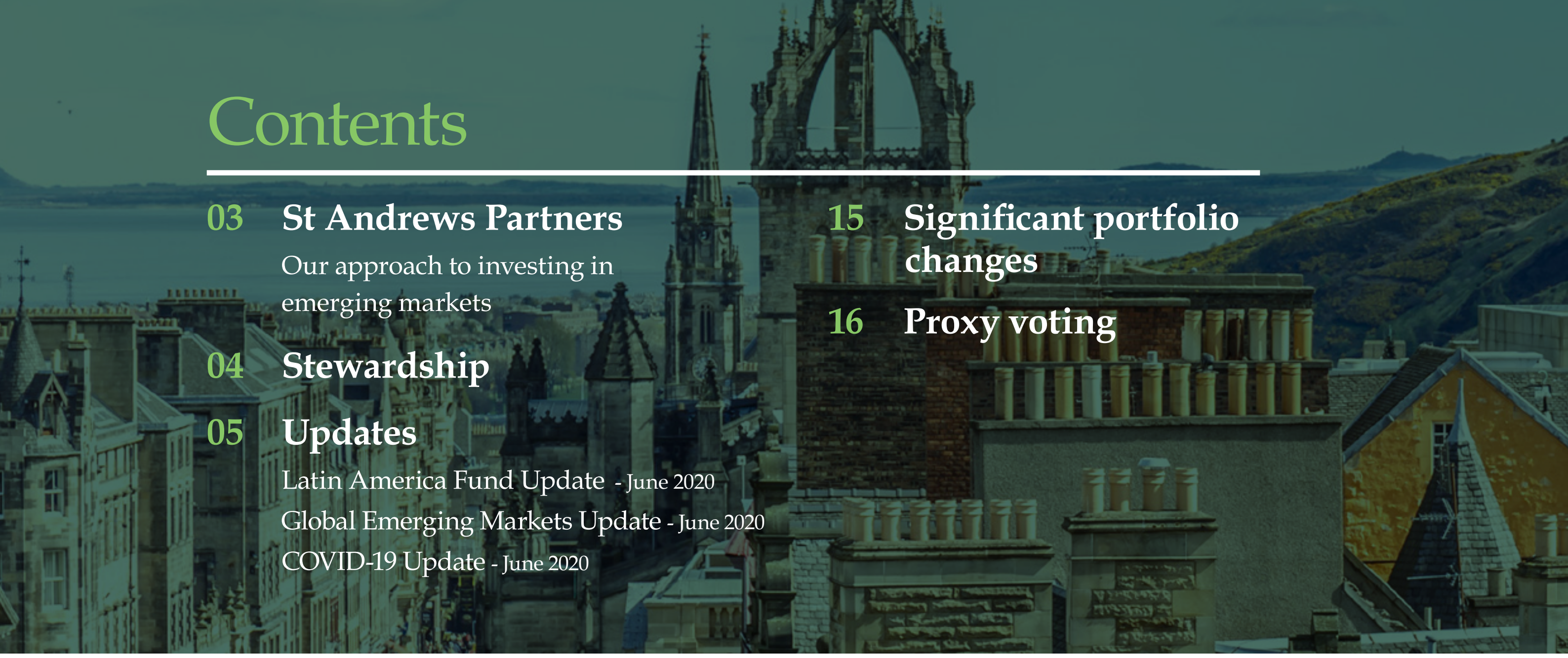
For institutional clients only

Stewart Investors St Andrews Partners

Quarterly Client Update

Q2

1 April - 30 June 2020 | Stewart Investors Wholesale Global Emerging Markets Fund



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Our investment team

Alex Summers
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Dominic St George
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Joanna Terrett
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Tom Prew

Our approach to investing in emerging markets

We are prisoners of recent history which often has very dangerous consequences both for companies and for investment managers. As stewards of capital we should extend our historical perspective as far as we can to prevent us from becoming too enthusiastic or depressed.

Our investment philosophy that the team has followed since 1988 has not changed.

- Risk to us is losing our clients' money not underperforming a benchmark.
- Our focus is simply on owning the best companies we can find for clients, where we believe a business is governed effectively and in the interests of all stakeholders and where valuations are acceptable.
- The emerging market indices have never been our starting point for portfolio construction. By their very nature, indexes are collections of big companies and popular companies, not necessarily of what we believe are high quality companies.
- Not owning good companies just because they are not in the index not only goes against our investment philosophy but also condemns our clients to owning a subset of potentially lower quality companies.
- The world is increasingly globalised. Flows of goods, capital and clever people have benefited Global Emerging Markets (GEM) hugely but this also means an increasing number of companies make money in GEM but are listed elsewhere. We have always been happy owning companies listed outside GEM and the index if they make the majority of their money in GEM and if we think they are good investments for our clients. Globalisation means there are more of these companies than ever; some of them are for a variety of reasons higher quality companies than GEM-listed alternatives.

