Ravenscroft

GLOBAL BLUE CHIP FUND **2022** ANNUAL SUSTAINABILITY REPORT

CONTENTS

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INTRODUCTION

At Ravenscroft, our core investment aim is to achieve returns for our clients that are commensurate with their investment objectives and risk profile. The Global Blue Chip fund seeks capital growth through the investment in shares of large, established companies - "Blue Chips" - that are aligned with one or more of our investment themes. An important component in achieving our goal is our commitment to identifying *'wonderful'* companies that we believe are capable of generating sustainable growth over the long term and buying them at attractive prices.

The attributes that make a business 'sustainable' are wide-ranging and dependent on the nature of the industry and the products and services being offered. Standards set by the Sustainability Accounting Standards Board ("SASB") encourage businesses to provide increasing transparency on data that draws attention to the sustainability of their cash flows, access to finance, and cost of capital. Since the creation of these standards, transparency has improved but adoption across industries and geographies has yet to be sufficient to encourage their inclusion in our analysis. Whilst data offers quantifiable proof, we believe there are qualitative traits that are as crucial, if not more so, behind the sustainability of a company including the quality of leadership and prevailing corporate culture.

In general, businesses that engage in sustainable working and environmental practices, consider the effects of their operations on the communities in which they operate and have proper governance standards that protect the interests of all stakeholders are more likely to be successful businesses over the long term. As a signatory of the United Nations' Principles for Responsible Investment, and in our effort to attain the best outcomes for our clients, Ravenscroft is committed to:

- **Integrating environmental, social and governance ("ESG") considerations into our investment processes;**
- **Being active owners; and**
- **Seeking appropriate disclosure on ESG issues from investee companies.**

The Global Blue Chip Sustainability report aims to inform our investors on how ESG matters are integrated into our investment processes and how we steward the Blue Chip's assets through the votes we cast on the fund's underlying businesses.

OUR INVESTMENT APPROACH

The Fund's primary aim is to grow capital by investing in a broad range of large businesses aligned with structural growth trends (our investment themes) that are shaping the world we live in today and for future generations.

We search for the *'wonderful'* businesses – companies that possess a competitive advantage and can sustainably produce an attractive return on their capital. Most importantly, we're looking for competent and credible management who are skilled in allocating profits to their best use – our favourite companies are able to reinvest substantially all of their profits for enduring growth and high returns.

We are most interested in companies that are exposed to growing markets, giving them the ability to re-invest at attractive rates of return for years and years. Such opportunity sets are being driven by global trends in:

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- **Global consumerism:**
  The slow, yet continuous migration of the global population from rural existence to urban living spaces is driving economic growth and supporting consumerism, from small, packaged goods all the way to products and services that help identify us as individuals and make us feel happier and healthier.
- **Changing demographics:**
  The world is getting older, and the uncomfortable truth is that as we age our health deteriorates increasing the demand for healthcare products and pressure on healthcare systems. We're looking for businesses that make it their job to identify new drugs, diagnostics, or devices that meet unmet needs or can do a job better than the incumbent. We're also interested in businesses that support the drug discovery and manufacturing processes, whether it's through tools, machines, or consumable products, as well as other businesses whose products may improve efficiencies and help relieve the burden on healthcare systems and government budgets.
- **Technology and Innovation:**
  Technology is proliferating in our world at an increasing rate. Whether it's supporting the innovation behind the products and materials that will help address tomorrow's challenges, or connecting the physical world with that of the digital world fostering and enhancing connectivity, communication, commerce, and even our own entertainment.

OUR INVESTMENT APPROACH CONTINUED

Great ideas and *'wonderful'* businesses will not make a good investment if the price is not right. Understanding what you own is integral to knowing why you own it and the risks associated with that opportunity, which will enable an informed calculation on the preferred price to pay.

A common approach to valuing a company is to assume any given business is worth the net present value of all its potential future cash flows. Underpinning our valuation work is a desire to understand the sustainable free cash flow a business is able to generate from its day-to-day operations, the rate we can expect these cash flows to grow over time, and then adjust appropriately the present value after allowing for the risks to our assumptions.

Viewing potential risks through the lens of ESG helps qualify those issues most relevant to the sustainability of cash flow generation. We conduct ESG-related strengths, weaknesses, opportunities and threats ("SWOT") analysis on each investment as an effective way to understand their idiosyncratic risks – please see the case study later in this report.

