part of our investment process. For example, all company meetings are discussed in our weekly investment meetings, which provide an opportunity to discuss the progress of ongoing engagements and whether we should escalate the engagement. Further, the partner responsible for ESG regularly brings significant ESG and stewardship matters to the attention of the partnership at the weekly partners meetings.

Outcome

We published updated versions of all three of our stewardship-related policies in 2020. These updates reflected the evolution of our approach to assessing ESG risk, such as the development of our proprietary taxonomy for evaluating material ESG considerations, climate risk framework and format for producing company-specific research. We describe these frameworks in more detail in our response to Principle 7. These changes also reflected a requirement for greater transparency from our clients into our ESG integration and stewardship activities. Each policy was reviewed and approved in 2022. Due to the significant changes made in 2020, there were no material changes in 2022.

We have in place an ESG engagement tracking process to monitor the progress of our engagements and support our reporting to clients on our engagement work. The investment team's ESG analyst is responsible for recording our ESG engagements with companies, including the type of engagement, the purpose of the engagement and the outcome. We introduced an Excel-based version of this tool in 2020 and used it to analyse the prior two years' ESG engagements. In 2022, we further enhanced the process by developing a proprietary Tableau-based version of the engagement database.

Investment approach: Principle 6

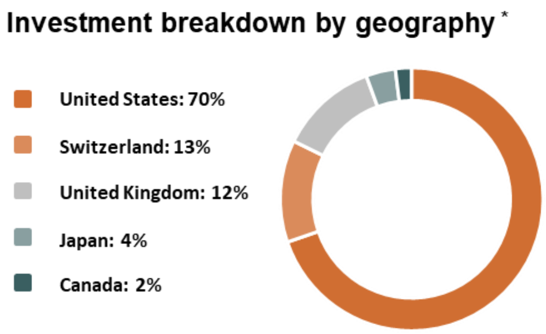
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

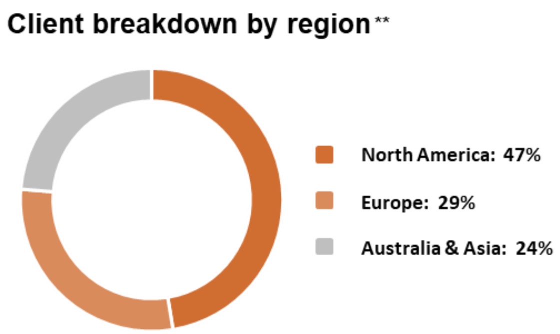
Context

The Firm had US$14.5bn in assets under management (AUM) at the end of 2022. We invest solely in listed equities and we only invest in developed markets.

Our client base consists of institutional investors. We manage assets on behalf of clients located in eleven jurisdictions. US domiciled clients represent the largest proportion of the Firm's AUM at 41%, followed by Ireland and Australia at 25% and 16% of AUM, respectively[11].

Below we provide a geographical breakdown of the Firm's investments as well as a regional breakdown of the Firm's clients.





** Excludes cash holdings. As at 31 December 2022. Source: Independent Franchise Partners, LLP.*
*** Reflects legal domicile of our segregated accounts and pooled funds as at 31 December 2022. Source: Independent Franchise Partners, LLP.*

We encourage our clients to invest with us over a long-term time horizon. The Franchise investment approach aims to invest in companies that earn superior returns on their re-invested capital, compounding shareholder wealth over time. The success of this compounding is best demonstrated over longer time horizons, such as a full market cycle. We do not define the specific length of this time horizon for our clients, but highlight that a full market cycle should be measured from one peak to another, or one trough to another.

Activity

Seeking the views of our clients

We measure our success as a firm through the strength of our long-standing client relationships. We value the trust our clients place in us and seek their feedback to ensure we are meeting their expectations. We seek this feedback through formal update meetings with clients and their

[11] Client AUM domicile percentages reflects the domicile of segregated accounts and pooled funds. The Firm managed eight pooled funds at the end of December 2022. Three of the pooled funds were domiciled in the US, five in Ireland.

investment consultants, as well as through informal discussions and correspondence and our semi-annual webinars. Questionnaires and email queries from clients also provide valuable insights into their needs.

We believe our approach is effective because we have a relatively small number of clients, many of whom have a long tenure with the Firm. This enables regular, transparent communication on both sides.

Additionally, in 2020, we engaged an independent third party to undertake an in-depth survey of our client base, representing over half our total AUM. The survey was conducted by interview and sought to help us better understand our clients' priorities, measure overall client satisfaction and obtain insight on areas we could improve. The results demonstrated a high level of satisfaction from our clients, and provided us with an improvement roadmap over the next few years. One of the areas for improvement related to providing greater transparency on our ESG integration and stewardship work. This has guided the development of our communications in this area, including the publication of updated ESG integration, voting and stewardship policies, and an analysis of the portfolios' climate risks. We will look to conduct similar surveys periodically going forward to obtain insight into client satisfaction and priorities.

