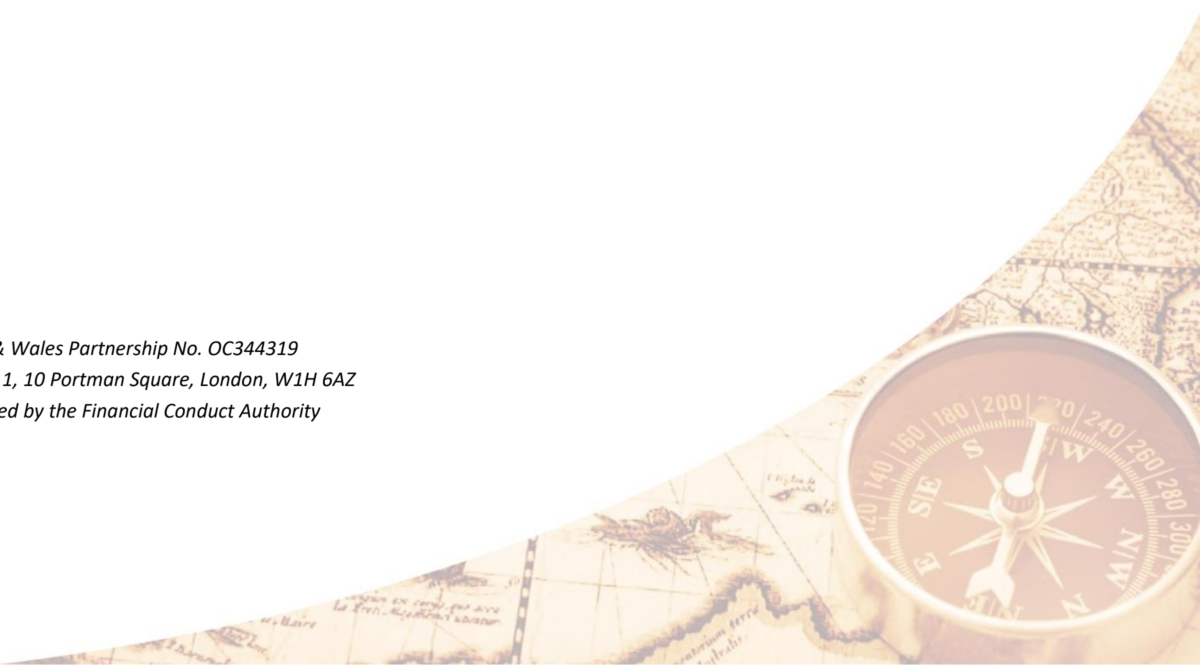
2021 Stewardship Report

Prepared for the Financial Reporting Council



Registered in England & Wales Partnership No. OC344319
Registered office: Level 1, 10 Portman Square, London, W1H 6AZ
Authorised and regulated by the Financial Conduct Authority

Contents

Independent Franchise Partners at a glance as at December 2021

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	$18.7bn assets under management	28 employees, including 9 investors	Headquartered in London, UK

Foreword

"As buy-and-hold investors, our investment goals are inherently aligned with the principles of the Stewardship Code. We view our shareholdings as markers of ownership in real businesses, not merely accounting book entries."

This is Franchise Partners' first 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 over the 2021 calendar year. This report applies to all our assets under management.

Stewardship and the analysis of financially material ESG factors has long been an integral component of the Franchise investment approach. Our stewardship and ESG integration efforts are returns led. This means that we are focused on the risks that matter for the long-term durability of the companies in which we invest.

As buy-and-hold investors, our investment goals are inherently aligned with the principles of the Stewardship Code. We view our shareholdings as markers of ownership in real businesses, not merely accounting book entries. That view shapes an energetic stewardship agenda that was initially focussed on testing our portfolio companies against our Franchise priorities – priorities like clear commercial focus, sensible capital allocation, rigorous board oversight and well-aligned incentive compensation. In today's vernacular, the mix of our early stewardship work was skewed towards the governance element of ESG, with social elements like protecting brand equity or navigating legal and regulatory risk making up the rest.

In recent years, we have seen certain ESG risks become more financially material to our specific set of portfolio companies, from changing consumer tastes in food and beverages, to the prospect of more stringent climate-related regulation for all sectors. At the same time, we have observed a steadily accelerating interest in assessing ESG risks from our client base, and a proliferation of ESG-related information from our portfolio companies.

Over the last two years, we have developed proprietary frameworks and tools to enable us to incorporate these emerging risks and new information sets into our investment and stewardship work in a more structured manner. We have added a dedicated ESG analyst to our investment team and undertaken in-depth ESG research on a number of our portfolio companies, prioritising those with the most material ESG risk exposures. As we describe in Principle 7, this research is centred on broadening our understanding of the long-term risks that impact the durability of the Franchises we invest in and their valuation.