"Businesses are not static organisms; they adapt to both opportunities and threats and require constant monitoring."

Businesses are not static organisms, they adapt to both opportunities and threats and require constant monitoring. This job is both time-consuming and necessary but made possible by our companies reporting to their investors twice a year at a minimum. Many report quarterly – with further information available at capital market days, investor conferences, separate news releases and Annual General Meetings ("AGM"). As shareholders, we also have the opportunity to engage with our investee companies with the votes we cast at their AGMs, in addition to other ad hoc business matters that require shareholders' input.

By creating a framework to help analyse a company's credentials and associated risks, we can mitigate most of the uncertainty and better position ourselves for success. Any price paid must offer a reasonable margin of safety that compensates for the risks inherent in our investment rationale (and equity investing as a whole). It also provides the added benefit of offering the potential for an above-average return should our investment case play out as expected.

IMPLEMENTING ESG CONSIDERATIONS INTO OUR STOCK RESEARCH

We view ESG issues as a set of responsibilities, risks, and opportunities to be assessed at the outset and monitored on an ongoing basis. The aim is to better understand the robustness of a company and the potential risks we are exposed to as investors.

We also focus on governance systems and corporate cultures – a tone set by the top – acting as a guiding light that encourages positive behaviours. We make a judgement call on the quality of governance within each portfolio holding by reviewing, amongst other criteria:

- **remuneration structures for company seniors – what behaviours are being incentivised and what outcomes should we expect?**
- **monitoring earnings calls – to build a track record of understanding between what management say and what they actually achieve;**
- **scrutinising news articles and controversies and how companies react to opportunities and problems; and**
- **understanding an industry's material threats to their sustainability to better appreciate idiosyncratic vulnerabilities.**

In our experience, companies operating with regard to best governance practices – with policies in place to benefit all stakeholders (i.e., all those with any interest or concern in a business) – have proved to be more sustainable. These are businesses that are more likely to navigate future issues, thereby reducing business and investment risks, and driving value for long-term shareholders over time.

Whilst we do not exclude investments solely on ESG factors, we would expect to be compensated in the price for perceived risks should an investment be exposed to greater E, S, or G factors in their normal course of business. In general, companies that fail basic ESG considerations due to incompetence or wilful neglect are not viewed as appropriate investments, no matter what the price.

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CASE STUDY - ESG SWOT ANALYSIS ON MICROSOFT

Qualitative and quantitative ESG analysis is becoming an increasingly important part of our investment process. The example below examines the strengths, weaknesses, opportunities, and threats of Microsoft through our ESG lens.

Overall, we found Microsoft to have solid ESG credentials, with no clear impediment to value creation or share price performance. We found them to be leaders in their sector (software/technology) with regard to governance frameworks. Employees felt valued, although there is an opportunity to improve gender ratios, as well as the disparity in pay levels between senior management and the wider employee base. Finally, Microsoft is also a global leader in renewable energy usage with an aggressive goal towards net zero – though one could be sceptical of the role that paying for carbon credits has in this target.

STRENGTHS

E: Microsoft is one of the largest purchasers of renewable energy in the world.

S: Employees largely feel valued based on surveys conducted within the organisation.

G: Microsoft recognises its responsibility to protect staff and customers from digital threats, it delivers this through the hardware and software it produces, focusing on data protection.

WEAKNESSES

E: In FY21 Scope 3 emissions got worse (11,239,000 to 13,785,000 metric tonnes of CO_2) due to growth in its cloud services business.

S: Below senior levels of staff, men still outnumber women quite strongly.

G: The company is very susceptible to antitrust and anti-competition filings because of its size within its industry.

OPPORTUNITIES

E: Microsoft committed that its own operations and supply chain would be carbon negative by 2030. It also seeks, by 2050, to remove its historic carbon emissions since incorporation.

S: At the 2021 AGM, the shareholder proposal requesting a Report on the Effectiveness of Workplace Sexual Harassment Policies received the support of a majority of votes cast. This report was brought about due to Microsoft having a history of sexual harassment scandals and provides an opportunity to improve upon the slightly chequered past.

