Stewart Investors
Sustainable Funds Group

Sustainable Funds Group

Quarterly Client Update

Q2

1 April - 30 June 2021 | For institutional clients in Australia only

Image location: Indonesia

Contents

Investment philosophy

> **We are stewards:** Our role is to allocate society's capital to productive uses, in accordance with our Hippocratic Oath

> **We are long term:** Our time horizon is measured in years, not weeks, and we value companies accordingly

> **We invest only in companies contributing to a more sustainable future:** We engage constructively as owners to help companies on their sustainability journeys

> **We invest only in high-quality companies:** We seek out companies with exceptional cultures, strong franchises and resilient financials

> **We believe capital preservation is important for capital growth:** We define risk as the possibility of the permanent loss of client capital

Investment objective

To generate attractive long-term, risk-adjusted returns by investing in the shares of high-quality companies that are particularly well positioned to benefit from, and contribute to sustainable development.

Investment terms

View our list of investment terms to help you understand the terminology within this document.

We have changed the format of our quarterly client update in a bid to make the content more interactive and digestible for you. We invite you to visit our website for the latest strategy updates, including portfolio changes and proxy voting, and our latest articles, webcasts and videos which explore our thinking on sustainable investment and the challenges and issues we grapple with in our search for high-quality companies. We would welcome any feedback on this new format.

Asia Pacific Leaders Sustainability

Image location: Shanghai, China

Markets often react differently to what might be expected in the short term. Despite negative headlines about the new strain of the COVID-19 virus and the associated human suffering, equities in India have been notably strong in the first half of the year.[1] In contrast, headline news from China has been more positive and yet equities have given back all of the large gains they recorded prior to Chinese New Year.[1] Such top-down vagaries can be encapsulating but rather than ponder on their cause we find it more rewarding to focus on the quality and ability of stewards to contribute to, and benefit from, the many sustainable development challenges facing the societies in which they operate.

It is estimated there were over 4.5m new cases of cancer in China last year, contributing close to 25% of global cases.[2] Late diagnosis, and treatment dominated by chemotherapy, sadly means that mortality rates are far higher in China than in Western countries. Similar to what we see in the US and Europe, precision oncology and early cancer detection are two avenues that present significant opportunity for better patient outcomes and more efficient use of valuable healthcare resources. We hold a number of diagnostic businesses across our portfolios as leading franchises tend to hold durable competitive advantages and generate attractive levels of cash flows while playing an increasingly important role in the development of healthcare systems. This quarter we were fortunate to be given an opportunity to initiate a position in China's leading molecular testing franchise. This business is owned, and run, by private entrepreneurs and enjoys a robust position in this fast emerging market thanks to years of significant investment in research and development and close relationships with global multinational pharmaceutical companies. We also initiated a holding in a high-quality, privately founded, industrial automation business in China. This vertically-integrated company is benefitting from the ongoing substitution of capital for labour on production lines, and investing heavily in product quality improvements to capture market share from higher-priced foreign competitors. In addition to these two new holdings, we invested in a company listed in Australia which boasts a 20% market share in printed circuit board design software, which is an essential component for electronic goods .

We also had the opportunity to increase the position size of four of the newer and smaller holdings in the strategy: **Tata Communications** (India), **Tata Consumer Products** (India), **Infosys** (India) and **Fisher & Paykel Healthcare** (New Zealand). Over the period we met with each of these companies and our conviction in the quality of their franchises increased. On the other side, we reduced our holdings in semiconductor related businesses **TSMC** (Taiwan) and **Tokyo Electron Limited** (Japan) because of mounting concerns over sustainability, cyclicality and valuation. We also trimmed holdings in **Tech Mahindra** (India) and **Xero** (Australia) for reasons of valuation. These were small subtractions and there were no complete disposals over the period.

[1] Source: FactSet

[2] Source: World Health Organization. Global Cancer Observatory. 2020 data.