Our engagement work has broadened in tandem with the development of our ESG research process. As we set out in Principle 10, we have made our first forays into climate-related engagement and have already met with some early success in helping a few of our portfolio companies find a path towards better climate risk disclosure. Our prior experience engaging with portfolio companies on social and governance topics has been a critical ingredient to help us formulate an approach to engage with them effectively on climate risk.

Like every other part of our investment toolkit, we will continue to refine our stewardship and ESG tools over time, taking clear-eyed lessons from what has worked and what has not, responding to the evolving landscape, and anticipating our next set of challenges. Over the next few years, our priorities will be to expand on the climate engagement work we initiated in 2021, conduct further in-depth ESG research on portfolio companies and incorporate these into our investment decisions, and refine our stewardship reporting to the Financial Reporting Council and our clients.

The Firm's partners have reviewed and approved our 2021 Stewardship Report[1].

Hassan Elmasry, CFA
Managing Partner

Michael Allison, CFA
Partner & Co-Lead Investor

Karim Ladha, CFA
Partner & Investor

Jayson Vowles, CFA
Partner & Co-Lead Investor

Richard Crosthwaite
Partner & Investor

Sandeep Ghela
Partner & Chief Operating Officer

[1] Information in this report is as at 31 December 2021 for the 2021 calendar year, unless stated otherwise. Hassan Elmasry was the Firm's lead investor in 2021 and is therefore included as a member of the investment team in this report. However, as of 30 June 2022, Hassan Elmasry is no longer a member of the investment team, but remains the Firm's managing partner until the end of 2022.

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 owned by its six partners, five of whom were investors. The sixth 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 only. 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 $18.7bn on behalf of our clients as at 31 December 2021. 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. We firmly believe in treating all clients fairly, and offer the same fee to all clients in the same strategy.

One of the key organising principles when we established the Firm was to keep it small and manageable. The Firm had 28 employees across portfolio management, trading, investment tools, client service, operations, legal and compliance at the end of December 2021. 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, 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 which 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, in 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. 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 10 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 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 2002. 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 two 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 2021, we focused on refining these tools and implementing them within our investment process. Highlights of this work include:

- Analysis of the emissions profile of our portfolios. This analysis highlighted that the supply chain is the greatest source of emissions-related risks within our portfolios.
- Analysis of our companies' climate risk disclosures and emissions reduction targets.
- Initiation of our climate engagement work. We provide more detail on this in Principle 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 2021, we expanded the client service team by adding a new senior hire to help us to continue to improve our communication and relationships with our clients.

We recognise the importance of continuing to invest in our people. In 2021, we supported two employees in their post-graduate 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. In 2021, we undertook our regular 360-degree evaluation process for all partners and employees. This review asked colleagues to provide feedback on each other's performance and contribution to the Firm's overall objectives, including the individual's teamwork and commitment to the Firm's culture and ethics.

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. 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 493% in USD net of fees, compared to the MSCI World (Net) Index total return of 282% since 28 February 2005[2], including returns from the investment team's time at MSIM. This translates into an annualised return of 11.2% for Global Franchise and 8.3% 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 13.2% versus 15.3% for the index. This return also ranks favourably with other active equity managers. On a risk-adjusted basis, the strategy ranks in the top seven percent of eVestment's Global Large Cap Equity peer group[3].

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

[2] 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 2021. 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 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.

[3] Source: eVestment. From 28 February 2005 to 31 December 2021. The eVestment Global Large Cap Equity peer group comprises Global, ACWI, or Global ex-Japan Equity products that primarily invest in large capitalization stocks regardless of the style (growth, value, or core) focus. The Global Large Cap Equity peer group included 125 products for the period shown.

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 owned and managed by a partnership of six, five of whom were members of the investment team. The sixth 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 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 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 at each stage of the process.

Our investment team had nine members with an average of 16 years' experience at the end of December 2021. 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 14 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 seven 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 is a CFA® Charterholder and has a M.A. in Classics from the University of Cambridge.*

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.

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 seven team members undertaking post-graduate degrees in business, finance and data science 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 expert network and 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 this 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	Trucost and the Carbon Disclosure Project (CDP) are our primary environmental data providers. MSCI ESG, Bloomberg and Institutional Shareholder Services (ISS) provide our social and governance metrics. We use 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.
Expert networks	We harness the insights of industry experts through our expert access providers and our own networks. This includes individuals from industry, academia and independent research groups such as Carbon Tracker.

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 2021, our investment team voted on 630 proposals at 36 general meetings. We engaged with companies 57 times on ESG matters, including writing nine 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 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, company-specific ESG work is a priority for the coming years. This will enable us to identify our ESG engagement priorities.