G: Microsoft is working on a combination of tools and technologies to counter false information such as ‘deepfakes’.

THREATS

E: The company is the largest customer of carbon offsets in the world, potentially masking poor environmental behaviour through paying to make the problem of emissions measurements go away.

S: The Median employee-to-CEO pay ratio increased in FY22 (1:289) compared to FY21. This is even more concerning when compared to some other industry peers.

G: CEO Satya Nadella’s total executive pay (including base salary, bonuses, non-equity incentives and option grant) in 2022 was $46,119,000. This is greater than the median CEO pay for Institutional Shareholder Services’ (“ISS”) selected peer group ($25,822,000) and Microsoft’s selected peer group ($34,604,000).

MONITORING CASE STUDY - GSK

All holdings are monitored to ensure the reasons for holding them (their investment rationale) holds true. The moment a piece of news or corporate event occurs that threatens our original investment thesis in a holding, a red flag is raised and the stock enters enhanced monitoring.

GSK:
GSK is a major pharmaceuticals business, with the largest vaccines and consumer healthcare businesses globally. Among pharma, GSK has long been a leader in respiratory medicines, while its subsidiary, ViiV, is the number two in HIV medicines. Led by CEO Emma Walmsley, the company is currently undergoing a multi-year turnaround with the aim of improving innovation and performance in the pharma business and realising value by spinning off its consumer business in mid-2022.

Investment rationale:
We see GSK as a collection of strong underlying franchises, the quality of which is somewhat masked by a complex corporate structure. The consumer healthcare business is attractive in its own right with growing sales and margins.

Regarding the pharma business, we note that expectations are low, but the new R&D head's turnaround strategy appears well thought-out and investment has been ramped up – things could well turn out better than expected.

Red Flag:
On 10th August 2022 we started to notice unusually large share price declines in two of our largest holdings, GSK and Sanofi. The declines were unusual on the basis that there was no news whatsoever relating to these companies, while the rest of the pharmaceuticals sector was trading positively.

The reason why became clearer when a research note from Morgan Stanley brought attention to the Zantac litigation that was about to go to trial in the US. The analyst responsible had concluded that the liabilities could range between $10bn to $45bn.

Background:
Zantac was first launched as a prescription drug in the early 1980s. Going off-patent in the 1990s, it became subject to a wave of generic competitors who were then entitled to market cheap unbranded ranitidine (the chemical name of the drug). Occasionally, at this stage in a drug's life cycle, it can be possible to get it approved for sale "over the counter" in the pharmacy, and this is what GSK did in the US by partnering with a predecessor of Pfizer. In short, after a couple of years, Pfizer took full control of the partnership. Some years later they sold this part of their business to Johnson & Johnson, who then

"On 10th August 2022 we started to notice unusually large share price declines in two of our largest holdings, GSK and Sanofi."

immediately flipped Zantac to Boehringer Ingelheim, who then had ownership for the next 11 years. Sanofi was the last owner, from 2017 until discontinuing the drug in 2019.

A small American online pharmacy conducted tests on ranitidine products in 2019 and concluded they contained unacceptably high levels of an impurity known as NDMA – a "probable carcinogen" that is widely present in the environment in low concentrations. The US regulator, the Food and Drug Administration ("FDA"), subsequently put out an alert to this effect and Sanofi voluntarily withdrew Zantac. In testing of its own, the FDA found ranitidine products to contain similar levels of NDMA that are found in common foods such as grilled or smoked meats.
In further testing (including by manufacturers) it was determined that in some ranitidine products stored above room temperature, concentrations of NDMA can increase over time, and this is what led the FDA to require complete withdrawal in 2020.

Within days of the FDA's initial alert though, class action lawsuits began to emerge making claims that Zantac causes cancer. Currently, there are several thousand filed personal injury cases in federal and state courts. Named defendants include portfolio holdings GSK and Sanofi.

Current Stance:
Sanofi and GSK have been insistent that Zantac does not cause cancer, on the basis of numerous studies. Moreover, both voluntarily withdrew the drug from the market before being required to do so and we have no reason to believe that either company has behaved badly. Given their strong financial positions and attractive growth outlook, we considered that possible liabilities were unlikely to be material risks to our long-term investment cases, hence why we feel comfortable with our holdings. In our view, the panic with these shares is an overreaction.

