Stewart Investors Wholesale Worldwide Leaders Sustainability Fund

Top 10 portfolio holdings as at September 2020

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Stewart Investors
Sustainable Funds Group

1. Hoya

Country: Japan

Business: Manufacturer of lenses for glasses, contact lenses and technical equipment

Founded in 1941 in Tokyo, Hoya is a leading global med-tech company, manufacturing lenses for eyeglasses, contact lenses, medical devices as well as key components for semiconductor devices and other electronic equipment. The current CEO is the third generation of the founding family, who continue to own a small proportion of the company today. The business strategy has been to focus on niche industries where they can be a dominant player and use the cash flows from the mature IT business to invest further in life care. Hoya have fostered a strong and unique culture, with the majority of employees coming from overseas. The business generates strong cash flows, is net cash and benefits from long-term structural growth from an aging population and better access to healthcare in emerging markets. Risks relate to management succession, cyclicality of the semiconductor and IT business, and increasing competition.

2. Unicharm

Country: Japan

Business: Personal care items for everyone from babies through to the elderly, including diapers, incontinence pads and feminine personal care products

A high quality Japanese company renowned for product innovation, Unicharm continues to develop its product offering and expand into new categories that promote hygienic lifestyles and well-being. It has developed the first technology for extracting high grade recyclable pulp from used disposable diapers and is working hard on a sanitation product recycling system in Japan. The company has grown earnings, strengthened its financial position and gained market share domestically and by expanding into a number of Asian countries, particularly Indonesia and China. Despite being capital-intensive, over the past 20 years it has nearly always had a net cash balance sheet and consistently paid a dividend. It is a family-owned and managed company, with family members owning roughly 30% of the company's shares. Risks include extreme currency fluctuations, which can affect raw material costs and the value of non-Japanese yen revenues, potential disruptions to the company's significant wood pulp supply chain and potential environmental liabilities relating to end-of-life product incineration and landfill.

3. Tata Consultancy Services (TCS)

Country: India

Business: IT services, consulting, outsourcing and other business solutions

TCS has evolved, prospered and established itself as a leading Asian and global IT and business consulting franchise. It is the jewel in the Tata Group crown, and the Tata code of ethics instils a strong sense of commitment to sustainability, community and the ethos of the group. A culture of long-term thinking has enabled the management of TCS to develop a highly devolved business model to manage growth, cope with scale, and ensure the highest possible level of employee engagement. The company is well positioned to benefit from and contribute to innovation and informational, operational and resource efficiencies created by the digital economy. TCS has become integral to the functioning of many US and European corporations and earns most of its revenues in hard currencies. Risks include slower revenue and margin growth if corporate IT budgets and projects are scaled back or delayed in a global economic downturn.

4. Fortinet

Country: United States

Business: One of the largest global providers of network cybersecurity hardware and software

Fortinet is a US listed cybersecurity company that develops and markets hardware and software services, such as firewalls, anti-virus, intrusion prevention and endpoint security. It was founded in 2000 by two entrepreneurial brothers Ken and Michael Xie, who have over 30 years' of experience in the industry and still own roughly 14% of the company. The brothers continue to provide long-term, competent stewardship and remain actively involved in the business. Listed in 2009, Fortinet has grown at an average of 24% per annum and is the second largest cybersecurity company by revenues. The company is set to benefit from continued structural growth tailwinds, including the rollout of 5G broadband, increasingly distributed enterprises and greater volumes of data and transactions. Their focus on network security combined with consistently high investments in research and development, helps them maintain a technological advantage. The business has robust cash generation, the balance sheet has zero debt and more than half of their assets are cash or equivalents. Risks relate to potential data/security breaches, competition and technological disruption.

5. Nestlé

Country: Switzerland

Business: The world's largest food and beverage company

Nestlé is a 150 year old global leader in food and beverages, with a vast product portfolio and leading brands in many product categories. The company takes a very long-term approach with a culture based on innovation, decentralisation and exemplary performance. Nestlé prides itself on its research and development driven solutions including in packaging. The company continues to evolve its portfolio towards better consumer health and sustainable agriculture with its sourcing policies. This was most recently evidenced by its decision to sell a significant part of its ice creams and the Herta cold cuts businesses and the acquisitions in personal nutrition and wellness. Its ambition to improve 30 million livelihoods in communities connected to its business by 2030 is particularly laudable. Risks include sustainability headwinds in bottled water, nutrional value of foods, plastic packaging, responsible marketing and responsible sourcing.