Communicating with our clients

In 2022, we provided the following information on our ESG and stewardship activities to clients:

- Our inaugural ESG and Stewardship Annual Report for the 2021 calendar year. The report describes how we incorporate our proprietary ESG and stewardship framework into our investment process. It also contains several examples of our ESG integration work in practice, including detailed research, engagement and voting case studies.
- Our first Stewardship Report, which sets out how we implement the twelve principles of the UK Stewardship Code and describes the key outcomes during 2021.
- A blog post announcing that the Firm had become a signatory to NZAMI and explaining our two climate engagement targets. This was published on our client portal.
- Two blog posts on our client portal discussing our engagements with Terminix about its proposed acquisition by Rentokil, and with News Corp and Fox about their prosed re-combination. We provide more detail on these engagements in response to Principle 7.
- Videos published on our public website explaining our approach to ESG and stewardship, as well as our climate engagement activities.
- Proxy voting records published on our public website, updated daily, with a three-month lag.
- Revised ESG integration, stewardship and voting policies.

We also provided the following information on our broader investment activities, which often included additional details of our ESG and stewardship work:

- Semi-annual client webinars.
- Quarterly client investment letters that provide an update on performance and portfolio activity, as well as any notable ESG and stewardship developments.
- Meetings with clients and their investment consultants.
- Four blog posts discussing our investment theses following the initiation of new stock positions.
- Responses to a large number of client and consultant questionnaires.

- Monthly performance reviews that include stock commentary and attribution.

Finally, in early 2023, we published our first Task Force on Climate-related Financial Disclosures (TCFD) aligned Report. We produced this report to support our clients' TCFD reporting obligations, and to prepare for the FCA's TCFD disclosure requirements in 2024.

Outcome

We consider our interactions with clients to be valuable opportunities to help us to better serve them. As discussed, we have used a variety of methods to interact with clients, and we think they have been effective in improving our understanding of clients' needs in relation to our stewardship and investment activities.

Clients' feedback has led us to improve the transparency of our ESG and stewardship reporting, as discussed above. This included the publication of our inaugural ESG and Stewardship Report, as well as our first Stewardship Report, both of which were released in 2022.

We are spending a greater amount of time discussing our ESG and stewardship activities in meetings, due to increasing interest from clients on these topics.

We also added an additional member of the client service team in both 2021 and 2022 to help deepen our communication, relationships and on-going interactions with our clients.

We continue to evaluate the effectiveness of our approach to understanding the needs of our clients.

Investment approach: Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Context

We consider all financially material risks and opportunities, including ESG factors, when assessing the quality of companies in the Franchise portfolios and investment universe, as discussed in Principle 1. Our investment process is founded on bottom-up, in-house research, drawing on a wide range of qualitative and quantitative sources, and supported by proprietary frameworks. We take the same approach to our ESG and stewardship research.

We have developed a proprietary taxonomy of ESG factors that we believe are most likely to impact the long-term financial performance of the companies in the Franchise investment universe. This taxonomy is informed by our long experience of Franchise investing and the specialist expertise of our ESG analyst. It also draws on a range of third-party taxonomies. We believe there is benefit in simplifying the long list of ESG factors offered by third parties to focus on what is truly material for the companies in our investment universe.

Further, by creating our own taxonomy, we have defined ESG factors in a way that complements our Franchise assessment. For example, the social factor "Customer treatment" in our taxonomy encompasses a range of material considerations – such as product safety and data privacy – which impact customer trust and satisfaction. This reminds us that these considerations have an impact on companies' key intangible assets – brand and reputation.

Our Proprietary Taxonomy for Evaluating ESG Risks

Category	Factor	Description
Environmental	**Climate change physical risk management**	Evaluation of a company's efforts to mitigate the impact of material climate-related physical risks within its operations and/or supply chain.
	Environmental impact management	Assessment of how effectively a company mitigates material risks and exploits opportunities related to its environmental impact and that of its supply chain.
	Product design/impact	Evaluation of a company's product strategy to capture opportunities and mitigate risks driven by environmental regulation or consumer preferences.
Social	**Culture and human capital management**	Assessment of how the company manages material risks and opportunities in its direct workforce in order to achieve its business goals.
	Supply chain management	Evaluation of how the company identifies, mitigates and monitors material social risks in its supply chain, such as child labour or worker exploitation.
	Customer treatment	Assessment of the company's approach to topics which impact customer trust and satisfaction, and which may also carry regulatory risk. These include product safety, data privacy and marketing practices.
	Product design/impact	Evaluation of the company's product strategy to capture opportunities and mitigate risks as a result of changes in consumer preferences or regulation driven by societal concerns.
Governance	**Board quality**	Examination of the board's structure, composition, diversity and skills to evaluate whether it can provide sufficient oversight and challenge to the management team.
	Remuneration alignment	Analysis of the company's remuneration structures and their alignment with business goals and our interests as long-term shareholders.
	Capital allocation	Assessment of management's track record and skills in capital allocation.
	Company ownership structure, shareholder rights and communication	Analysis of how the company's shareholder base might impact its strategic direction and the treatment of minority shareholders. Evaluation of basic shareholder rights, including transparency and shareholder communication.

	Anti-competitive behaviour risks	Analysis of material legal and social risks related to anti-competitive practices, including collusion or price fixing.
	Bribery and corruption controls	Assessment of risks related to bribery and corruption, including policies, oversight and response to historic incidences.

In addition to our ESG taxonomy, we have also developed a climate risk framework. This framework breaks down the key components of a company's approach to managing climate risk, helping us to identify areas of strength and weakness. We believe climate change merits increased emphasis in our investment research and stewardship work given the potential size of its impact over the long term.