Over the last five years, our GEM universe has expanded. Many more companies make more than 50% of their revenues in GEM markets than a decade ago. Globalisation blurred the distinction between global and emerging markets many years ago and is in the process of destroying it.

The companies that we invest client funds in do not divide their activities according to MSCI index categories and nor should we as long-term investors. We know we cannot predict economic futures but we can try not to be on the wrong side of stock market history.

As many of our clients are aware, team members are compelled to invest their own money in the same funds that we run for clients – in addition to following our investment philosophy we are making decisions with regards to our own money.

'Stewardship' is central to our philosophy – the idea that we treat client money as our own and therefore see risk as losing money over the longer term rather than underperforming a benchmark in the short or medium-term. This absolute return mindset allows us to spend our time finding the highest quality companies to invest in, rather than tracking an index.

We obsess about the people who own and manage the companies we invest in. Backing the wrong people is a far quicker and certainly more permanent way of losing money than paying the wrong price (although we don't like paying too much either).

We spend a huge amount of time looking at a company's treatment of employees, the environment, and suppliers. We do this not only because strikes, environmental shut-downs and bankrupt supply-chains hurt profits, but also because a company mistreating one stakeholder is likely another day to mistreat others – and eventually us as minority shareholders.

For us ESG is not a screen added to an investment process, it has always been a core part of our philosophy.

Finally, we see ourselves as owning stakes in companies on behalf of our clients, not as traders watching tickers flash red and green on computer screens. This means we take our voting responsibilities seriously and enjoy meeting and engaging with company management. We feel privileged to have these meetings and use them to improve our understanding of motivations and values as opposed to second-guessing earnings per share for the next quarter. We don't build detailed financial models for any of our investments – we worry that it promotes numerical perfection above qualitative analysis, and it is the latter that we believe reduces the risk of costly mistakes.

Stewart Investors Latin America Fund Update

June 2020

The strategy

Our decision to launch a Latin America strategy in mid-2009 was the result of increased interest in the region following a commodity-driven boom, attractive valuations after the Global Financial Crisis, an increase in the number of high-quality listed-companies and general optimism about the direction of travel. We also believed strongly that our philosophy and approach, that had been tested in emerging markets more generally, would transfer well to a regional strategy. Our aim was – and still is – to invest in the highest quality companies across the region for the long-term.

As of 1 July 2020 we opened the strategy which has been closed to new investment since January 2012.

Performance

Since launch in 2009 (to 30 June 2020) the strategy has returned 106.7% (AUD gross of fees) compared to negative 0.1% for the MSCI EM Latin America Index.*

This is a period which started near the trough of Latin American and global markets but includes two severe market falls for the region – the first related to the Brasilian corruption scandals of 2014/15[1] and the second the current coronavirus crisis. There have been other wobbles too, of course.

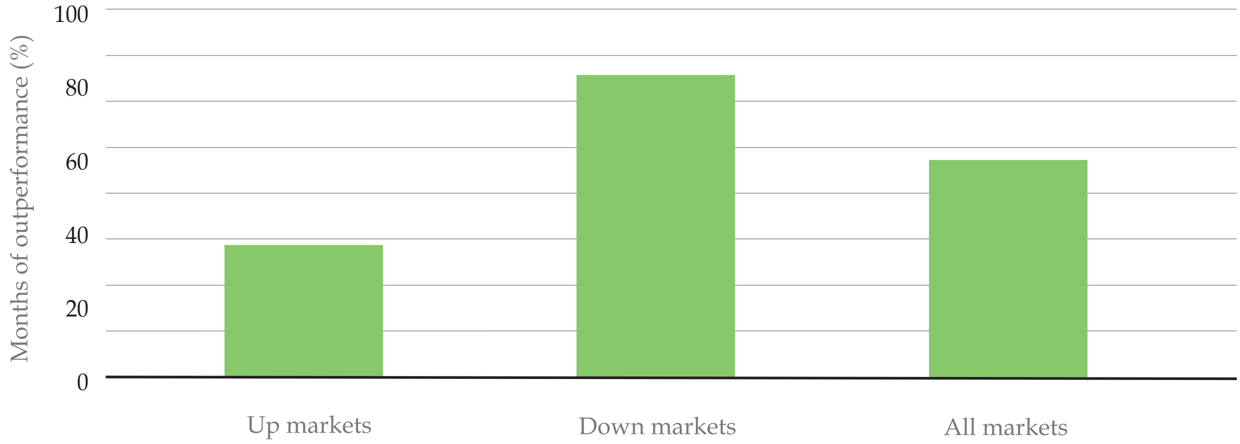
Regardless of strong relative outperformance, we recognise that different investors will have different views as to whether an annualised return of 6.8% since launch compensates for the volatility of investing in equities in the region. Our own view is that this level of annualised return is probably adequate, but is by no means stellar.