> **“As far as we can understand there is little if any evidence to suggest any inappropriate behavior on behalf of current or past management.”**

MONITORING CASE STUDY - GSK CONTINUED

One striking detail of all this is just how widely the Morgan Stanley analyst’s liability figure of $45bn has been disseminated. It is uncritically repeated in many media articles and seems likely to have played a key role in the stock market panic. We suspect many journalists reporting on the news have not read the Morgan Stanley note. The result is a complete lack of context, which seems to be more a case of “Chinese Whispers” combined with market psychology.

We do not know how this matter will ultimately be resolved. Some kind of settlement would not be an unusual course of action. But $45bn seems wildly extreme to us, the totality of the settlements in cases relating to the US opioid crisis has been around $38bn – a crisis with clear causation, and one that has killed hundreds of thousands of people, destroyed families and involved particularly bad behaviour on the part of some of the major players. None of these factors appear to be present in the Zantac case.

Until more information on future verdicts come to light, the trial is likely to create an overhang to performance for these companies and we are watching the situation very closely.

Trial developments:

- The first scheduled Zantac trial has been voluntarily dismissed and GSK did not settle.
- The defendants in the multi-district lawsuit filed in Florida were granted summary judgement. US District Judge Robin Rosenberg found the opinions of the plaintiff’s expert witnesses linking the drug to cancer were not backed by sound science. The ruling is on appeal.
- GSK settles its first Zantac trial, brought by California resident James Goetz, for an undisclosed sum. The trial was set to start on 24th July 2023 and would have been the first test of how Zantac cancer claims would fare before a jury. GSK said the settlement reflected its desire to avoid distraction related to protracted litigation. It did not admit any liability and said it would vigorously defend itself in any other Zantac cases.
- The Company continues to face 5,000 cases in California and 77,000 cases in an MDL filed in Delaware.

We’re keeping a close eye on developments, but as far as we can understand there is little if any evidence to suggest any inappropriate behaviour on behalf of current or past management when looking to resolve this issue.

HIGH LEVEL ESG STATISTICS

During 2022, we commenced gathering ESG-related data points on our portfolio. Below are extracts from our ESG data gathering that illustrate how the portfolio is currently positioned in the context of sustainability and best governance practices. The aim is to show progression in many of these areas over time and explain when improvements have not been achieved.

The figures below are compiled using the latest Bloomberg data available as of 31st December 2022. It should be noted that not all companies within our portfolio report on all the data points. So, while weightings are dependent on our portfolio positions, this cannot be a complete picture. That said, 2023 company reporting is improving and we expect this trend to continue.

Key Performance Indicators ("KPIs")	Unit	Weighted Portfolio Data	Portfolio Companies Reporting KPIs (%)
Scope 1 GHG emissions	Metric ton of CO2	456,115	100%
Scope 1 GHG emissions per Fund Units in Circulation	Metric ton of CO2 per Fund Unit in Circulation	0.0036	100%
Scope 2 GHG emissions	Metric ton of CO2	268,108	100%
Scope 2 GHG emissions per Fund Units in Circulation	Metric ton of CO2 per Fund Unit in Circulation	0.0021	100%
Scope 3 GHG emissions	Metric ton of CO2	16,479,125	100%
Scope 3 GHG emissions per Fund Units in Circulation	Metric ton of CO2 per Fund Unit in Circulation	0.1293	100%
Total GHG emissions (Scope 1 & 2) / revenue	Metric ton of CO2 per million of revenue	14	100%
Total GHG emissions (All scopes) / revenue	Metric ton of CO2 per million of revenue	365	100%
Scope 1+2 Implied Temperature Rise	Degrees Celsius	0.82	68%
Scope 1+2+3 Implied Temperature Rise	Degrees Celsius	1.20	68%
Percentage of non-renewable energy sources compared to renewable energy sources	Percentage	52%	90%
Total energy consumed	Gigawatt hours	2,480	84%
Total energy consumed / revenue	Gigawatt hours per million of revenue	0.05	84%
Total amount of hazardous waste generated	Tonnes	15,735	52%
Ratio of female to male board members	Ratio	37%	100%
Total water consumed	Cubic meters	5,604,594	55%
Total water consumed / revenue	Cubic meters per million of revenue	151	55%
Total amount of non-recycled waste	Tonnes	37,406	77%
Total recordable incident / injury rate for all employees	0 (good) - 5 (poor)	0.15	42%
Ratio of annual compensation of the CEO to the median of all employees (except the CEO)	Ratio	256 to 1	84%
Percentage of Independent Directors	Percentage	73%	97%
Average age of directors	Years	58.31	94%

