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Investing for a
world of change

American Franchise Fund

Sustainable disclosures summary

American Franchise is an active equity fund that seeks to invest in high-quality companies. The Investment Manager, Ninety One defines these as companies that possess enduring competitive advantages, dominant market positions, strong balance sheets, low cyclicalities, sustainable cash generation and disciplined capital allocation. The types of businesses that display these attributes tend to have low capital intensity – they have relatively low fixed costs required to produce their goods or services – and lower carbon emissions than the broader US equity universe. The Fund aims to maintain a lower carbon footprint than the benchmark.

How does the Fund incorporate sustainability into its investment process?

Finding high-quality companies requires detailed fundamental analysis. The investment team conducts an in-depth proprietary assessment of the durability of a company's business model and competitive advantage, the resilience of its financial model and the alignment of capital allocation decisions with the long-term interests of shareholders and other key stakeholders. Sustainability is fully integrated into this analysis and is assessed according to the following three pillars:

1. Business model sustainability

This involves assessing how a company interacts with its suppliers, customers, employees, and regulators, as well as the potential threat of increased regulatory scrutiny. The team takes an in-depth look at the sustainability of the company's environmental and social practices, including the sourcing of raw materials, and the management of environmental resources like carbon and water, where applicable. The company's commitment to achieving net-zero targets also receives close attention.

2. Financial model sustainability

The investment team assesses the quality of the company's earnings and accounting practices and the extent to which it manages its capital sustainably, maintaining low levels of debt. Balance sheet strength and consistent cash flows are important features of high-quality companies.

3. Sustainability of capital allocation and corporate governance

The investment team seeks to understand if a company's capital allocation decisions are aligned with long-term shareholders and other stakeholders and whether appropriate governance structures are in place around factors such as executive pay, diversity and independence.

Which companies are avoided?

In the search for high-quality companies, there are certain industries and sectors that do not meet the business model, financial model and sustainability credentials that the team requires as part of its investment philosophy for inclusion in the portfolio. Many of the businesses in these sectors derive a large part of their revenues from products

and services that are not sustainable in a low-carbon economy. Therefore, companies are excluded from the potential investment universe (to the best of Ninety One's knowledge) if they are directly involved in:

- Thermal coal extraction or coal-based power generation
- Production and generation of fossil fuels

In addition, the Fund will not invest in companies that (to the best of Ninety One's knowledge) are directly involved in the manufacture and production of controversial weapons (including biological and chemical weapons, cluster munitions, and anti-personnel landmines), or are directly involved in the manufacture and production of nuclear weapons. The portfolio also excludes any company Ninety One deems to be in violation of the UN's Global Compact principles such as, for example, human rights abuse and forced labour.

How is the portfolio constructed?

After exclusions are applied to the investment universe, the investment team conducts its proprietary fundamental research and selects between 20 to 40 high-quality companies for inclusion in the portfolio. A minimum of two-thirds of the Fund's assets will have a lower carbon footprint relative to the benchmark. This is calculated at an aggregated level across the portfolio and means not every holding will necessarily have a lower footprint than the benchmark. The Investment Manager provides transparent reporting each year to show the carbon profile of the Fund and the benchmark.

How are investments monitored from a sustainability perspective?

The investment team applies its sustainability analysis on an ongoing basis to monitor the ESG characteristics of portfolio companies. Engagements take place as an integral part of the investment process, with the investment team initiating engagement on environmental, social and governance topics based on their investment priorities, as identified through their fundamental research.

The extent of engagement activities will vary depending on the materiality of any adverse impacts, ability to exert influence, and the nature or severity of the potential issue. Where engagements on sustainability issues are identified as a critical opportunity to create or preserve value, and where Ninety One believes it can have influence, these are classified as strategic engagements. Strategic engagements involve an engagement plan with identified outcomes, agreed between the investment team and Sustainability team.

Where Ninety One believes engagement is ineffective or companies are not committed to change, it may use the ultimate lever as an investor, which is to reallocate capital.

Important information

Please refer to the important information section in the long form Article 10 report. This document is the copyright of Ninety One.

