

AKO Capital Sustainability Policy

Purpose and Scope

The purpose of this policy document is to explain AKO's sustainability principles and approach to integrating ESG risks and opportunities into its investing decisions. This policy applies to all the funds managed by AKO Capital.

Sustainability Principles

In our view, sustainability rests on the principle that a company's economic model should not rely on negative externalities or unfair treatment of stakeholders. If a company relies on unfairly exploiting its surroundings in order to succeed, it may create hidden liabilities and risks that will likely hurt the company's prospects in the long run. We define sustainability as the overall impact of environmental, social and governance (ESG) risks and opportunities that can materially affect a company.

Our Approach to ESG Integration

At AKO Capital, we aim to deliver strong and sustainable risk-adjusted returns over time by investing in quality companies for the long term. Our philosophy means that we see sustainability as a core characteristic of what makes a quality company and an integral part of our investment process.

Our approach to sustainability is based on *value* as well as, but ahead of, *values*. We consider the ethical implications of the material ESG factors of a business and how these affect society, but we make investment decisions on the basis of their impact on the long-term value of the business.

Whilst we expect quality companies to be sustainable, we do not necessarily consider all sustainable companies to show the key financial characteristics of a quality investment. We therefore systematically apply our quality investment philosophy and rigorous research process to assess the financial profile usually as a precursor to deep ESG analysis. Quality companies have high returns on invested capital, strong and consistent cash flow, solid balance sheets, tend to grow sustainably faster than the economy or their peers and are usually led by high-quality management teams with strong corporate governance. We invest only where we can understand the sustainability of the business model, and we think that ESG factors need to be analysed from the perspective of their impact on the attractiveness of the business model.

Sustainability Research Framework

The investment analyst, with the support of the ESG Team, will carry out a thorough analysis of the competitive position of a company, in the context of the material ESG risks and opportunities. We consider whether the business generates present and future positive or negative externalities for stakeholders and can sustain earnings in the long term. A description of our framework is available on the [AKO Insights](#) platform.

We seek companies that will have a sustained competitive advantage or a leadership position that will be reinforced by the shift to more sustainable consumer behaviour or regulation. Typically, the risks at these businesses are immaterial or are outweighed by the opportunities. These companies must also show an effective track record of responsible policies, practices, and governance structures that can drive the business forward and fully capitalise on the opportunities.

On the other hand, we avoid companies associated with significant ESG risks that are likely to materialise under current or emerging regulation or consumer trends and have limited or no scope to transform into a sustainable business in the long term. This pertains to all companies that contribute to human or labour rights violations, corruption, serious environmental harm, or carry out other highly unethical actions that have substantial reputational risks.

Many companies exist in between the extreme ends of the spectrum, which we have a duty to consider as potential investment opportunities. When a business has high-quality financial characteristics but its ESG risks outweigh opportunities or are unavoidable, for instance when there is no alternative to an industry or process, we make a case-by-case judgement on materiality and how the company fares across a few criteria:

- Is the company **best-in-class** versus peers or well positioned to lead the industry transition in the future?
- Does the business have strong ESG **risk management and governance** with clear disclosure of targets and how progress is being measured?
- Can we monitor **progress** on the ESG risk factors, and do we expect to see a verifiable improvement trend?
- Is the management willing to **engage** in open and frank dialogue with investors and are they receptive to feedback?

Industry examples according to the criteria we use to assess the sustainability of a business model:

- **Healthcare:** Selective companies in the industry can generate material positive present and future outcomes for society. Net opportunities can clearly outweigh potential risks like regulation, especially when companies offer a fair deal to the customer and help advance inclusion and product accessibility.
- **Airlines:** On balance, at an industry level, the ESG risks outweigh opportunities. The path to decarbonisation is uncertain due to lack of scalable technology, and the long-term cost of GHG emissions could become a significant financial burden. However, we do not expect customers to change their behaviour and foresee them absorbing some of the financial cost of polluting. The best-in-class operators could accelerate their leadership position, through efficiency and cost advantages, and have the opportunity to lead the industry transition to a more sustainable model longer term.
- **Tobacco:** The risks for manufacturers are very material and significantly outweigh any potential opportunities. The industry generates net negative outcomes for society, resulting in an increasingly tough regulatory environment, making them non-investable under our framework.

Engagement

As a long-term investor, we seek to regularly engage with the management teams of portfolio companies in order to understand how they are using their capital and conducting their business. This approach fosters long-term relationships with company management teams, some of which have lasted for more than a decade. This ongoing dialogue enables frank discussion of issues that could

affect long-term returns. We also take action on matters through voting. Please refer to our [Shareholder Engagement Policy](#) for more details.

Roles and Responsibilities

The Chief Investment Officer (CIO) of AKO is responsible for the implementation of the ESG policy and for updating the policy to ensure its continued relevance. The CIO and Head of ESG oversee and review any other related corporate governance or responsible investment matters that arise. The rest of the investment team, including Portfolio Managers, Investment Analysts, the ESG Team, the Head of Research Process, as well as the Operations Team, are responsible for the day-to-day implementation of the ESG process.

Commitments

Net Zero

At AKO Capital, we consider carbon emissions to be a potential long-term financial risk for many companies and therefore encourage our portfolio companies to align themselves with the goal of limiting the global increase in temperature to 1.5°C by 2050 as proposed by the Paris Agreement. By 2030, we aspire to invest a significant proportion of our capital in companies with Net Zero commitments or targets, preferably verified by the SBTi. We continue to engage on transparent climate impact reporting, progress along the carbon emissions reduction pathways of our portfolio, and risks and opportunities associated with decarbonisation. In recognition of the fact that a substantial part of decarbonisation post 2030 depends on technologies that are not yet fully developed, scalable or economically viable, we will reassess our Net Zero strategy on an ongoing basis. As of 30 November 2022, 76% of AKO Capital's investment portfolio is invested in companies with Net Zero targets or commitments as defined by the SBTi with a further 5% invested in companies with unverified net zero targets.

UNPRI

AKO Capital has been a signatory of the United Nations-supported Principles for Responsible Investment ([UNPRI](#)) since 2018. The Principles aspire to incorporate ESG issues into investors' analysis and decision-making processes; seek appropriate disclosure on ESG matters from the companies in which we invest; and promote active ownership that incorporates ESG issues into policies and practices. They aspire to promote implementation of the Principles across the investment industry and report on the progress.

B Corp

AKO Capital became a Certified B Corporation™ in January 2021. B Corps™ are for-profit companies that use the power of business to build a more inclusive and sustainable economy. It requires a company to balance its pursuit of profit with a deeper social purpose, as validated by a rigorous, independent assessment of the company's impact on its workers, customers, community, and the environment every three years. Please see AKO's [B Impact Assessment](#) and our latest [Impact Report](#).

Conflicts of interest

AKO Capital's goal is to act in the best interests of our investors at all times, and so we have a clear policy to identify and manage any actual or potential conflicts of interest that may preclude us from achieving our goal. A detailed copy of our Conflicts of Interest policy is available upon request to clients. As a general rule AKO capital does not allow personal account trading, any outside business interest, inducements or political contributions that may give rise to an actual or potential conflict of interest with respect to us acting in our investors' best interests.

Inside information

It is AKO policy that no person should agree to become an insider in relation to the securities of any company. Also, it is AKO policy not to receive market soundings or to be “wall crossed”. Our compliance training and written procedures require all AKO personnel to act in a way that seeks to ensure we are not put in the position of being insiders.