HIGH LEVEL ESG STATISTICS CONTINUED

We have also analysed our portfolio in the context of the SASB Materiality Finder, identifying on a weighted basis which issues are the most significant within our portfolio. Our results are as follows:

Product Quality & Safety	12.2%
Supply Chain Management	10.9%
Employee Engagement, Diversity & Inclusion	8.8%
Product Design & Lifecycle Management	8.1%
Selling Practices & Product Labelling	6.9%
Business Ethics	6.2%
Energy Management	5.6%
Data Security	5.4%
Competitive Behaviour	5.2%
Access & Affordability	5.0%
Customer Privacy	4.6%
Customer Welfare	4.6%
Materials Sourcing & Efficiency	4.4%
Water & Wastewater Management	4.0%
Human Rights & Community Relations	3.4%
Systemic Risk Management	3.0%
Labor Practices	1.5%
Waste & Hazardous Materials Management	0.4%

(Data as of 31st December 2022)

We place particular importance on the quality of the business, both in terms of the products and services offered and the governance surrounding its operating practices.

The top five data points prove this to be the case.

These also assist in guiding us towards areas to focus our research when analysing companies in the context of ESG.

OUR VOTING

We believe the most effective means of active ownership at our disposal is to vote on our shareholdings. This allows us to take direct action on our investors' behalf. Our aim is to vote on all important items and proposals at the annual general meetings, for all our investee companies, on behalf of our clients' best interests.

We began conducting proxy voting from Quarter 3 2022 onwards via the ISS Proxy Exchange platform.

ISS is a leading global provider of corporate governance services, including proxy voting and vote research.

We utilise those services to make educated decisions on how to vote on our investee company ballots.

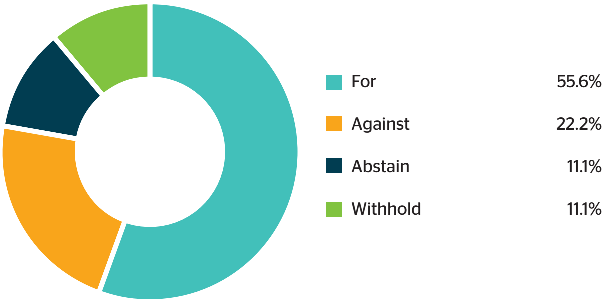
Our main objective is to protect the long-term interests of Global Blue Chip's investors, which may mean we won't always support company management and may vote against management's suggestions. All votes against management recommendations are documented with appropriate rationale. We are able to provide our voting record, along with rationales, on a 'per request' basis.

Breakdown of votable meetings

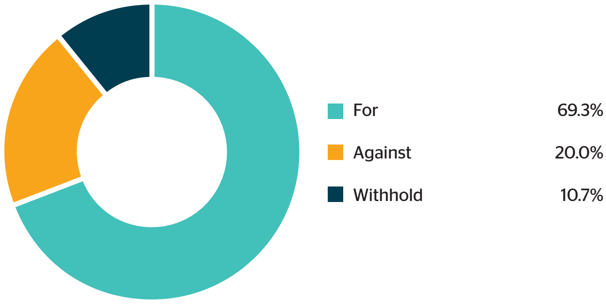
	Quarter 3 2022	Quarter 4 2022
Portfolio company meetings in quarter	2	4
Portfolio company meetings voted in	2	4
Total items voted upon	9	75
Number of items voted against management recommendations, or abstentions	3	23