Our Proprietary Climate Risk Framework

Governance	Companies should demonstrate expertise and accountability for climate issues at board and executive team level. Climate issues should be integrated into the company's strategy and organizational structures in an effective manner.
Disclosure	Companies should disclose material information related to climate change following the recommendations of the Task Force on Climate-related Financial Disclosures. Companies should participate in the Carbon Disclosure Project (CDP) as an effective means to provide this information to the investment community.
Targets	Companies should set time-bound emissions reduction goals in-line with a 1.5°C warming scenario. The difference between a 1.5°C and 2°C scenario is material. Therefore, companies should be ambitious in their targets to minimize regulatory impact and reputational damage. These goals should cover a short, medium and long-term time frame and encompass at least a meaningful proportion of Scope 3 emissions.
Products & services	A company's strategy should take into account how climate change might impact its products and services as a result of regulation or a change in consumer behaviour.
Physical risk management	Companies should assess the resilience of their operations and supply chains in the face of physical risks and take effective mitigating action.

Activity

We apply the same ESG integration and stewardship approach across our three portfolios. We incorporate stewardship and ESG into our investment process through a number of structures, including the ESG taxonomy and climate framework discussed above. The additional core components of our approach to ESG incorporation and stewardship are:

- **Development of a framework for in-depth ESG research**
  This framework provides the structure for the deep-dive company-specific ESG research conducted by our ESG analyst in close conjunction with the lead investor for the stock.

  As part of this process, we use our ESG taxonomy to identify a company's material ESG risks and opportunities over our clients' long-term time horizon. We then investigate each material ESG consideration through our own research, incorporating qualitative and quantitative ESG information from a variety of sources. This is captured in a report, which also includes a review of third-party ratings, a summary of the company's performance in our climate risk framework, and recommendations for engagement. The key output of the report is a summary of the impact of the material ESG considerations on our investment thesis, the company's franchise or our views on valuation. We have prioritised reports for those companies that we believe have the most material ESG considerations.

The lead investor and ESG analyst circulate the report to the wider investment team for feedback and discussion at our weekly investment meetings, just like any other piece of investment research. By the end of 2022, we had completed nine ESG reports and undertaken in-depth ESG research on one further portfolio company.

- **Company investment research notes**

  The investment team produces an investment note on all companies in our portfolios, as well as most companies in our investment universe. In cases where an ESG concern is one of the most important drivers of a company's valuation or the strength of its franchise, the lead investor will incorporate it into the investment note.

  In addition, since February 2022, all new and updated company investment notes include an ESG section. This highlights any financially material ESG risks and opportunities, as well as their impact on the quality and valuation assessment. It also helps to identify any key areas for engagement. The ESG analyst works closely with the lead investor on this section of the research note.

  As with in-depth ESG notes, all company research notes are circulated to the broader investment team for feedback and discussion at the investment meetings.

- **Interviews with management and board members**

  Meeting with management and board members is a crucial part of our process. Frequent meetings allow us to test our investment thesis and drive positive change at companies. In our engagements for change, we focus on the material risks and opportunities that may affect a company's long-term financial health and the sustainability of its franchise.

  We discuss each company meeting at our weekly investment team meetings and share whether these interactions have impacted our view on the current position size in the portfolio or the valuation at which we are willing to hold the company.

  In addition, where our company engagements have an ESG element to them, we record a summary of these engagements in our ESG engagement tracker. This allows us to monitor the progress of our engagements and inform our engagement strategy.

Where appropriate, we take into account a company's geographical context when assessing a company's ESG risks and opportunities. For example, the materiality of different ESG considerations may vary depending on a company's location due to differences in regulation or in vulnerability to physical climate risks.

Our approach to investment controversy

Our incorporation of ESG into the investment process is not about avoiding risk, but rather about better understanding risk in order to gain a more comprehensive perspective of the quality of a company's franchise and its valuation. This means that we may often invest in companies facing some form of ESG-related controversy, or which have room to improve their management of material ESG risks. We think these opportunities can help us deliver attractive long-term investment returns for our clients. However, we will only invest if we have confidence that the company's competitive advantage remains intact, we think its valuation is attractive and the company can address its challenges. We gain this confidence through our in-depth, proprietary research.

Outcome

Below we set out three examples that describe how material ESG considerations played a role in our decision to sell a stock, and informed our ongoing engagement and monitoring agenda with companies we already own.

Case study 1

Sale of Terminix following a lack of progress in our engagement

We completed the final sale of Terminix, the US pest control company, in July 2022, prior to its acquisition by Rentokil. We sold the position because we did not find the value or the structure of the deal attractive and our engagement to improve the terms was unsuccessful.

In December 2021, Terminix and Rentokil announced they had entered into an agreement under which Rentokil would acquire Terminix for cash and stock. Under the terms of the deal, Terminix shareholders would be paid mostly in expensive Rentokil shares. Unlike Terminix, Rentokil had limited opportunity for margin improvement. Therefore, not only would the transaction reduce Terminix shareholders' exposure to the more attractive US pest control category, there was also less potential to benefit from operating margin improvements.

As a result, we urged Terminix's board to add a "go-shop" clause to the agreement with Rentokil to encourage other potential suitors to come forward and to allow the board to actively pursue better alternatives. This is consistent with best governance practices and was important given the poor value offered by Rentokil's bid. We took our engagement public in February 2022, issuing a press release setting out our concerns and reiterating our request that Terminix's board fulfil its duties to shareholders. Three months later, we reinforced our message by abstaining in the re-election of Terminix's board members at its AGM.