Finally, we strengthened our client reporting in 2021 to provide greater transparency to clients in our stewardship activities following client feedback. This includes the 2021 inaugural ESG annual report released in early 2022, and the climate-risk paper which we describe in Principle 6.

We plan also to appoint an ESG lead within our client service team. This individual will work closely with the ESG analyst in the investment team to improve the communication of our stewardship work to clients. The development of this role will also ensure we 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. Similarly, we have designed our fee structure to benefit all clients equally. All clients in the same strategy pay the same fee, regardless of their size and tenure with the Firm. Over time we have lowered our average management fee in line with asset growth, sharing the benefits of scale equally 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 conflicts of interest in 2021.

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 and outcomes

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

Within our investment portfolio, we identify market-wide and systemic risks primarily through our bottom-up, proprietary research work and our regular engagement with company management. Other areas of the Firm such as trading, compliance and legal also play an important role in identifying and managing systemic risks that may impact our investments and the Firm.

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

We have identified climate change as a long-term risk to our investments and the financial system as a whole. In 2020, we 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 used the framework to quantify the emissions of each portfolio, assess the quality of each company's climate risk disclosure, and evaluate the ambition of each company's emissions reduction targets.

This process identified six candidates for engagement, and we initiated these engagements in 2021. We engaged both collaboratively through the Carbon Disclosure Project (CDP), and individually. We describe the outcomes of these engagements in more detail in our response to Principle 9.

Finally, three members of the investment team took part in a multi-day course run by the Cambridge Institute for Sustainability Leadership in 2021. The investors participated in workshops where they shared solutions with asset management peers to address the practical challenges in measuring and reducing portfolio emissions.

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.

Terence Fisher, a member of the investment team and an accounting specialist, serves on the International Accounting Standards Board's (IASB) Capital Markets Advisory Committee (CMAC). The role of the committee 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 for helping to improve the quality of financial disclosure that investors receive. By participating in this process, we can help ensure that the areas of accounting and financial disclosure that we believe require improvement receive due attention.

During 2021, Terence helped to shape the CMAC's response on a range of accounting topics. These included the development of an exposure draft[4] on Supplier Finance Arrangements. We think this is an area of financial disclosure in need of significant improvement given the increasing use of supply chain financing. Other topics 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.

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 encouraged all six companies in our portfolio that did not disclose to the CDP to do so as part of the CDP's non-disclosure campaign. Following our engagements, three of the companies disclosed 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 2021, 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. 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 it was a valuable

[4] 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.

	programme in which to participate and we received good feedback from the interns. **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 2021, we supported GAIN with a financial contribution and through our employees' time. Our employees shared their experiences and advice at three panel sessions for students over the year and contributed to GAIN's end-of-year review and feedback process to improve the organisation's effectiveness. In addition, our investment team held several interviews with students at the end of 2021 to select candidates for the GAIN summer 2022 internship scheme.
Independent Investment Management Initiative's ESG group	This group provides a helpful forum to discuss the challenges and benefits of ESG and stewardship for smaller firms. In 2021, we took part in a discussion on the practical implementation of EU Sustainable Finance regulation for smaller firms. In addition, the group engaged with the UN PRI to share views on how to improve the reporting process for smaller signatories. We recognise that the group's influence on the PRI is limited given its size, therefore the primary value for us in our membership of this group in 2021 came from knowledge sharing with our peers.
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, the Firm's managing partner, joined the board of the IA in the fourth quarter of 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 (IVIS), the IA's corporate governance research arm. Hassan is early in his tenure on the board, and therefore we will provide a more detailed overview of Hassan's activities on the IA's board in our next stewardship report. 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. While both committees' activities were curtailed in 2021 due to Covid-19, Philip is an active participant of both. As part of his contribution to the IA, Philip addressed the UK Parliament's Treasury Select Committee on the Future of Financial Services in September 2021. At the meeting, he advocated for an appropriate regulatory regime which takes into account the sophistication of institutional investors, and increased investments in financial literacy. Finally, the Firm's head of compliance, Francesca Day, is a member of the Stewardship Reporting Working Group. This group engages with stakeholders such as the Financial Conduct Authority and the Financial Reporting Council to develop an industry position on reporting on stewardship outcomes. We have chosen to participate in this group to learn more about reporting best practices.

Trading related initiatives and events	The Firm has concentrated positions with lengthy holding periods, therefore it is vital for us to engage with the industry on market structure topics. We 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. In addition, taking part in industry initiatives allows us to discuss and share trading best practice with our peers. During the year, our trading team was an active participant in events organised by Institutional Investor, The Hive, The Buy-Side Trading Community and TradeTech. The team spoke on panels and took part in roundtables covering subjects including payment for order flow, innovations in trading algorithms, market volatility during Covid-19, adapting to trading from home, and transaction cost analysis and best execution. As a result of her contribution to these events, Phoebe Nockolds, a member of the trading team, was recognised as a Rising Star in Trading and Execution in 2021 by The TRADE.
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. We did not join any formal collaborative engagements run by the Forum this year, but we shared feedback on two proposed engagements at Informa and GSK. While we were not ultimately aligned with the Forum's engagement goals, we believe it is vital to represent our views given these engagements may have an impact on our portfolio companies.
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.