We note that unlike the US, the EU and to an extent the People's Republic of China, governments and central bankers in Latin America are either unable (e.g. Brasil and Mexico) or unwilling (e.g. Chile) to 'guarantee' the returns of stock market investors through significant market intervention. This does not mean that Latin American markets have not benefitted from the low interest rates in the developed world, but it does explain why it is an area of the world where valuations remain attached to company fundamentals and the health of national balance sheets, rather than behaving as a derivative of successive rounds of quantitative easing.

The strategy has had a challenging twelve months in absolute terms. Despite outperforming the benchmark, returns are negative 25.4% compared to negative 30.9% for the benchmark. Over the past five years, the strategy has returned 17.5% while the benchmark has returned negative 3.6%.

For us, risk is defined as the loss of clients' money and not deviation from a benchmark. This view means that we begin with a blank sheet of paper – the active share of the portfolio is currently 93.9%. This view of risk has led to a longer term record for the strategy (and for our wider emerging markets strategies) of lagging in the most exuberant markets, but holding on to a greater amount of client capital when the tide inevitably turns.

Stewart Investors Latin America Composite: (Since inception - AUD - gross of fees)



Long-term cumulative performance As at 30 June 2020	Since launch	10 years	5 years	3 years	1 year	6 months	3 months
Stewart Investors Latin America Composite	106.7	55.9	17.5	-6.1	-25.4	-25.1	1.3
MSCI EM Latin America Index	-0.1	-14.2	-3.6	-10.1	-30.9	-33.8	6.0

Long-term annualised performance As at 30 June 2020	Since launch	10 years	5 years	3 years
Stewart Investors Latin America Composite	6.8	4.5	3.3	-2.1
MSCI EM Latin America Index	0.0	-1.5	-0.7	-3.5

* Past performance is not a reliable indicator of future results. Investments in funds that make up the Composite may produce different performance returns to the Composite returns.
Source for composite: Stewart Investors. Data is shown in AUD and is gross of fees for the Stewart Investors Latin America Composite. Performance figures do not reflect the deduction of investment fees and expenses. A client's return will be reduced by the effect of investment fees and expenses. If a client placed AUD100,000 under management and a hypothetical gross return of 10% was achieved, the investment assets before fees would have grown to AUD259,374 in 10 years. However, if an advisory fee of 1% were charged, investment assets would have grown to AUD234,573, or an annual compounded rate of 8.9%. This information is provided for illustrative purposes to demonstrate Stewart Investors' activity within the strategies for the period shown. It is not a recommendation or solicitation to purchase or invest in any fund. Differences between fund or client-specific constraints and those of a similarly managed mandate would affect results. Source for benchmark: FactSet. Outperformance shown versus the MSCI EM Latin America Index. Index returns are shown on a total return basis and gross of tax. Since inception relates to launch of the composite on 1 June 2009. Active share is a measure of the percentage difference between the portfolio holdings and index constituents.

Philosophy

Our investment philosophy at Stewart Investors has not changed in thirty years. We aim to invest client money in high-quality, well stewarded, resilient businesses with the aim of preserving capital.

This approach requires us to stick firmly to principles that have guided us over time and to do so in a world of increasing complexity and risk. Applying them is not black or white and is a matter of both judgement and constant revision, but ultimately leaves us with a small subset of companies with whom we feel we can invest client money for the long-term. These principles result in us asking:

1. **Who** – are we giving our clients' money to (company managers and owners)?
2. **What** – is the franchise good enough to make acceptable returns for managers and owners in the long-term?
3. **How** – does the behaviour/history/culture of the companies and those who work for them support the case for the first two?

As we have seen across this region numerous times in the past, when things are going well most companies look great and everything is considered high quality. We understand there is no such thing as a perfect company and are intensely concerned about what happens when things go wrong. We do not pretend that we can predict economic or political turning points with precision, so instead we seek to identify and back high quality stewards that have a conservative attitude to risk, are honest and run their business with integrity.