Despite our efforts, it was apparent the acquisition would proceed as originally proposed. We therefore took the opportunity to sell the position prior to the transaction closing.

Case study 2

Engaging with News Corp and Fox to improve proposed re-combination

In October 2022, News Corp and Fox announced that the Murdoch Family Trust was exploring a potential re-combination of the two companies. News Corp and Fox were demerged in 2013 and The Murdoch Family Trust remains a significant shareholder of both companies.

In the two and half years prior to the announcement, we had engaged with News Corp to encourage it to combine its news and publishing assets with Fox. However, we had made it clear that this should follow the sale or spin-off of its real estate portal assets. We think News Corp's real estate portals are highly attractive assets that have limited synergies with the rest of the business and should garner outside interest.

After reviewing the details of the potential combination, we were concerned that it would not maximise the value of News Corp's assets. Therefore, we wrote to News Corp's independent board members to outline our concerns. In our letter, we made it clear that we would be unlikely to support a combination unless it reflected our share estimate of News Corp's intrinsic value. We also stated that we thought the sale or spin-off of News Corp's real estate businesses was required to help realise this value. In addition, we released a statement to the press outlining our views in November. A number of other large shareholders also voiced their concerns publicly.

The proposal to re-combine the two companies was formally withdrawn in January 2023. It was determined that a combination was "not optimal" for both companies' shareholders "at this time". We were pleased that the proposal was withdrawn and that shareholders' concerns – including ours – were heard. We were also pleased that News Corp publicly committed to actively assess opportunities to optimise the value of its digital real estate assets and to maximise shareholder value. We will continue to monitor and engage with both companies as further developments take place.

Case study 3

Engaging on appropriate emissions targets with Corteva

In the fourth quarter of 2022, Corteva informed us that it was considering moving away from its commitment to set SBTi-aligned targets. We held two meetings with the company to understand the rationale for the decision and to provide our feedback.

Corteva believes the SBTi standards are inappropriate for its business as they do not account for emissions reductions achieved through the use of its products (the downstream scope 3 category). Instead, Corteva must make substantial emissions reductions in its supply chain (the upstream scope 3 category). This would require purchasing emissions-intensive chemicals from renewable sources. According to Corteva, this would come at a substantial cost. The company believes it would have a greater impact on reducing global emissions by investing in the development of innovative, yield-enhancing seeds and crop protection products, rather than investing in reducing its supply chain emissions.

We believed Corteva had not provided shareholders with sufficient information to be able to properly assess the cost of setting an SBTi-aligned target, and to judge whether SBTi targets are indeed inappropriate. We therefore wrote a letter to the management team encouraging the company to explain to shareholders the challenges of SBTi targets in more detail and to propose a credible alternative. While we have sympathy with its concerns regarding SBTi standards, this must be balanced against the reputational and regulatory risks of not addressing upstream emissions. We continue to monitor this topic.

Investment approach: Principle 8

Signatories monitor and hold to account managers and/or service providers.

Activity

We subscribe to a variety of qualitative and quantitative research from a range of over 70 providers including traditional sell-side houses, specialist research firms and external consulting firms. We source data from over 30 different providers on a range of subjects, such as app use. Two full-time employees are dedicated to developing and managing our investment tools and data sets.

When we select our providers, we favour those who are well resourced, invest behind their product and its development, and provide transparency into their methodology and data collection processes.

Before we contract with a new provider, we undertake an in-depth review of the quality of their services, including an on-boarding checklist. Once a year, the investors and the investment tools team meet to discuss the quality of each provider's products. We provide feedback to our providers throughout the year and, if we find the provider's products and services do not meet our standards, we will terminate the relationship. We apply the same process to our ESG and stewardship research and data providers.

We are highly selective in our use of third-party ESG ratings and data. It is important that we understand the ratings and data collection methodologies employed by our third parties as these affect their output considerably. Further, we often do not share the third party's view on what is material for individual companies. For this reason, we undertake our own proprietary ESG research.

As with all research providers, each year we review the services provided by our proxy voting platform, ISS. Our Compliance Manager and operations team have oversight of the relationship, and they meet with ISS annually as part of the review process. Key considerations when evaluating our proxy voting provider include: its controls and conflicts of interest management; global coverage of our investable universe; quality of research; webinars or events; and account coverage.

Outcome

Overall, our stewardship-related service providers have delivered a high-quality service during 2022. Where we have identified anomalies or required further clarification, we have engaged with the data provider. We provide two examples during 2022 below.

1. We engaged with our primary provider of emissions data on several occasions regarding differences between a portfolio company's reported emissions data and the data provider's estimate. This included identifying a mistake in one company's data, which led the data provider to update the data in question.

2. We engaged with our provider of ESG controversy cases to improve our understanding of the methodology used for two of our portfolio companies.