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 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 ESG report and *Issues of Interest* papers, 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 ESG policy, climate risk framework and format for producing company-specific research. We describe these in more detail in our response to Principle 8. 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 2021. Due to the significant changes made in 2020, there were no material changes in 2021.

We introduced an ESG engagement tracking process in 2020 to better monitor the progress of our engagements and improve our ability to report 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. In 2020, we used this tool to analyse the prior two years' ESG engagements. In 2021, our ESG analyst worked with our investment tools team to develop a desktop tool to track engagements. This was introduced in early 2022.

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$18.7bn in assets under management at the end of 2021. We invest solely in listed equities and we only invest in developed markets.

Our client base consists solely of institutional investors. We manage segregated account assets on behalf of clients located in ten jurisdictions, as well as pooled funds domiciled in Ireland and the US.

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 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 assets under management. 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.

Communicating with our clients

In 2021, we provided the following information on our ESG and stewardship activities to clients:

- A detailed *Issues of Interest* paper analysing our portfolios' emissions, climate risk disclosure quality and emissions reduction targets. We published this on our client portal and provided the underlying data to clients on request.
- A blog post providing an update on our climate engagement work. This was published on our client portal.
- 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, with a quantitative and qualitative update of our engagement work in the half year webinar.
- Quarterly client investment letters that provided an update on performance and portfolio activity, as well as 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 included stock commentary and attribution.

Finally, in early 2022 we published our inaugural ESG and stewardship annual report. This report describes our ESG integration and stewardship processes in more detail. It highlights several case studies of incorporating ESG into the investment process, engagement and voting. We will provide this report to clients annually.

We also updated our client portal in early 2022 to include an ESG section that collates our ESG and stewardship materials in one place.

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. The publication of this inaugural UK Stewardship Code report will further improve the reporting and disclosure we provide to clients.

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.

In 2021, we added an additional member of the client service team to help deepen our relationships and on-going interactions with our clients.

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

Case study

Helping our clients meet their climate goals

In 2020, one of our clients announced a formal commitment to reach net zero emissions by 2038 in their investment portfolio.

We have been working with the client to ensure we are able to provide the data and information they need to monitor progress towards this goal.

In addition, three members of the investment team attended workshops hosted by the client where we shared information about our approach to emissions measurement and company engagement.

Our discussions with this client, as well as several others, informed our decision to work towards developing our own net zero-aligned target.

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 issues 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 issues 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 are prioritising 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 2021, we had completed four ESG reports and undertaken in-depth ESG research on one further portfolio company.

- **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 which 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 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 controversy. We believe that exploiting 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 in-depth, proprietary research such as the work described here.

Outcome

Below we set out three examples that describe how material ESG considerations played a role in our decisions to purchase and to sell stocks, and informed our ongoing engagement agenda with a company we already own.

Case study 1

Sale of Kirin Holdings following a lack of progress in our engagement

Kirin is a Japanese conglomerate with divisions in beverages and pharmaceuticals. In late 2019, we began a public campaign for improved corporate governance and capital allocation at the company. This included proposing shareholder resolutions at the AGM in March 2020. Our efforts were rewarded with the appointment of four new independent directors, creating a majority of independent directors for the first time. The company also adopted a new management incentive compensation plan that borrowed several elements from our proposal. Combined with a ¥100bn buyback announced in late 2019, we consider these to be modestly positive results from our engagement.

Following the AGM, we continued to engage privately with Kirin, primarily on capital allocation and unwinding the company's conglomerate structure in order to reduce the "conglomerate discount" on the shares. We remained hopeful that Kirin would refocus on its core beer business. However, eventually, we concluded that significant change in the conglomerate structure – most notably the divestment of non-core stakes in pharmaceutical and skincare companies – was unlikely in the foreseeable future. While we continued to see substantial value in the shares, we believed the pace of change to unlock this value would be slow, partly due to the lack of share ownership by management. We therefore sold the position in 2021 despite the stock's optically attractive valuation.

Case study 2

Using our ESG research to inform our engagement agenda with Corteva

Corteva is a global agriculture company which spun out from DowDuPont in 2019. The company operates across two segments: seed and crop protection chemicals. Corteva featured on our priority list for ESG research as we wanted to better understand the impact of climate change and sustainable agriculture trends on its product set.

