Stewart Investors
Worldwide Sustainability Fund Class A

Stewart Investors
Sustainable Funds Group

Top 10 portfolio holdings as at March 2020

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See www.responsibleinvestment.org for details.

1. Unilever

Country: United Kingdom and Holland

Business: Over 400 food and refreshment, household and personal care consumer brands

A world leading consumer goods business with more than 140 years' experience building brands and an impressive footprint in emerging markets. The comprehensive and ambitious Unilever Sustainable Living Plan links top and bottom line growth with embedded goals for improving the health and wellbeing of more than one billion people; reducing the company's environmental impact by half; and enhancing livelihoods for millions through partnerships with smallholder farmers and suppliers of raw materials, employees and communities. It includes initiatives such as a vast hand washing and hygiene education programme linked to the company's soap business, sizing and packaging products more efficiently, and training vendors in emerging markets in book keeping skills. The combination of iconic, purpose-led brands (12 brands have sales of > €1 billion a year) and essential everyday products gives Unilever pricing power and the capacity to generate consistent cash flows. Risks include excessive leverage, balance sheet deterioration, and an overreliance on share buybacks to generate shareholder returns.

2. Ain Holdings

Country: Japan

Business: Japanese franchisor of pharmacies and operator of drugstores

Ain Holdings operates exclusively in Japan as a franchisor of pharmacies, dispensing prescription and generic drugs, as well as being an operator of drugstores selling consumer health and food products. It is well positioned to meet the growing demand for medicines in a country with a rapidly ageing population and its mission is aligned with the Japanese government's goal of improving access to more affordable generic drugs. It is a well-stewarded, owner-managed franchise with a clear sense of purpose and has proven it can navigate the tough government-controlled pharmaceutical pricing and reimbursement regime. Its share of the highly fragmented and competitive dispensing market is small, but it has the potential to be a leading consolidator and beneficiary of consolidation because it is well capitalised and has a net cash balance sheet. Revenues ought to be relatively defensive as they are derived largely from non-discretionary spending by consumers. Risks include sudden or far-reaching changes in the pricing and competitive environment.

3. Hoya

Country: Japan

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

Founded in 1941 in Tokyo, Hoya is the second largest lens company behind EssilorLuxottica, 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 diverse culture, with the majority of employees coming from overseas and many subdivisions being run by women. 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.

4. Novo Nordisk

Country: Denmark

Business: Biological medicines for treating diabetes, haemophilia, growth disorders and obesity

A high quality, innovative company with an ethical and collaborative culture. Novo Nordisk brought insulin to the world and established the World Diabetes Foundation. The company maintains a significant share of the global insulin market and its products help save and improve the lives of millions of diabetics in more than 180 countries. Pricing flexibility and cost-efficient production are enabling Novo Nordisk to build a growing emerging markets franchise. The company has a solid net cash balance sheet and has consistently invested heavily in R&D and innovation. Voting control resides with the Novo Nordisk Foundation, which has scientific and humanitarian objectives and is obligated to hold and provide permanent capital to underpin the company's commercial and research activities. Risks include a reliance on diabetes drugs amid increasing competition and regulatory and pricing pressure – particularly in the US, where the company still generates half of its revenue.

5. 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.

6. Chr. Hansen

Country: Denmark

Business: A global bioscience company that develops microbes, enzymes, probiotics and natural colours

Chr. Hansen is a leading manufacturer of natural ingredients for the food, nutritional, pharmaceutical and agricultural industries. Its cultures and enzymes are used in the dairy industry predominantly, but are also used to improve the yield, taste, nutritional value and shelf life of a wide range of foods. They also offer probiotics for dietary supplements, infant formula, animal feed as well as microbes to naturally improve plant and soil health. 82% of Chr. Hansen's revenues contribute directly to the UN Sustainable Development Goals and the company is very well positioned to benefit from increasing trends towards natural food and healthy lifestyles. Founded by Christian Hansen in 1874, the company has been through a number of ownership structures, including being owned by the Lundbeck Foundation followed by a stint under private equity ownership. Chr. Hansen is now majority owned by the Novo Nordisk Foundation, which provides stable and long-term stewardship. Risks relate to increasing competition and slowing dairy sales, particularly in China.

7. ANSYS

Country: USA

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 R&D. Risks include a scaling back of IT spending in an economic downturn and the possibility that technological breakthroughs render Ansys' competitive advantage obsolete.

8. 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 R&D, 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.

9. Zebra Technologies

Country: USA

Business: Radio-frequency identification (RFID) and barcode scanners, printers, mobile computing, data capture and analytics

Zebra produce hardware and software which helps to connect businesses, their people, goods and assets to each other via thermal barcode printers, scanners, RFID, and networked smart devices. The company has high market shares in barcode printing (40%), enterprise mobile computing (45%) and data capture (30%) and is well placed to benefit from trends in automation, healthcare, online retailing, IoT, big data, increased tracking of goods and workflow management. The business acquired Motorola Solutions in 2017 which pushed Zebra into a leadership position in the Automatic Identification and Data Capture (ADIC) industry and is increasingly moving into the data, tracking and analytics realm. The business has proven itself capable of reinventing itself over five decades and is investing heavily in R&D to remain technological leaders. Risks relate to cyclicality of end markets, increasing competition, product obsolescence and trade tensions.

10. Jack Henry & Associates

Country: USA

Business: A technology solutions and payment processing services for financial services

Jack Henry is a provider of core banking software, cyber security and IT outsourcing for roughly half of the credit unions in the US and is the leading provider to mid-sized US banks. It is a high-quality company with a stable management team, humble culture, loyal customers and a strong industry reputation. The business has an impressive track record of compounding returns through credit cycles and banking crises, which is a function of being an asset light business with high barriers to entry. It is cash generative and maintains highly recurring sales, equivalent to roughly 80% of revenues. It is likely to be a beneficiary of increased e-banking/e-payments and outsourcing by customers who are increasingly feeling the pressure to enhance their efficiency as well as meeting their increasing regulatory demands. Risks relate to fin-tech disruption, consolidation in the banking industry and vulnerability to systemic risks.

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