We have always found issues presently labelled as ESG (Environmental, Social & Governance) to be integral to understanding how a company and its management behave. An environmental weakness, or a labour issue, is not only a risk to the financial value of the business, in nearly all cases it is a sign that corners are being cut, and that when put under stress, the interests of controlling shareholders will be put above the rights of minority investors. Because we are genuinely bottom-up investors and do not need to own a company just because it is in a benchmark, we are able to ignore corporate 'greenwash'[2].

If we do not believe a company is as ethical as it claims, we will not own it for clients. A company with a franchise based on the bribery of government officials is more than capable of filling in the forms required to gain admittance to many sustainability indices. Measuring environmental and sometimes social impact has come a long way in the past ten years; measuring 'integrity' (i.e. what the 'G' of ESG should truly mean) is just as challenging today as ever. We do not and shall not own businesses whose major source of income is tobacco, arms/defence or gambling. This has been the case since strategy inception.

Investing in Latin America

The underlying volatility of Latin American markets convinces us that our principles are as important here as anywhere in the world. In the last twenty or thirty years, Latin America has, in many ways, developed beyond recognition. Military rule was commonplace not that long ago and it was only twenty years ago that many companies of any size were government owned and managed. We have now seen a great number of by-and-large free and fair elections, a number of female Presidents and many important reforms implemented. We have also seen those in positions of power, be it in government or business, being prosecuted and put behind bars. This was almost unimaginable at the start of the 21st century. Interests rates have generally come down (with the exception of Argentina), income levels have increased and on the whole, the rule of law, as it pertains to foreign investors, is healthier than it was in, say, 2000.

However, it is also clear that the region is not without challenges. There is an ongoing and rarely publicised humanitarian crisis in Venezuela. Argentina is in yet more restructuring talks with the International Monetary Fund. Organised crime and drug trafficking scars Mexico and much of Central America. There have been numerous, large corruption scandals across the region, not least the 'Lava Jato' in Brasil, which extended over borders and led to the fall of the government[3]. There was the Zika virus outbreak and now we have the global pandemic of COVID-19. There have been several incidents of social unrest, most recently and perhaps most surprisingly in Chile.

The 'market' always puts far too much emphasis on what any new leader can achieve and inevitably the results rarely match expectations, hence optimism turns to disappointment, with resultant booms and busts. It is common to see bouts of euphoria and despair with little in between. The commodity-led nature of the region exaggerates economic cycles and currencies have historically been volatile. When this strategy launched in April 2009 the Brasil Real was at 2.18 versus the US dollar. It briefly strengthened to 1.53 in July 2011 but on May 13, this year touched 5.92[4].

This volatility and uncertainty makes investing in the highest quality companies so important. We do not ignore the political or the economic environment but consider it from the point of view of how it impacts the company. Finding and identifying risk-aware owners and managers who are running good businesses and are capable of navigating any and all environments is at the core of what we are trying to do. We look to invest client capital in businesses where the downside is limited and where capital preservation is paramount. Starting with a blank sheet of paper and constructing the portfolio bottom-up allows us hopefully to avoid certain pitfalls along the way. We can recall a local portfolio manager in São Paulo recoiling in disbelief that we held a zero position in Petrobras, a company so large in the index at the time that taking such an active position was seen as career risk. For us, losing client capital irretrievably is a far more significant career risk.

The portfolio

Looking at the portfolio today there are many companies we have owned on behalf of clients for years and in several cases since inception. This includes companies like **Compania Cervecerias Unidas** (CCU), a Chilean diversified beverages company. It is the largest brewer in the country and one of the leaders in soft drinks, mineral water and Pisco, with a number of dominant brands and a presence across the Andean region. CCU is a 50/50 joint venture between Heineken and the Luksic family, both of whom we hold in very high regard. We also invest alongside the Luksic family in various other companies and have done so for years. Despite a tough competitive environment, the company has continued to grow and pay out a healthy dividend. As one of their executives said to us years ago: 'we don't believe in optimising the balance sheet[5].' We like this statement because we think what he was really saying was that he was a long-term steward of shareholders' money.

WEG is another company we have owned and long admired since the launch of the strategy. This is a Brasilian company that was once a vertically integrated electric motors business but has expanded into renewables and slowly the digital world. It is also one of the few businesses from Brasil to become truly global and world leading. It is family-owned and in our opinion one of the best companies in the emerging markets universe. It has a long-term track record, a history of slow and conservative evolution and takes sustainability very seriously. The company has a strong balance sheet and we expect it should continue to deliver decent and predictable growth over time. Valuations are pretty full, but, given the quality of the business we continue to hold a stake in the company.