Our research process included interviews with experts in US agriculture policy, former employees working in R&D for Corteva's peers and distributors of Corteva's products who understood the challenges farmers face first-hand. We also drew on a range of academic articles and studies, including the Intergovernmental Panel on Climate Change's (IPCC) special report on climate change.

Our research revealed that climate change is already negatively impacting corn yields. A meta-analysis by the IPCC found a median impact of -1% per decade on corn yields over the last 50 years. According to the same analysis, the majority of scientists expect this trend to continue[5]. This is positive for Corteva's products which help farmers to offset this negative impact on yields, such as crop protection and germplasm tailored to specific growing conditions and traits.

In addition, our research highlighted that the agriculture sector itself is a major source of carbon emissions and environmental degradation. Preserving the food production capacity of natural resources is essential given population growth expectations. This is driving a range of sustainable farming practices, including regenerative agriculture, biologicals, carbon credits and precision agriculture. These trends present both risks and opportunities for Corteva.

Our conclusion from this research was that Corteva must continue to invest behind its key intangible assets – its patent-protected germplasm and crop protection portfolios. This is something we are monitoring closely given the involvement of an activist investor and the recent change in CEO. We continue to make this a focus of our engagement with the company.

[5] Porter and Xie (2014): 7 — Food Security and Food Production Systems (ipcc.ch)

Case study 3
Assessing energy transition risks and opportunities at Intercontinental Exchange (ICE) prior to purchase
ICE generates around a third of its operating profit from its market-leading global energy derivatives exchange. As a result, the energy transition represents a material risk and opportunity to ICE. In the short to medium term, energy supply constraints are likely to lead to increased energy price volatility, which is positive for energy exchange revenue growth. However, over the very long term, decarbonisation poses a risk to trading volumes. To better understand this dynamic, we interviewed former ICE employees, current leaders at competing exchanges, industry experts advising governments on carbon trading schemes, and industry leaders who helped cultivate the European derivatives carbon market. Our research revealed two considerations that should benefit ICE. First, oil is likely to play a role in the global economy in the long term, although there is uncertainty over how large a part this will be. Second, we are highly encouraged by ICE's strong first-mover advantage and high market share in the trading of carbon derivatives, in particular in the growing European market. Given its relationships with regulators, we think ICE is well-positioned to lead in any other mandatory schemes that are adopted worldwide. This work helped give us confidence in the durability of ICE's franchise and we established a position in the company in 2021.

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 expert network and consulting firms. We source data from over 30 different providers on a range of subjects from pharmaceutical trials to 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.

Outcome

Overall, our stewardship-related service providers have delivered a high-quality service during 2021. Where we have identified anomalies or concerns, we have engaged with the data provider to resolve the issue. There were two examples of this in 2021.

1. We engaged with our primary provider of emissions data regarding the significant difference between a portfolio company's reported emissions data and the data provider's estimate. We discovered that the data provider had not yet engaged with the company to understand its emissions measurement process. As a result, the data provider used an emissions estimation process based on the company's industry peers that we believe unfairly inflated the company's emissions. We strongly urged the data provider to engage with the company to ensure it captures the company's emissions more accurately.

2. We engaged with a provider of ESG research and scores to improve our understanding of its approach to handling controversies in the chemicals sector. The provider has identified a number of ESG controversies at one of our portfolio companies. We learned that the provider's sanctions may be based on unverified media reports and may persist for a long time after the company has addressed the issues. This gave us confidence that the provider's sanctions are unjustified and that the controversies are unlikely to be financially material.

Engagement: Principle 9

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

Activity

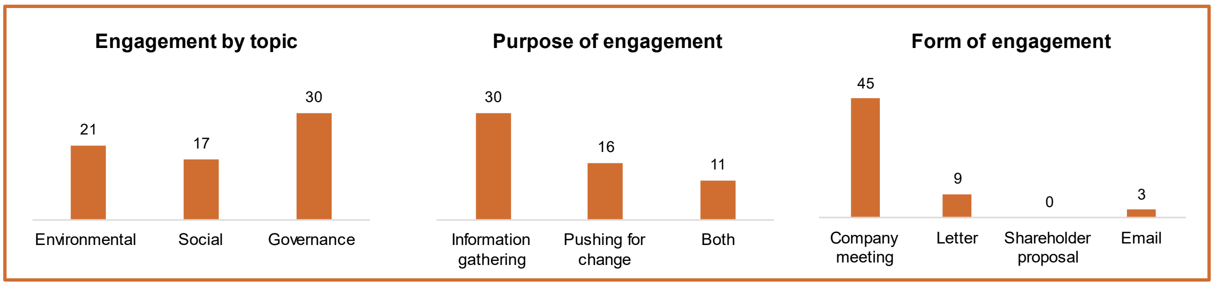
We engage with companies for a variety of reasons. These include, to test the core components of our investment thesis over the holding period, to find out more information about the management of key risks, and to push for change in areas where we believe the company could improve. We identify topics for engagement through our bottom-up research process. We prioritise our engagement work based on the materiality of the issue 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 2021, we held more than 60 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 2021, the investment team undertook 57 instances of ESG-focused engagement with 22 companies held in the portfolios. We think this is a significant investment of resource for a firm of our size. The charts below break out this engagement activity.