Breakdown of voted items

Quarter 3 2022



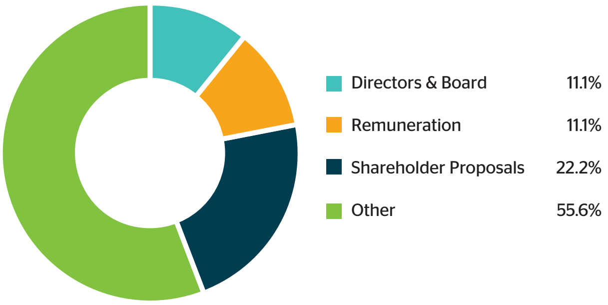
Quarter 4 2022



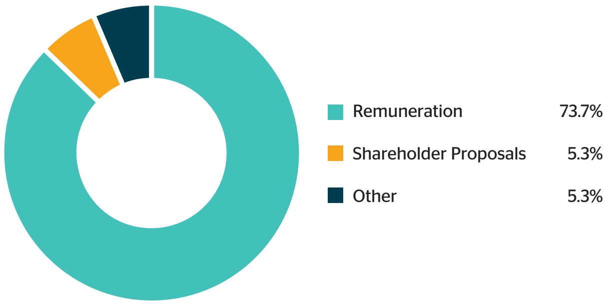
Source: ISS (Data as of 31st December 2022)

Breakdown of votes against management and abstentions – by category

Quarter 3 2022



Quarter 4 2022



Source: ISS (Data as of 31st December 2022)

OUR OUTLOOK

We have made great progress over the past year with our sustainability and stewardship approach, and we look forward to continuing and communicating our progress on this journey with you.

Our primary goal will always be to maximise return and minimise risk for our investors. Analysis and stewardship, as detailed previously, can be an effective tool to achieving this objective.

FUND INFORMATION AS OF 30 DECEMBER 2022

Fund Name	Ravenscroft Global Blue Chip Fund
ISIN (O Accumulation Class – Retail)	GG00BN707P73
ISIN (I Accumulation Class – Introducer/Advisor)	GG00BN707M43
ISIN (S Accumulation Class – Institutional)	GG00BMH70Q35
Reference Index Name	MSCI World Index
Inception Date	1 July 2014
Trustees	BNP Paribas S.A., Guernsey Branch
Fund Reference Currency	GBP
Share Reference Currency	GBP
NAV of Share (O Accumulation)	£212.88
Number of Portfolio Holdings	31
Fund Size as of 30 December 2022	£146,390,695.36
Fund Size as of 31 December 2021	£145,472,609.71
Units in Circulation as of 30 December 2022	798,338.14

Performance (%)

Period	Portfolio	Reference Index	Excess Return
1 Month	-2.1	-5.2	3.1
3 Month	4.6	1.9	2.7
1 Year	-3.7	-7.8	4.1
2 Year	11.3	13.3	-2.0
3 Year	21.8	27.3	-5.5
4 Year	47.0	56.2	-9.2
5 Year	50.4	51.5	-1.1

Source: FE, figures presented in GBP Total Return

Geographic Allocation (%)

Location	Portfolio	Reference Index
United States	48.4%	67.9%
United Kingdom	14.6%	4.3%
France	9.4%	3.3%
Germany	6.6%	2.3%
Switzerland	3.9%	2.9%
Other *	0.0%	19.1%
Cash	17.1%	0.2%
	Source: Global Blue Chip Fund December 2022 Factsheet	*Source: iShares MSCI World Index ETF 31/12/22 Factsheet*

** Other geographies that we do not invest in to compared to the Reference Index include Japan, Canada, Australia, Netherlands, and Sweden*

Sector Allocation (%)

Sector	Portfolio	Reference Index
Health Care	32.1%	14.5%
Consumer Discretionary	12.4%	9.9%
Information Technology	11.7%	20.1%
Consumer Staples	10.1%	7.9%
Communication	7.3%	6.4%
Industrials	6.4%	10.7%
Financials	2.9%	14.3%
Other *	0.0%	16.0%
Cash	17.1%	0.2%
	Source: Global Blue Chip Fund December 2022 Factsheet	*Source: iShares MSCI World Index ETF 31/12/22 Factsheet*

** Other sectors that we do not invest in to compared to the Reference Index include Energy, Materials, Utilities, and Real Estate*

FUNCTION INFORMATION AS OF 30 DECEMBER 2022 CONTINUED

Top 5 Holdings (% of assets)

GSK	5.0%
Oracle	4.9%
Sanofi	4.4%
BMW	4.2%
Regeneron Pharmaceuticals	4.0%

Source: Global Blue Chip Fund December 2022 Factsheet

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