Another company we have held for over five years is **Raia Drogasil**, a pharmaceutical chain that operates across Brasil. This is a company formed when two family-run businesses merged to become the dominant player in the market. We originally met one of the families a few years before they listed and continued to monitor them closely. Today they remain family-controlled, continue to dominate the market and, given the fragmented nature of their peers, have plenty of room for future growth.

More recently we initiated a position in **Falabella**, one of Chile's most prominent multi-format retailers which also owns a fully deposit-funded bank. Again it is a family-owned business with a long track record and although our timing (after the 2019 political unrest but before COVID-19) was unfortunate we still believe in the company long-term. Falabella are spending an increasing amount of resource and effort on their digital offering and although facing some challenges currently we believe the company will come through this difficult period in a strong position[6].

We have also made our fair share of mistakes. We do our best to learn all that we can from them. We recall, for instance, a Chilean telecoms business which took on foreign debt to buy the third placed telecoms business in a new market. It is challenging enough being a new entrant with low market share, but taking on foreign debt to do this should have been a warning sign and further up our priority list of things to worry about. Elsewhere, there are times when we have underestimated the competitive threats posed, or failed fully to understand the technologies embraced by some companies. We are far from perfect. A mistake we have largely avoided has been that of governance – as constant worriers we have been good at avoiding companies and stewards whose behaviour has let down their minority shareholders, whether it be the hopes and dreams of the Eike Batista empire[7], the sad story of Petrobras under the Lula and Dilma government[8], or countless other companies where the ambitions of their managers were greater than the balance sheet's ability to fund it.

One area of the market we have been spending more time analysing recently is the technology sector in the region. Although Latin America is better endowed with metals and mining companies than with computer chips and server farms, it is not devoid of technology companies. One particular Brasilian company has done incredibly well in recent years, transforming from a financially-stressed bricks & mortar company selling consumer discretionary goods, to one that has an ecommerce and digital offering to rival most of its peers. It has been a mistake not owning it in recent years but for now we continue to find the valuation challenging. The same could be said of two companies of Argentine heritage, one an operator of online marketplaces and the other a software developer. Although we do not own these companies today, we continue to monitor, review and challenge our stance.

Conclusion

As we have noted frequently in the past, a decade of ultra-loose monetary policy has inflated valuations across the globe to dangerous levels. Although the current environment has unearthed a handful of better priced opportunities, most of the higher quality companies we like in Latin America remain fairly, and sometimes, fully valued. As a result, our portfolios remain conservatively positioned with a focus set firmly on capital preservation. We believe that this will generate good long-term results.

Millar Mathieson
30 June 2020

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1 Petrobras scandal - refers to a corruption scandal (code name Lavo Jato 'Car Wash') which began in 2014 in Brasil involving the large partly state-owned oil company Petrobras and many political and business figures in the country, including Brasilian Presidents Lula and Dilma.

2 **Greenwash**: to give the false impression that a company contributes to sustainability.

3 As footnote 1.

4 Source: FactSet.

5 Source: Stewart Investors investment team.

6 Source: Stewart Investors. Data shown is for a representative Stewart Investors Latin America account. This information is provided for illustrative purposes to demonstrate Stewart Investors' activity within the strategy for the period shown. It is not a recommendation or solicitation to purchase or invest in any fund. Differences between the representative account-specific constraints, currency or fees and those of a similarly managed fund or mandate would affect results. This stock information does not constitute any offer or inducement to enter into any investment activity.

7 Eike Batista empire is the businesses of Brasilian-German entrepreneur Eike Batista who made and lost a fortune in the mining and the oil & gas industries.

8 As footnote 1.

Global Emerging Markets Update

Investing in China

June 2020

We have been investing in Asia since 1988, witnessing China's evolution through the decades. Our team has made regular trips to China to meet with company management teams over the years. COVID-19 and lockdown means we can't travel, so instead our internal company relationship team has set up 'virtual trips', which have proven to be very productive.

The Chinese market has always been difficult for us to invest in given we believe there are few companies with corporate governance of sufficient quality, and fewer still that offer compelling value. We therefore have extremely low direct exposure, although many portfolio companies have large businesses in China which have been significant drivers of growth.