Engagement: Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

Activity

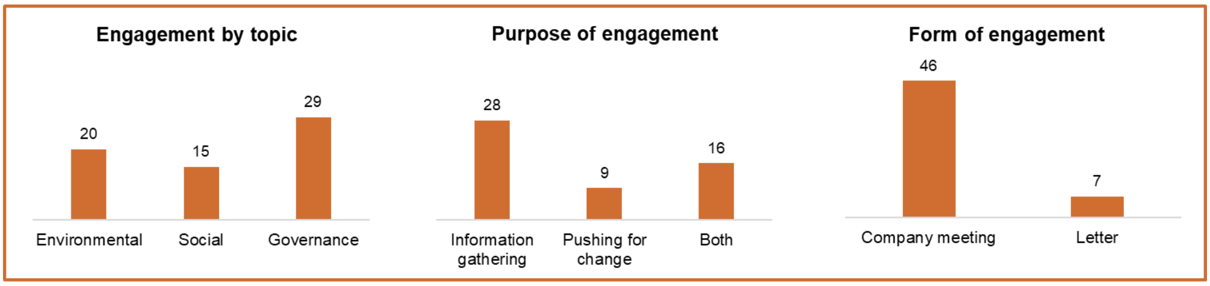
We engage with companies for a variety of reasons. These include, to test the core components of our investment thesis over the holding period, to find out more information about the management of key risks, and to push for change in areas where we believe the company could improve. We identify topics for engagement through our bottom-up research process. We prioritise our engagement work based on the financial materiality of the topic, the likelihood of success of our engagement efforts and the size of our holding.

Active stewardship is particularly important for companies that face some form of ESG-related controversy. One of our criteria for investing in companies facing controversy is that we see a route to resolving the issue. Therefore, using our influence to help resolve the controversy is in our clients' best interests.

Our primary method of engagement is via one-on-one meetings with senior executives and with divisional or regional management. We also meet with non-executive directors, such as the chair or senior independent director. This can be a valuable escalation strategy. In 2022, we held more than 80 one-on-one meetings with company management teams and a further 80 group meetings or meetings with company investor relations. The investment team keeps records of these meetings, and each one is discussed at the weekly investment meetings.

We also engage by writing formally to company management and boards. This provides a means of setting out our viewpoint to the company in a more formal and detailed manner. We use this method most often when meeting the company has not resulted in progress. In addition, we collaborate with other investors on group engagements where we believe this is likely to be more successful than individual engagement.

ESG is an important component of this active engagement agenda. In 2022, the investment team undertook 53 instances of ESG-focused engagement with 23 portfolio companies. We engaged with 68% of companies held by the Firm at 31 December 2022. We think this is a significant investment of resource for a firm of our size. The charts below break out this engagement activity.



Reflects engagement with companies in all three Franchise portfolios in 2022. One engagement instance may include multiple engagement topics. Source: Independent Franchise Partners, LLP.

We apply the same engagement approach across our three portfolios. Our engagement approach is also consistent across different geographies. However, there may be instances where we believe it is appropriate to take the local context into account. This is often the case in matters of governance. For example, while we encourage our Japanese holdings to improve the independence, gender and racial diversity of their boards, we take relevant cultural constraints into account when formulating our engagement goals.

Outcome

Below we set out two engagement examples. Please also refer to case studies 1 and 2 in Principle 7 which detail our engagements with Terminix and with News Corp and Fox.

Case study 1

Climate risk management at Alcon, Booking Holdings, CME Group, Electronic Arts (EA), Intercontinental Exchange (ICE), Nintendo, RB Global, Western Union and Zillow

Engagement activity

In 2021, we engaged with six companies in the Franchise portfolios regarding their climate risk management strategies. In 2022, we engaged with three of the companies again, as well as three new companies. We focused on companies that did not provide disclosure to the CDP, did not have meaningful emissions reduction targets, or which lacked both. Failing to get these basics right is an increasing source of regulatory and reputational risk, impacting a company's relationship with its employees, customers and investors.

We engaged with the companies in two ways:

1. **Direct, individual engagement:** We met with company management, investor relations officers, sustainability managers and board members of all six companies in 2022. We highlighted the need for improvement at four of the companies and had initial conversations with the other two companies – RB Global and Zillow – outlining our climate risk management expectations. We also wrote formal letters to three of the companies' chairs.

   Direct engagement was helpful for two reasons. First, we were able to present the business case for addressing climate risk, which increases the likelihood that this topic receives due attention from the board and management. Second, putting our views in writing in a formal letter to the chair of the board signalled the importance we attach to this subject.

2. **Collaborative engagement through the CDP's Non-Disclosure Campaign:** The campaign is a collaborative initiative that encourages companies to disclose to the CDP. In 2022, we engaged with two companies through the campaign and took the lead investor role in both engagements.

   Collaborative engagement with the CDP was a helpful tool to demonstrate to portfolio companies the weight of shareholder support for improved disclosure.

Engagement outcome

We saw good but incomplete progress in our engagement work during the year. ICE disclosed to the CDP for the first time and Nintendo disclosed its scope 3 emissions to the CDP for the first time. Booking submitted emissions reduction targets to the SBTi for approval, and also published its climate action plan. EA hired its first head of environmental sustainability and committed to undertake a full inventory of its scope 1, 2 and 3 emissions. We are pleased with the progress, although we are mindful we are not the only investor engaging with the companies on these topics. We will continue this engagement work in 2023 and beyond.

Case study 2

Vaccines disclosure at GSK

Engagement activity
GSK's vaccines business is a world leader with strong market shares. However, the attractiveness of the business is hidden due to opaque disclosure. We think reporting the vaccines business separately would enable investors to value this high-quality business more appropriately.