Source: Independent Franchise Partners, LLP Reflects engagement with companies in all three Franchise portfolios in 2021. One engagement instance may include multiple engagement topics.

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

Case study 1

Climate risk management at Alcon, Booking Holdings, CME Group, Electronic Arts, Nintendo and Western Union

Engagement activity

We identified six companies in the Franchise portfolios that did not provide disclosure to the CDP or have meaningful emissions reduction targets. 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. **Collaborative engagement through the CDP's Non-Disclosure Campaign:** The Non-Disclosure Campaign is a collaborative initiative which encourages companies to disclose to the CDP. We took the lead investor role in these engagements for four of the six companies.

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

2. **Direct, individual engagement:** We used meetings with company management, investor relations officers, sustainability managers and board members to highlight the need for improvement for five of the six companies. We also wrote formal letters to each company's chair.

   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.

Engagement outcome

We saw good but incomplete progress in our engagement work. Three companies – Booking, Nintendo and Western Union – disclosed to the CDP for the first time in 2021. Two companies – Alcon and Booking – verbally committed to setting emissions reduction targets. We are conscious that we are not the only investor engaging with the companies on these topics. For example, in the case of Booking, our letter coincided with two successful shareholder resolutions on these themes which we supported. We will continue this engagement work in 2022 and beyond.

Case study 2

Management compensation and shareholder communication at Informa

Engagement activity

In 2021, we chose to vote in support of Informa's remuneration report, against the recommendations of ISS, our proxy research provider. ISS objected to the compensation committee's decision to adopt a three-year long-term incentive plan for management that awarded share grants regardless of performance.

In general, we prefer compensation to be closely linked to performance. However, Informa – a leading global events company – was severely affected by Covid-19. Given the impossibility of setting meaningful performance targets, we believed this change was warranted. Further, we think a stable and aligned management team is critical to recovering long-term shareholder value. Therefore, we believed it was essential to ensure management did not lose their entire incentive owing to circumstances largely outside their control.

Our discussions with the UK Investor Forum indicated that a number of shareholders were dissatisfied with Informa's approach to remuneration and shareholder communication. Our concerns were cemented by a substantial vote against the company's remuneration policy at the 2021 AGM.

While we were supportive of Informa's approach, we recognised that the company needed to take action to improve trust among shareholders in compensation matters. We explained this in a meeting with the CEO and CFO. We also met with the new chair of the remuneration committee early in her tenure to set out our views and to hear her initial plans for the role.

Engagement outcome

Informa appears to be taking shareholder dissatisfaction seriously having appointed a new chair of the remuneration committee following the vote. The company is also actively consulting with shareholders on remuneration and will present a revised policy at the 2022 AGM.

Case study 3

Shareholder rights at News Corp

Engagement activity

News Corp had a 'poison pill' shareholders' agreement in place since its inception in 2013[6]. We had long thought that removing this protection would focus management on improving its operations and simplifying its portfolio, helping to maximise long-term shareholder value.

We had consistently advocated for the removal of this agreement since establishing a position in News Corp in 2017. We escalated our requests through abstaining in the re-election of directors at the 2018 and 2019 AGMs, and in a formal letter to the board in June 2020 which led to a meeting with the co-chair and CEO.

Engagement outcome

In September 2021, News Corp announced that it would terminate the poison pill. In addition, the board reinforced this more shareholder-friendly approach by announcing a $1bn return of capital to shareholders via a buyback scheme. We think that long-term shareholders will benefit from this shareholder-focussed mindset as the removal of the poison pill protection should focus management on delivering superior long-term operational and financial performance.

[6] A poison pill is a form of takeover defence which is triggered in the event a shareholder's ownership level exceeds a certain threshold. The impact of this would be to dilute the hostile bidder's ownership position.

Case study 4

Capital allocation at British American Tobacco (BAT)

Engagement activity
We wrote to the chair of BAT in June to encourage the company to evolve its capital allocation strategy. We explained that the undervaluation of its shares by the market presented a unique opportunity for shareholder value creation through reducing the dividend and increasing share buybacks. We had separate meetings with the chair and the management team following this letter for further discussions.

Engagement outcome
BAT announced a £2bn buyback programme in February 2022. This is not as large as we recommended in our engagement, but we expect it to increase over time. The progression of the buyback scheme will be front of mind in our future meetings with management. Our engagement alone is unlikely to be the primary driver behind BAT's actions, but as a top-twenty shareholder we recognise our consistent engagement work has had some influence.