Following a regular review we carried out across our portfolios and our watch list[G], we initiated a position in a company listed in a developed market which derives the majority of its value from its Chinese subsidiary.

One of the team first identified the local subsidiary in 2017 and was inspired to write a company report which is the most demanding aspect of our research process. We concluded that while too expensive it was high quality and deserved a place on our watch list.

After some debate, and a meeting with management, we concluded that the parent company was more attractive as it offered us the opportunity to own the Chinese business and get the rest of the company's global operation for free. The global business has been successful in its own right!

Identifying and researching Chinese companies in which we might invest is no different to how we consider investments in other countries. Some questions we consider:

1. Ownership

If you were to establish a business with a partner, what would you like to know about that person?

The very first thing might be whether they are trustworthy and have integrity - otherwise you may not sleep, wondering if they are misusing the company's property, or cutting corners in some way that might threaten the business itself long-term. For example, Charles Lu, the Chairman of Luckin Coffee[G], also controlled two other independent listed businesses, CAR and UCAR. In 2015, UCAR bought shares in CAR, and UCAR was the largest customer of CAR, these related party transactions created great scope for abuse of minority shareholders in both companies.

While not direct evidence of fraud at Luckin Coffee, it certainly raised questions as to Mr Lu's integrity and was an early red flag of what was to come.

Similarly, it is critical that your partner thinks of you as an equal partner with the same rights and obligations. Imagine establishing a coffee shop, suddenly realising your partner owned the brand, and you only had your name on the lease and owned a share of that store's profits. Any further stores or branding opportunities could be pursued without your benefit. This is the case at a popular Chinese restaurant chain, Haidilao, which despite appearing to be a wonderful business does not own the brand itself, a fact we find difficult to swallow.

You might also want to understand the personal financial situation of your partner. Will your venture be important to them or is there another business with which they will be more engaged? Have they borrowed money personally, which may result in them having to sell their partnership in your business or make them vulnerable to corruption?

Investing in a business is no different, but the answers to these questions can be very complex, difficult to answer and, in some instances, hidden.

We believe that an understandable ownership structure, with partners we respect who offer us equal rights, is a marker of quality. The company in which we have invested has been stewarded by a family for generations and our clients have the same ownership rights as the family. This is enhanced by our investment in the parent rather than the local subsidiary.

2. Conservative balance sheet

As long-term investors, we prefer to invest in businesses that have little or no debt. We believe that even modest borrowing, when unnecessary, does not offer compensatory return for the risk. A net cash balance sheet[G] means a company is able to weather difficult times, and allows flexibility to take advantage of opportunities during times of economic stress.

That said, we are always cautious of businesses which we believe have too much cash on the balance sheet, especially in situations where they have issued significant debt as well. Our experience has taught us debt is most often 'real', whereas cash can sometimes be an illusion. Dividends[G] have arguably fallen out of favour among investors, as theoretically a dollar retained and reinvested may be as, and possibly more, valuable than a dollar returned to shareholders. However, as Yogi Berra quipped, 'in theory there is no difference between theory and practice. In practice there is.'[G] Dividends have a unique ability to confirm that the reported cash flows[G] and earnings are real. Wirecard paid minimal dividends, and while it claimed to have €3.3 billion of cash in the bank, its debt continuously rose to €1.8 billion at September 2019[9], before the world discovered that its cash did not exist.[G]

Critical to our analysis is a discussion of the quality of sales. Accounting standards let you record a sale, even a profit, before you receive cash from your customer. In most instances this is business as usual and comparable to swiping a credit card which will be paid off at the end of the month. However, in some instances a company may show sustained sales growth over a long period of time without ever collecting payment. This may indicate a middleman is buying the inventory, but is unable to sell it on to their own customers, or simply that the company can only 'sell' it by giving it away and hoping for repayment someday. Unfortunately, for listed companies there is often an incentive to show growth, even when the company is digging itself into a hole.

Centre Testing International (CTI) is a company which we believe to be of high quality. SGS is the obvious global peer of this company given the CEO of CTI was previously employed by SGS for nearly 30 years and ran their China business. Both companies are paid by their customers with a similar delay, 78 days versus 83 days respectively. By comparison, Zoomlion, a manufacturer of construction equipment, may be comparable to Caterpillar, but Zoomlion takes 209 days to be paid, as opposed to 120 days at Caterpillar. Unfortunately, it is very often the situation in China that companies are taking far longer to be paid than we would expect of their international peers and we fear that in many cases these differences are symptomatic of fragility in the businesses themselves.[10]

Evidence of financial conservatism is a marker of quality. The company in which we have invested recently does have some debt, although it is manageable, considering current profitability and historic cyclicality. But we have been very impressed with the quality of its sales within China - many customers pay in advance which reflects well on the global operation. As China has capital controls[G], we have been particularly thoughtful analysing how, and if, cash is remitted from the Chinese subsidiary to the foreign head office. We are satisfied that this will occur.