We first raised this topic in July 2021 in a letter to the board of directors. Our letter included several other actions focused on maximising shareholder value. Many of these were implemented during the next twelve to eighteen months: executive compensation was aligned with stretching revenue and operating income growth targets, and the consumer healthcare business was successfully separated and listed on the London Stock Exchange as Haleon. However, there was no progress on vaccines disclosure. In our subsequent meetings with the board and management team, they continued to play down the need for separate disclosure.

In September 2022, we commissioned a survey of fellow UK-based investors with significant positions in GSK to establish the extent to which separate vaccines disclosure was an important topic to other shareholders. The results of the survey were clear: almost 70% of survey respondents viewed this as an area for improvement. This led us to co-ordinate a group letter to GSK urging the company to provide separate vaccines disclosure. The letter's signatories held 13% of GSK's share capital.

Engagement outcome
There are preliminary, positive signs that the company is open to better disclosure in relation to its vaccines business. We will continue to pursue this engagement for as long as we believe it is in shareholders' best long-term interests.

Engagement: Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Activity and outcome

We conduct the majority of our engagement work with companies on an individual basis. We aim to build good, long-term relationships with our portfolio companies, therefore we find individual engagement is often the most effective approach to achieve our aims. Further, our concentrated portfolio often means we own a large portion of a company's market capitalisation, which means we have a reasonable level of influence.

However, there have been several instances where we have used collaboration with other investors and institutions effectively. Our decision to act collectively depends upon the circumstances of each case, whether we believe it is likely to enhance returns for our clients and whether it would breach any regulatory requirements. In general, we use collaboration as an escalation measure to demonstrate to companies the weight of shareholder support behind an engagement request. When we join collaborative engagements, we do so as an active participant, rather than as a passive spectator.

We describe our collaborative engagement with the CDP's Non-Disclosure Campaign and with GSK to improve its vaccines disclosure in the two case studies of Principle 9. In Principle 4, we also discuss our involvement in a range of initiatives through which we collaborate with our peers to promote well-functioning financial markets.

Engagement: Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

Activity and outcome

We escalate our engagement requests when private, one-on-one dialogue has not been successful in achieving our objectives. We prioritise engagements for escalation based on the materiality of the issue to a company's long-term financial health and the durability of its franchise.

Below we set out the components of our escalation strategy and how frequently each one was employed in 2022. In total, the investment team undertook 53 instances of ESG-focused engagement across 23 portfolio companies. We engaged with 68% of companies held by the Firm at 31 December 2022. We believe this is a significant investment of resource in the context of our concentrated holdings.

The order in which we follow these steps depends on the individual case. In general, our most common escalation techniques are meeting with non-executive directors, issuing adverse votes against directors or resolutions at the AGM, and writing a formal letter.

Issuing adverse votes against directors or the company at the AGM	There is a strong link between our voting and engagement work. We may use our votes against compensation or directors to reflect our view on compensation or director performance. We may also use voting to signal our dissatisfaction on overall strategy, risk management or other matters. When we vote against company resolutions, we typically notify the company and outline our rationale so management understands the purpose of our adverse vote. We voted against management on 38 proposals by company management, 18 of which were related to directors. We also voted against management on 13 shareholder proposals. We describe how we use our vote to express our views on the lack of progress on our engagement requests in case study 1 under Principle 7.
Meeting with non-executive directors	We aim to form a relationship with the board in the early stages of our holding period as this provides us with a first point of contact should we need to escalate an engagement. We held eight meetings with non-executive directors in 2022. We describe how we use engagements with board members to influence corporate behaviour in the case studies under Principle 9.
Writing a formal letter	A letter enables us to set out our views on complex topics clearly and directly to the company. A letter can serve as the first step of an engagement to notify the company of our intention to escalate an issue, or as an escalation technique in the later stages of an engagement.

	We sent seven letters in 2022. We outline examples of how we use formal letters to achieve our engagement objectives in the three case studies under Principle 9.
Collaborating with other investors	Collaborative engagement can be a useful mechanism for achieving change. Collective action is a powerful tool to demonstrate to companies the importance that shareholders attach to an issue. We describe our collaborative engagement work with the CDP in relation to two portfolio companies in 2022, and our collaborative engagement in relation to GSK's vaccines disclosure, in the case studies under Principle 9.
Proposing a shareholder resolution at the AGM	This is the least common escalation technique we use. We did not propose any shareholder resolutions in 2022.

We apply the same approach to escalation across each of our portfolios. We may vary our approach by geography. For example, we find that escalation methods used in Europe and the US can be seen as excessively aggressive in Japan.

Engagement: Principle 12

Signatories actively exercise their rights and responsibilities.

Context

We see voting as a direct means of holding boards and management accountable, and vote at all company meetings. We aim to align our voting decisions with safeguarding the long-term financial health of our portfolio companies and their franchises. Our voting policy provides a guiding framework to ensure the consistency of our voting decisions. The policy sets out our principles on common voting matters such as the election of directors, changes to companies' capital structures and governance arrangements, management compensation and shareholder proposals.

Our voting policy

Approach to certain key voting matters

Board of directors
When considering the Board's independence level, diversity and skillset, we assess whether it is able to provide sufficient oversight and challenge given the importance of those mechanisms in capital allocation, strategic direction and risk management. These are factors that are vital to the durability of a franchise.

Executive and director remuneration
When considering remuneration, we look to ensure management is incentivised to favour long-term shareholder returns over short-term success and to focus attention on areas that will enable the company's intangible assets to flourish. We encourage key company executives and directors to have a material multiple of their base compensation invested in company stock to ensure alignment with ordinary shareholders.