Proxy voting

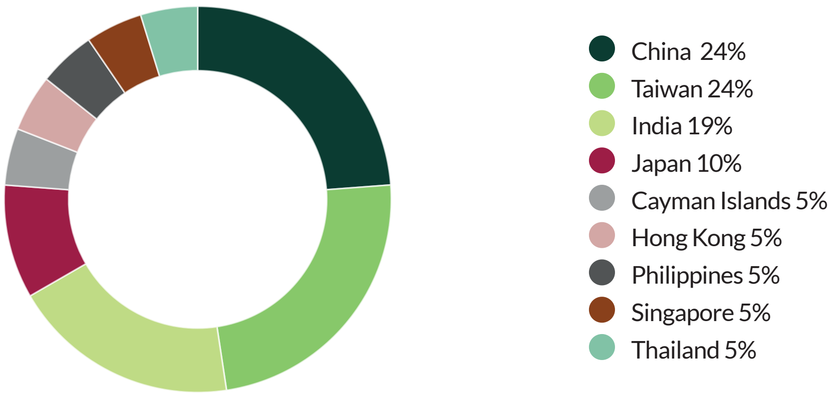
Asia Pacific Leaders Sustainability

During the quarter there were **247** resolutions from **21** companies to vote on. On behalf of clients, we voted against **five** resolutions.

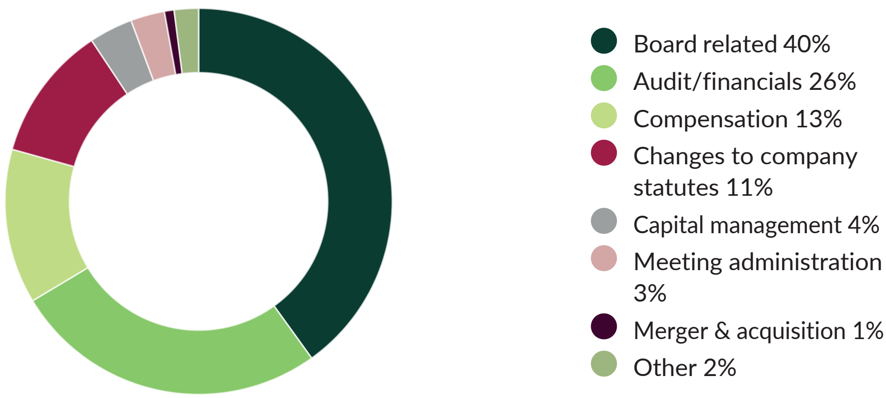
We voted against **Bank of the Philippine Islands'** request for management to approve all other business matters before the annual general meeting (AGM) of shareholders. We consider ourselves active shareholders and prefer to vote on such matters at the AGM. (one resolution)

We voted against **Shenzhen Inovance Tech**'s request to adopt a long-term stock ownership incentive plan as there was a lack of disclosure and transparency on the plan. We also voted against their request to elect an individual to their Supervisory Council as we do not believe they are truly independent. (four resolutions)

Proxy voting by country of origin



Proxy voting by proposal categories



Source for company information: Stewart Investors investment team and company data. This stock information does not constitute any offer or inducement to enter into any investment activity. Portfolio data shown is from representative strategy accounts of the strategy shown above. Named new investments disclosed relate to holdings with a portfolio weight over 1%. 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. Proxy voting chart numbers may not add to 100 due to rounding.

Image location: Bali, Indonesia

Our investment philosophy marries sustainability with quality. We are most attracted to companies which occupy the intersection of both of these elements. We will not invest in a company for reasons of sustainability only. Nor will we invest in high-quality companies that are positioned poorly from a sustainability perspective. We evaluate quality across three broad measures: stewardship, franchise and financials.

During the period we sold the very marginal investment in **Indigo Paints** due to valuations reaching extreme levels post a much anticipated initial public offering (IPO). For reasons of valuation we also trimmed holdings in **Dr. Lal PathLabs** (India), **Cyient** (India) and **Xero** (Australia). We reduced **Tokyo Electron Limited** for reasons of cyclicality, sustainability and valuation. Fortunately, we had an opportunity to top up a number of existing holdings listed in New Zealand, Australia, Japan, India and Hong Kong for company specific attractions.