3. Sustainable profitability

As with all companies we look at, we need to consider how the long-term profitability of the business will evolve.

As an example, we have been debating AK Medical, a Chinese manufacturer of knee implants and similar products. Its profitability is similar to American peers, but the context is very different as its only customer is the communist Chinese government. The World Health Organisation estimates that the United States spends 17% of GDP on healthcare, whereas Germany[11] spends 11%. This suggests to us that in the future AK Medical is likely to earn less than its American counterparts over the longer term. However, in the short-term, the Chinese government may wish to allow high returns and encourage development of the local industry.

Highly profitable businesses excite entrepreneurs and as competition intensifies, returns become harder and harder to achieve. A boom can be beneficial for society, as was the dot-com bubble[G], but it can be dangerous for investors. Wherever the long-term profitability of the Chinese health care industry settles, it is undoubtable that the current wave of investment will improve the quality of healthcare for 1.4 billion people in the future.

That AK Medical's business is as profitable as it is, may be a marker of quality, but the fact that it largely depends on a single customer who may reduce payment in the future suggests it is inferior to some of the consumer businesses, such as Foshan Haitian, which have fewer risks to profitability.

The company in which we are invested is very profitable, but it is not exceptional relative to comparable companies, nor is it dependent on a single customer or government spending. While its relative profitability may seem disappointing, we aim to avoid companies whose profitability is too good to be true. We believe in the long-term profitability of this business.

Conclusion

Finding various markers of quality in a single company is always a challenge. Often where we have found it, the valuations have been too expensive – a problem that was not eased earlier in the year. The company in which we recently invested has all the markers of quality at a compelling valuation. We will continue to monitor the development of other companies on our watch list and look for new opportunities.

Alex Summers
30 June 2020

[9] Source: FactSet.

[10] As footnote 9.

[11] Source: World Health Organisation June 2020.

COVID-19 Update

June 2020

During our ongoing conference calls with company management teams, we haven't just been impressed by how these businesses have reacted to the impact of the coronavirus from an operational standpoint, but also in terms of their responsibility to both their employees and the communities in which they operate.

Given our investment philosophy leads us to identify and back what we believe are some of the most trustworthy and competent individuals in emerging markets, or as we frequently refer to them 'stewards', in many ways this should not come as a surprise. These stewards often have track-records of running conservatively-financed businesses that care for minority stakeholders during times of stress dating back decades, a key ingredient to their long-term success.

A good example of this is one of our favourite groups in emerging markets, an Indian conglomerate which is now owned by one of the world's largest philanthropic trusts that was set up by its founder in 1892. The company's core business is IT outsourcing – it effectively runs the computer systems of some of the world's largest health care and pharmacy companies, online retailers and even several governments' back-office systems. The level of trust and integrity required in these types of businesses is among the highest we have come across and therefore it is absolutely crucial that they lead by example in their reaction to the virus.

As is the case today, this company entered the global financial crisis of 2008 with significant amounts of cash on its balance sheet which allowed it to continue to invest throughout the downturn and refrain from laying off employees. This included the acquisition of a major US bank's outsourcing book[G] in 2008 for about $500m, providing a 10-year contract at attractive margins, while the loyalty they showed to their staff resulted in over a decade of significantly lower staff turnover (a major cost for IT outsourcers).

While remote working isn't a new concept for these types of businesses, the company has successfully shifted over 440,000 employees in 46 countries to a working-from-home environment, a task that they achieved with little disruption to customers who have continued to rely on their services throughout lockdown. Equally encouraging, the company has proactively been sharing their substantial expertise with organisations around the world and is currently involved in providing patient-tracking services and clinical trial platforms, as well as digital classroom software to students. Finally, the Foundation behind the company has committed to spending $200m in the fight against coronavirus.

Similarly, positive steps have been taken by many of the consumer companies in which we invest. One particular example is a leading South Asian supermarket retailer and brand owner which has been empowering local suppliers for over 30 years, a concept that even today is seen more as a marketing tool than a potential strategic advantage by some of its competitors.