6. Mahindra & Mahindra

Country: India

Business: One of India's most respected and successful industrial groups

Mahindra & Mahindra is the family conglomerate of the Mahindras, one of India's most respected and successful industrial groups. The heart of the group is the country's dominant tractor franchise. There are few companies better placed to contribute to and benefit from India's sustainable development than this, since rural productivity will hinge on greater farm mechanisation. When investing in such family conglomerates, we are backing a well-regarded steward to allocate capital successfully in nurturing new businesses using existing cash flows. As such, the group is utilising its scale, reputation and capital to cultivate a range of businesses ranging from clean energy to IT outsourcing and social housing development to inclusive financial services. The group's palpable sense of purpose and stellar track record give us a lot of comfort on the group's quality and we can easily imagine Mahindra evolving into a much more diversified conglomerate in ten years' time. Risks relate to the relatively discretionary nature of their vehicle business as well as the cyclicality of their lending arm.

7. Costco

Country: United States

Business: An international chain of membership warehouses, under the "Costco Wholesale" name

Costco is an international chain of membership warehouses, under the "Costco Wholesale" name, that carry quality brand merchandise at substantially lower prices than are typically found at conventional wholesale or retail sources. The warehouses are designed to help small-to-medium-sized businesses reduce costs in purchasing for resale and for everyday business use. Individuals may also purchase for their personal needs. Costco's focus on quality of merchandise through limited necessary SKUs (stock keeping units) drives responsible consumption and helps the company better control and influence the quality of its supply chains. Costco has always placed its employee's well-being at the centre of its culture. Unlike many peers, Costco staff are paid well above the market benefitting from increased loyalty and better productivity in the long-term. Costco continues to generate steady growth through rising market share, international expansion and e-commerce channels. Risks include irrational competition and putting profits ahead of customers and employees.

8. Coloplast

Country: Denmark

Business: Global leader in ostomy, continence, urology and wound care products

Coloplast is a global leader in ostomy, continence, urology and wound care products which aim to make life easier for people with deeply personal and private medical conditions. The business benefits from long-term stewardship from the founding family; the son of the founder remains on the Board and the family own over a third of the company. It operates in a niche medical segment, has an excellent reputation for high quality products and has built up long-term brand loyalty from both patients and physicians. They continue to expand their product range and are targeting further growth from increasing market share in the US as well as emerging markets, including China. The business generates strong cash flows and high returns and is well placed to benefit from structural healthcare trends. Risks include changes to healthcare reimbursement regimes, product failures and increasing competition.

9. ANSYS

Country: United States

Business: Multi-physics engineering simulation and optimisation software

Ansys is a global leader in engineering simulation and software and has a large customer base spanning diverse industries, and a track record of conservative and responsible stewardship. Ansys software enables researchers and engineers to simulate and predict how new product designs will perform and behave in real world environments. By facilitating a shift from hardware to software-based design, innovation and testing, the company is helping improve efficiency, reduce innovation costs and time, and improve safety and reliability. It is contributing to a shift towards a more circular economy by enabling product developers to minimise wastage and optimise product design, performance and the use of materials. Ansys is three times the size of its nearest competitor in sales and three-quarters of its business is repeatable. It is debt-free and spends more than 15% of revenue on research and development. Risks include a scaling back of IT spending in an economic downturn and the possibility that technological breakthroughs render Ansys' competitive advantage obsolete.

10. CSL

Country: Australia

Business: Blood plasma biotherapies for treating haemophilia and immune deficiencies, vaccines, anti-venom serums

A high quality global franchise that rose to prominence almost 100 years ago when it developed an influenza vaccine during the Spanish Flu pandemic. CSL has a dominant market position in blood plasma derivatives, for which there are no alternatives. It operates one of the world's largest plasma collection networks and is the chosen national plasma fractionator in several Asian countries. It is also one of the largest global providers of influenza vaccines. It is well placed to capitalise on growth opportunities created by the growing demand for vaccines and plasma-derived products in emerging markets where access to treatment is improving. CSL is a highly cash generative company with a reputation for consistently paying impressive dividends to shareholders. Management is strong, stable and focused on the safety and security of all CSL products. Risks relate to changing government regulations, healthcare reforms, collection processes and product safety.

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