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 a change or an initiative.

We describe our collaborative engagement with the CDP's Non-Disclosure Campaign in case study 1 of Principle 9. In Principle 9, 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 sustainability of its franchise.

Below we set out the components of our escalation strategy and how frequently each one was employed in 2021. In total, the investment team undertook 57 instances of ESG-focused engagement across 22 portfolio companies. 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 resolutions 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 these votes to signal our dissatisfaction on related matters such as overall strategy or risk management. When we vote against these resolutions, we typically notify the company and outline our rationale so management understands the purpose of our adverse vote. We voted against management on 28 proposals by company management, 13 of which were related to directors. We also voted against management on 14 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 3 under Principle 9 and case studies 1 and 3 under Principle 12.
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 11 meetings with non-executive directors in 2021. 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 issues 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 nine letters in 2021. We outline three examples of how we use formal letters to achieve our engagement objectives in case studies 1, 3 and 4 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 six portfolio companies in case study 1 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 2021.

We apply the same approach to escalation across each of our portfolios and do not vary our approach by geography.

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.

We follow this policy consistently across our three portfolios. We also apply our voting 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 Principle 9.

The lead investor for each stock is responsible for voting decisions, with input from the wider investment team and the ESG analyst. We purchase voting research, analysis and recommendations from ISS. We use this to inform our voting decisions, but we are not obligated to follow their 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 that all ballots are voted.

We provide our voting policy on our website.

Activity

Below we disclose data on our voting activities in 2021. 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:					
Routine/Business	102	11	11%	9	9%
Directors Related	390	13	3%	17	4%
Capitalization	39	0	0%	0	0%
Reorg. and Mergers	1	0	0%	0	0%
Non-Salary Comp.	50	4	8%	6	12%
Anti-takeover Related	9	0	0%	0	0%
Miscellaneous	3	0	0%	0	0%
Shareholder Proposals:					
Routine/Business	3	2	67%	1	33%
Directors Related	8	3	38%	5	63%
Corporate Governance	4	0	0%	2	50%
Social/Human Rights	1	0	0%	0	0%
Compensation	4	0	0%	1	25%
Health/Environment	4	4	100%	0	0%
Social	3	0	0%	2	67%
Other/Miscellaneous	9	5	56%	0	0%
Total	**630**	**42**	**7%**	**43**	**7%**

Source: Independent Franchise Partners, LLP, ISS. Reflects votes cast on proposals in 2021 on behalf of clients for whom we have full voting discretion.

Our voting records are available on our website.

Outcome

Below we provide three examples which are indicative of our approach to voting.

Case study 1

Executive compensation at Johnson & Johnson

We voted against executive compensation proposals at Johnson & Johnson in order to escalate our concerns related to the handling of litigation. We have had several conversations with management about the high level of legal charges and the multiple product liability lawsuits that the company has faced during our 14 years of ownership. We recognise that the current litigation charges were not the making of the current executive team, but we are concerned that there appears to be a lack of recognition that the company needs to change how it manages and oversees product liability risk. Legal expenses primarily associated with product liability litigation have averaged 3% of revenue over the past 10 years and have been increasing in recent years with opioid and talc-related litigation.

We are concerned that without a concerted effort by management and the board to change how these risks are managed, we could continue to see similar litigation that will negatively impact the company's financial performance and valuation. We wrote to the company's investor relations ahead of the AGM to outline our rationale for voting against compensation, and used a governance meeting following the AGM to reiterate our views.

The compensation report passed with just 54% support at the AGM. Given this low vote, we expect the company to seek shareholder feedback ahead of its 2022 AGM and we will be monitoring the company's response to inform our future voting decisions.

Case study 2

Executive compensation at Electronic Arts (EA)

We voted in favour of management's compensation proposals. ISS recommended a vote against the proposals due to a special payment made to CEO Andrew Wilson in 2021. However, we did not believe this was warranted for two reasons:

1. The company has made a number of important improvements to its compensation scheme, including the introduction of three-year cliff vesting, more stringent clawback provisions, and higher ownership requirements. This is the direct result of listening to shareholder feedback.

2. While we are highly cautious of the use of discretionary, one-off payments and have voted against remuneration at other companies because of them, we believe it was an appropriate decision by EA given the circumstances. In an engagement meeting with the company to inform our voting decision, they explained that this was a retention payment in light of the highly competitive market for talent, especially from big tech. This aligns with our own research which has also identified the competitive nature of the video game talent market. In addition, we take some comfort that the board has agreed not to introduce any more special payments for the next five years.

The remuneration plan did not receive majority support, as expected given ISS's adverse vote recommendation. We will encourage EA to communicate the challenges it faces effectively to shareholders and proxy research providers, but we appreciate that these groups are unlikely to accept EA's explanations given their voting frameworks.