The company has managed to forge close relationships with the country's farmers through a range of initiatives from seminars on best-practice farming techniques aimed at improving crop yields to supporting the local schools attended by the children of their suppliers and customers. During the current pandemic when their customers have been particularly stressed, the company has been willing to extend temporary cashflow assistance, to what are often family-run operations which has been crucial for their survival.

By empowering the local community, particularly during challenging times such as these, the company should benefit in the long-run from loyal suppliers and a superior reputation. In this case it has been a key ingredient in the company's expansion across the country, where it now has the largest store network, as well as it becoming the market leader in consumer dairy products, a position previously held by a well-known multinational.

Examples such as these demonstrate the important roles that well-stewarded companies can and should play in society. Such long-termism is to the benefit of all stakeholders, including shareholders.

James Fearon
30 June 2020

Significant portfolio changes

We did not establish any significant new positions over the quarter.

We took the opportunity of rising markets over the period to sell Brazilian electric utility **ENGIE Brazil** due to what we believe is a mismatch between the company's valuation and the remaining concession life of its assets.

Performance comment

The portfolio declined over the 12 months to 30 June 2020, underperforming its benchmark index.

At a stock level, **Tullow Oil** (UK: Energy) was a notable detractor after the company cut its production forecast and announced its chief executive and exploration director had left the business. It was also impacted by the collapse of the oil price during 1Q2020.

While Tullow's 'Invest in Africa' initiative made it one of two energy companies we have deemed of sufficient quality to invest in for clients over the last decade , we believe the deterioration of its balance sheet puts the future of the business out-with the company's hands. As a result we were no longer comfortable backing the company and sold our position in 1Q2020.

Beverage and retail company **FEMSA** (Mexico: Consumer Staples) declined on expectations of lower earnings due to the coronavirus pandemic, which impacted the company across multiple segments, namely reduced traffic at its Oxxo stores, a production stop at Heineken's breweries, after the classification of beer as a non-essential item in Mexico, and reduced consumer demand for soft drinks.

On the positive side, gold miner **AngloGold Ashanti** (South Africa: Materials) rose over the period with the gold price as investors continued to look to gold as a safe haven during a time of uncertainty.

Platinum miner **Impala Platinum** (South Africa: Materials) climbed over the period as precious metal stocks performed well on macro concerns.

[12] Tullow Oil is one of the two energy companies that we deem of investible quality and have owned on behalf of clients over the last decade, the other being Oil Search. In Tullow's case, the company's 'Invest in Africa' initiative aimed to procure as much local talent as possible, rather than the typical oil company model of flying in foreigners or hiring other international companies. This was not only positive in terms of providing them a licence to operate, but was also a sign of long-termism.

* Past performance is no indication of future performance.

Proxy voting by country of origin

- 15% Chile
- 14% India
- 10% Taiwan
- 9% Brazil
- 7% United Kingdom
- 6% Bermuda
- 5% Nigeria
- 5% South Africa
- 4% Thailand
- 3% United Arab Emirates
- 3% Philippines
- 3% Mexico
- 16% Other

Proxy voting by proposal categories

- 39% Board related
- 24% Audit/financials
- 11% Compensation
- 7% Capital management
- 7% Meeting administration
- 4% Changes to company statutes
- 8% Other

During the quarter there were 861 company resolutions to vote on. On behalf of clients, St Andrews Partners voted against 38 resolutions. We have outlined below two examples in relation to votes against management.

- We voted against the election of a non-executive board director at a global packaging company given our view on the candidate's appropriateness for the role.
- We voted against the re-election of a board member to a Middle East and African diagnostics company due to concerns over the individual's commitment to the business.

If you would like a full list of all proxy voting for the companies held in the strategies please contact us directly.

Further information on our Stewardship and Corporate Engagement policy is available online **https://www.stewartinvestors.com/scep**

Glossary

Capital controls – measures used by governments to control the flow of money in and out of a country.

Cashflow - is a real or virtual movement of money.

Dividend – cash paid by a company to its shareholders.

dot-com bubble - was a stock market bubble caused by excessive speculation in internet-related companies in the late 1990s, a period of massive growth in the use and adoption of the Internet.

Luckin Coffee – a Chinese coffee chain which inflated sales and saw its share price collapse.

Net cash balance sheet – a company which has a positive cash balance when all its liabilities are set against its cash position.

Outsourcing book - an array of business that has been outsourced by a company, in this case a bank, to an outsourcing company.

Watch list – a list of companies we monitor closely as possible investments.

Wirecard – a German payment processor and financial services company that is at the centre of a financial scandal and has seen its share price collapse.

Yogi Berra – An American professional baseball player and coach.

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