



Stewart Investors

St Andrews Partners

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Stewardship in Emerging Market Companies

At Stewart Investors we aim to invest in quality companies trading at reasonable valuations. We believe that good stewardship is a key characteristic of a quality company.

What do we mean by good stewardship?

We believe there are a number of aspects of good company stewardship.

Quality management

We like management who demonstrate integrity. Dishonest owners and managers can destroy the wealth of minority investors far more quickly than generally appreciated. We expect management to show evidence of pursuing innovation in running their companies. Management should stick to what they do well and be adaptable to changing circumstances. We like management who restlessly seek improvement.

No government links

We do not think that governments make good stewards of shareholders' capital. State-controlled companies in particular often have conflicting agendas, such as maintaining employment levels regardless of the impact on shareholders. The interests of management should be aligned with minority shareholders.

Positive crisis response

We view the openness and effectiveness of a company's response to unforeseen problems as an especially good indicator of the underlying corporate culture. We often find that owners and managers who are sufficiently humble to acknowledge their errors, and are able to learn lessons from them, are less likely to repeat them.

Controlling families

We like companies where we are aligned with controlling families who are able to take a long-term view and develop succession planning to provide continuity of stewardship

Management independence

Top management who exhibit independence from each other help ensure that strategy and views are challenged. Diversity on the board is also important. Different backgrounds in terms

of class, ethnicity, gender and experience provide diversity of opinion and reduce the risk of a 'herd mentality'.

Sustainable growth & dividends

Steady sustainable growth is preferred to 'vaulting ambition', especially when expanding into new businesses or geographies. We are wary of companies that deliver growth principally by buying other businesses.

Payment of dividends and dividend growth indicates a culture where management are focused on shareholders, rather than chasing expansion to meet short-term remuneration targets.

Risk aware

Awareness of risk is a key component of good stewardship. For instance, recognition that low interest rates and relatively subdued currency volatility may be a temporary phenomenon, is of paramount importance. This applies especially in an age of proliferating, and rapidly evolving, disruptive processes and technology.

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of good stewardship.'**

Consider all stakeholders

We believe that owners and managers who consider the interest of all stakeholders: customers, workforce, suppliers and society at large – as well as those of shareholders – are best positioned to serve the long-term interests of the latter. A focus on Environmental, Social and Governance (ESG) issues is a crucial aspect of good stewardship and reduces risk.

Company Examples

Some examples of emerging market companies which exhibit these traits and are among the largest positions in our portfolios.

Uni-President Enterprises (Taiwan: Consumer Staples)

Uni-President Enterprises is a Taiwanese conglomerate established in 1967 as a textile business which switched into food production when the government deregulated soft commodity industries. The company launched its first instant noodle product in 1971 and subsequently became the leading food company in Taiwan, expanding into beverages, foodstocks, seasoning, edible oils and bakery products. It is now primarily focused on F&B (noodles and drinks) and retail (7-Eleven), operating in Mainland China and Taiwan.

Uni-President is seeking to build long-term brands in China. Management recognise mistakes have been made in this market in the past. We take a positive view of this recognition. For example, the introduction of sugar free drinks a few years ago was unsuccessful as the Chinese market was at a different stage of development. However, the direction of travel remains positive in this market as the company continues to develop healthier products.

The group is carefully stewarded by the Lo family who have repeatedly shown themselves to be capable, as exhibited by an increasing focus on the provision of healthier products. The company has reduced the sodium content of its instant noodles and cut the use of sugar in the dairy and beverage division. Although 7/11 stores still sell considerable amounts of

convenience food, the company has significantly increased the volume of fresh fruit and vegetables over the last decade.

Tata Consultancy Services (India: Information Technology)

Tata Consultancy Services (TCS) is an Indian outsourcing business which operates globally. The company has an outstanding business and culture, and is highly profitable with a strong balance sheet. A considerable amount of thought goes into balancing the portfolio of a stable outsourcing business with higher value but more discretionary work. We feel comfortable that the business is well-positioned to improve efficiencies globally.

TCS see themselves as execution-led engineers, rather than consulting-focused. This is a company culture which elevates the engineer over both the salesperson and the consultant.

The company believes delegation is the best means to manage the risks of scale as centralisation often leads to ballooning bureaucracies. TCS promote efficiency and empowerment, allowing top management to focus on the people in the business and overall company strategy.

We believe there are numerous examples of how the quality of the franchise is being protected for the long-term: employees rotate between clients to ensure they remain focused on TCS values; management hire internally wherever possible, which is a large motivator; a focus on smaller contracts reflects the importance of securing business one service at a time and building trust with clients; employees can spend five hours (out of 45 in total) a week on personal projects which boosts morale.

Remgro (South Africa: Industrials)

Remgro is a South African holding company with interests in banking, consumer, healthcare, industrials, infrastructure and insurance. Founded over seven decades ago, the company is still run today by the Rupert family from their headquarters in Stellenbosch. Remgro's track record speaks for itself. The company has generated good returns for shareholders without taking excessive risk, reflecting a long-term mindset and an ability to balance management oversight with the empowerment of management teams.

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Contact details

Edinburgh

Stewart Investors

23 St Andrew Square
Edinburgh EH2 1BB
United Kingdom
e. info@stewartinvestors.com
t. +44 (0) 131 473 2900
stewartinvestors.com

London

Stewart Investors

Finsbury Circus House
15 Finsbury Circus
London EC2M 7EB
United Kingdom
e. info@stewartinvestors.com
t. +44 (0) 207 332 6500
stewartinvestors.com

Singapore

Stewart Investors

58 Duxton Road
2nd & 3rd Floor
Singapore 089522
e. info@stewartinvestors.com
t. +65 680 59670
stewartinvestors.com

Sydney

Stewart Investors

Suite 10, Level 3
13 Hickson Road
Dawes Point
Sydney NSW 2000
e. info@stewartinvestors.com
t. +61 2 8274 8000
stewartinvestors.com