Corporate transactions
We evaluate proposals relating to mergers, acquisitions and other special corporate transactions on a case-by-case basis, based on the best interests of our clients.

Auditors
We think regular auditor rotation leads to greater objectivity and fresh perspectives. We therefore require companies to change their independent auditor after a maximum of 20 years – although we encourage every ten years – and require them to hold a tender every ten years.

We follow our voting policy consistently across our three portfolios. We also apply the policy consistently across different geographies in the vast majority of cases. However, there are situations where we must take a company's local context and culture into account as we do in our engagement work, as discussed in Principles 9 and 11.

The lead investor for each stock is responsible for voting decisions, with input from the wider investment team and the ESG analyst as appropriate. We purchase voting research, analysis and recommendations from ISS. We use this to inform our voting decisions. We are not obligated to follow ISS's recommendations.

Segregated account clients can choose whether to direct their own voting activities or whether to delegate the voting decisions to us. We are currently responsible for all voting decisions for all of the Franchise Partners pooled funds that we manage.

We do not undertake any stock lending activities for any of the Franchise Partners pooled funds. Where segregated accounts choose to undertake stock lending, we may not be able to vote if the shares are out on loan. We monitor the number of shares that are out on loan via ISS.

Our operations team provides oversight over the day-to-day voting process. This ensures that cut off times for voting decisions are communicated to our investors who are responsible for making the vote and ensuring that all ballots are voted.

We provide our full voting policy on our website.

Activity

On the next page we disclose data on our voting activities in 2022. We voted on all proposals, and on over 99% of the shares which we were eligible to vote. The remaining shares were not voted because they were out on loan by clients.

Proposal Category	No. of Proposals	Votes against management	Votes against management (%)	Votes against ISS	Votes against ISS (%)
Management Proposals:					
Director Related	386	18	5%	27	7%
Compensation	65	6	9%	6	9%
Audit Related	40	10	25%	10	25%
Capitalization	30	0	0%	0	0%
Routine Business	27	3	11%	0	0%
Takeover Related	9	1	11%	1	11%
Social	5	0	0%	0	0%
Other/Miscellaneous	5	0	0%	0	0%
Shareholder Proposals:					
Social	24	6	25%	3	13%
Director Related	6	2	33%	1	17%
Corporate Governance	5	0	0%	4	80%
E&S Blended	5	1	20%	1	20%
Environmental	4	2	50%	1	25%
Compensation	2	1	50%	1	50%
Other/Miscellaneous	2	1	50%	1	50%
Total	**615**	**51**	**8%**	**56**	**9%**

Reflects votes cast on proposals in 2022 on behalf of clients for whom we have full voting discretion. Source: Independent Franchise Partners, LLP, ISS.

Our voting records are available on our website.

Outcome

Below we provide four examples that are indicative of our approach to voting.

Case study 1

Shareholder rights at Richemont

We voted against proposals by an activist investor to change the structure of Richemont's board. These proposals would have effectively required each board member to act as a representative of either the listed A shares or the unlisted B shares. The B shares are held solely by the Rupert family.

We shared the activist's concerns that the board lacked independence and did not sufficiently challenge Richemont's controlling shareholders, the Rupert family. However, we did not agree with the activist's approach. Board members should represent the interests of all shareholders, and to split the board in the way suggested by the activist could potentially lead to adverse consequences. Therefore, we did not support the resolutions. They did not pass as they lacked majority shareholder approval. Nonetheless, we continue to think the board would benefit from a greater proportion of independent directors, and we made this clear to Richemont prior to the AGM.

Case study 2

Executive compensation at Philip Morris International (PMI)

We voted against management's proposed executive compensation at PMI. We had no concerns with compensation in general, however, as part of the same resolution the company was seeking approval for two one-off payments to the departing CEO of PMI America. These payments sat outside of the company's routine pay structures and in our view were excessive.

We advised the company of our voting intention prior to the AGM, and met with PMI's investor relations, who provided two justifications for the compensation plan. The first was that the departing CEO of PMI America was a long-serving veteran of 25 years. We shared our view that long service alone should not qualify the individual for additional awards. The second was that PMI had awarded similar packages to retiring executives in prior years and ISS did not have an issue with those awards, unlike this time. We explained that the ESG landscape has changed significantly in recent years, particularly with regards to executive compensation, and that activities that were previously seen as acceptable should not be the benchmark for what passes as acceptable today.

We therefore voted against ratifying executive compensation. While the vote passed, it only did so with 70% support. All other items passed with 95-99% approval. This suggests we were not the only shareholder with concerns about the size of the payment.

Case study 3

Executive compensation at GSK

We voted in favour of GSK's revised executive compensation plan, against the recommendation of ISS, our proxy voting platform. ISS's primary argument was that incentive pay was too high given GSK would reduce in size once it spun off the consumer health business. We did not share ISS's concerns.

We had engaged with GSK over the past few years to persuade the company to align executive compensation with stretching revenue and operating income growth targets. We thought the new plan achieved this. The pay opportunity is high, but so are the performance thresholds. Further, should GSK achieve the top end of its performance goals and trigger a high payout, management will receive a large portion of the payout in shares. This will further strengthen alignment with shareholders.

Management's revised executive compensation plan was approved with majority shareholder support, in line with our vote.