Case study 3

Climate-related shareholder proposal at Booking Holdings

We have been engaging collaboratively and individually with Booking to adopt CDP disclosure and set emissions reduction targets, as discussed in case study 1 in Principle 9. At the 2021 AGM, we chose to escalate our engagement requests by supporting two climate-related resolutions. These resolutions called on the company to provide a report on its climate transition strategy that would include time-bound 1.5 degree-aligned emissions reduction targets, and to allow shareholders the ability to vote on this strategy annually.

While just one of the climate resolutions passed with majority shareholder support at the AGM, the results of the vote combined with ongoing shareholder engagement sent a clear message of dissatisfaction to the company. We were pleased to see that Booking disclosed to the CDP for the first time in 2021, and the company orally committed to set emissions reduction targets in our meetings with their sustainability team.

Final comments

We believe we have made good progress for a firm of our size in strengthening our approach to stewardship in 2021.

The development of our ESG toolkit improves our ability to identify the material long-term risks which matter most to our portfolio. We are also encouraged by the outcome of our first efforts in the field of climate engagement, and have found our governance engagement experience invaluable in this process. Both of these initiatives contribute towards our purpose of delivering attractive, long-term investment returns for our clients.

Finally, we have taken concrete steps towards improving transparency into our stewardship and ESG incorporation activities. This was a clear area of feedback from our clients. An important highlight in 2021 was the publication of our climate risk paper, our first ESG-focused client publication.

We recognise that we have more progress to make in further developing our approach to stewardship. In 2022, our priorities are to:

- Conduct more deep-dive ESG research projects into individual stocks in the portfolio.
- Consider additional tools that will improve the consistent incorporation of ESG risks in the investment research and decision-making process.
- Continue our climate engagement work. CDP disclosure and science-based emissions reduction targets are our near-term priority.
- Continue to strengthen our communication with clients on our ESG incorporation and stewardship efforts, including the publication of our first ESG annual report in early 2022 and the publication of this inaugural Stewardship Report.

Important information

Franchise portfolios are available for professional clients only.

Independent Franchise Partners, LLP is authorised and regulated by the Financial Conduct Authority. This document is designed for those persons who are professional clients and eligible counterparties (as defined in the UK Financial Conduct Authority's rules), Independent Franchise Partners, LLP's registered address is Level 1, 10 Portman Square, London W1H 6AZ, United Kingdom. This communication is only intended for, and will be only distributed to, persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

The document has been prepared as information for investors and it is not a recommendation to buy or sell any particular security or to adopt any investment strategy. The material has not been based on a consideration of any individual client circumstances and is not investment advice.

Past performance is not an indicator of future results. The value of investments and the income from them can go down as well as up, and an investor may not get back the amount invested.

Independent Franchise Partners, LLP is an independent investment management firm that was established on 15 June 2009. Independent Franchise Partners, LLP manages equity strategies for clients based globally.

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.

Independent Franchise Partners, LLP claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this *organization, nor does it warrant the accuracy or quality of the content contained herein. To receive a list of composite descriptions or limited distribution pooled funds of Independent Franchise Partners, LLP and /or a GIPS Report that complies with the GIPS standards, please contact clientservice@franchisepartners.com or write to Independent Franchise Partners, LLP, Level 1, 10 Portman Square, London W1H 6AZ, United Kingdom.*

Global Franchise Rolling 12 Month Returns (%)

	31 Dec 16 – 31 Dec 17	31 Dec 17 – 31 Dec 18	31 Dec 18 – 31 Dec 19	31 Dec 19 – 31 Dec 20	31 Dec 20 – 31 Dec 21
Global Franchise Composite	19.52	-8.15	29.27	13.57	18.56
MSCI World (Net) Index	22.40	-8.71	27.67	15.90	21.82

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

	1 Year	5 Years	10 Years
Global Franchise Composite	18.56	13.83	12.80
MSCI World (Net) Index	21.82	15.03	12.70

Returns for the Independent Franchise Partners, LLP (IFP) Global Franchise Composite (Hedged), net of fees in USD as at 31 December 2021.

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.

Independent Franchise Partners, LLP is an SEC registered investment adviser under Section 203(c)(2)(A) of the Investment Advisers Act. Registration with the SEC does not imply that Independent Franchise Partners, LLP possesses a certain level of skill or training.

Independent Franchise Partners, LLP is exempt from the requirement to hold an Australian financial services license under the Corporations Act 2001 (Cth) in respect of the financial services it provides to you. Independent Franchise Partners, LLP is authorised and regulated by the Financial Conduct Authority under UK laws, which differ from Australian laws, and provides financial services in Australia under ASIC Class Order [CO 03/1099].

Further information on MSCI

The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)