Case study 4

Executive compensation at Booking

We voted against a shareholder proposal to include climate change metrics in Booking's executive compensation plan. The resolution was not passed as it did not receive majority shareholder approval.

We did not support the shareholder proposal as we think ESG metrics should only be included in executive compensation if the specific ESG topic is among the most material risks facing the company. As an online platform, Booking's own emissions are small and present limited risk to the company. Therefore, it would be inappropriate to include an emissions-related metric in executive compensation. Meeting consumer demand for more sustainable travel options is an important long-term trend, but we do not think it is sufficiently material or measurable to merit inclusion in the long-term incentive plan (LTIP) as a standalone performance metric. Success in this area is best measured by Booking's existing LTIP metrics: revenue, EBITDA and total shareholder return. Further, Booking demonstrated that its management is paying appropriate attention to the topic of sustainable travel with the publication in 2022 of its first Climate Action Plan.

Final comments

Overall, we are satisfied with the effectiveness of our stewardship efforts in 2022, as well as the steps we have taken to further strengthen our work in this area.

High-quality stewardship requires time and persistence. Influencing companies and the broader investment industry is an exercise in relationship building. This relationship building is often a gradual process. That said, we must also escalate our engagements where we believe our request is critical for our clients' interests, as we did in the cases of Terminix and News Corp/ Fox in particular.

As ever, we are committed to evolving and refining our approach to stewardship.

In 2023, our priorities are to:

- Conduct more high-quality ESG research to enable a nuanced assessment of ESG risks and guide our stewardship activities.
- Continue to refine and develop our ESG toolkit to further improve the consistent incorporation of ESG risks in the investment research and decision-making process.
- Continue to strengthen our communication with clients on our ESG incorporation and stewardship efforts, including the publication of our first TCFD-aligned report in early 2023.

Important information

Franchise portfolios are available for professional clients only.

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Franchise portfolios are concentrated in a limited number of securities and may be concentrated in only a few countries or industries. A concentrated portfolio may be subject to a greater degree of volatility and risk than one following a more diversified approach. Investments denominated in currencies other than the client's base currency carry the risk of exchange rate movements. These movements may have a separate effect, unfavourable or favourable, on gains and losses in the portfolio. Franchise portfolios are designed for investors who understand and accept these risks.

The investment returns provided reflect returns for the Morgan Stanley Global Franchise Equity Composite for the period 28 June 2005 to 31 May 2009 and for the Independent Franchise Partners, LLP Global Franchise Equity Composite from 1 June 2009. Independent Franchise Partners' investment team managed the strategy at Morgan Stanley Investment Management from April 2002 to 15 June 2009. The investment team at Independent Franchise Partners applies the same investment philosophy, research process, and portfolio construction tools as they did when they managed the strategy at Morgan Stanley Investment Management. Long-term return data has been provided for informational purposes only as an indication of the investment team's record in managing Global Franchise portfolios at Morgan Stanley Investment Management.

The returns are provided NET of investment advisory fees, are quoted in USD and include the reinvestment of dividends and income. Net returns are shown after the impact of transaction costs and management fees, using the fee that would have been effective at the time. The impact of fees is applied on a daily, time-weighted, geometric basis. Additional costs and other fees may apply (e.g. custody, fund expenses) so actual returns achieved may be lower.

The comparison index is the MSCI World (Net) Index, which is designed to measure the equity market return of developed market countries. Index returns reflect total returns with dividends reinvested net of withholding taxes. The volatility of the index may be materially different from the individual performance attained by a specific investor. In addition, client and fund holdings may differ significantly from the securities that comprise the index. The index has not been selected to represent an appropriate benchmark to compare an investor's performance, but rather is disclosed to allow for comparison of the investor's performance to that of a well-known and widely recognised index. You cannot invest directly in an index.

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Global Franchise Rolling 12 Month Returns (%)

	31 Dec 17 – 31 Dec 18	31 Dec 18 – 31 Dec 19	31 Dec 19 – 31 Dec 20	31 Dec 20 – 31 Dec 21	31 Dec 21 – 31 Dec 22
Global Franchise Composite	-8.15	29.27	13.57	18.56	-11.38
MSCI World (Net) Index	-8.71	27.67	15.90	21.82	-18.14

Global Franchise 1, 5 and 10 Year Returns (annualised, %)

	1 Year	5 Years	10 Years
Global Franchise Composite	-11.38	7.89	10.54
MSCI World (Net) Index	-18.14	6.14	8.85

Returns for the Independent Franchise Partners, LLP (IFP) Global Franchise Composite (Hedged), net of fees in USD as at 31 December 2022.

The IFP Global Franchise Equity Composite (Hedged) includes accounts whose objective is to achieve an attractive long-term rate of return and outperform the MSCI World (Net) Index over a full market cycle, which is expected to be between 5 and 10 years. The composite includes both segregated and pooled fund accounts. The total expense ratios for the pooled funds are available upon request. Securities are selected using the firm's proprietary research and analytic tools, which select very high-quality companies trading on attractive absolute valuations from the global equity universe. Portfolios are more concentrated, typically holding 20 to 40 stocks, compared to the benchmark, which reflects the returns of more than 1500 holdings. Composite returns may, therefore, have a lower correlation with the benchmark than a more diversified global equity strategy. The currency exposure of the portfolios in the composite may be hedged for defensive rather than speculative purposes only so as to reduce relative risk, not to enhance returns.

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