The Australian market is often dubbed 'a commodity market' because of the high number of successful resource companies listed on the Australian Stock Exchange. These companies, combined with a very dominant banking sector, frequently crowd out investor attention from some of the high-quality innovative business models that are also listed in Australia. During the period we concluded our evaluation of a founder-managed technology business that boasts 20% market share in the software design of printed circuit boards. We believe that this asset, and people-light business offers attractive financial characteristics, excellent stewardship and a powerful franchise that is capable of continuing to win market share from less focused peers. We added the company to the portfolio.

We increased the direct exposure to companies listed in China as we bought two new mainland A-Share companies, taking the number of Chinese listed businesses in the strategy to seven. During the period we bought a founder-managed diagnostics business which stands distinct from government interference and assists patients with the early diagnosis of cancer. We also invested in an innovative, founder-managed, vertically-integrated, industrial automation business that improves manufacturing productivity, therefore benefiting from strong sustainability tailwinds and aligned with government ambition for national development.

Proxy voting

Asia Pacific Sustainability

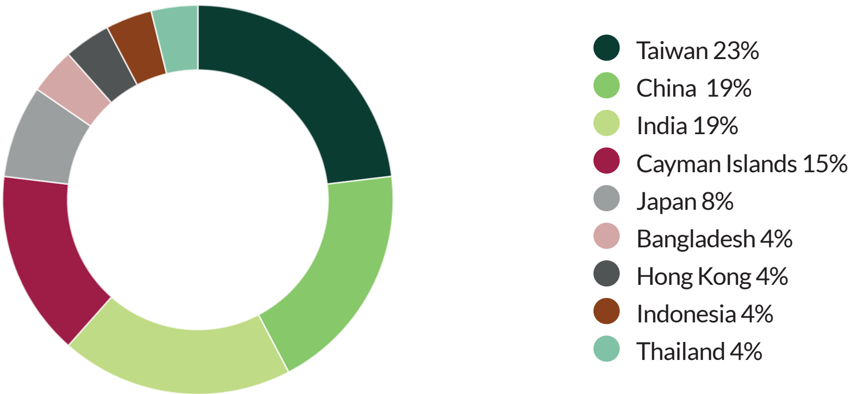
During the quarter there were **274** resolutions from **26** companies to vote on. On behalf of clients, we voted against **11** resolutions.

We voted against **Pentamaster International**, **Vinda International** and **AK Medical Holdings'** request to repurchase issued shares, and issue shares without pre-emptive rights, as the share discount rate had not been disclosed and the share issuance was excessive. (six resolutions)

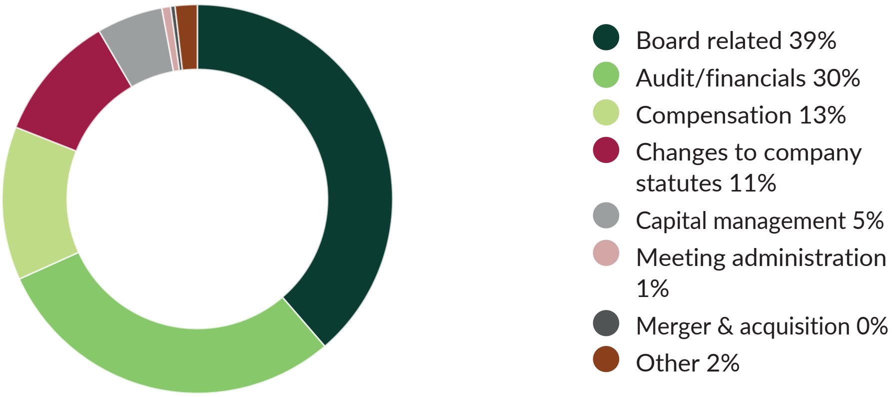
We voted against **Shenzhen Inovance Tech**'s request to adopt a long-term stock ownership incentive plan as there was a lack of disclosure and transparency on the plan. We also voted against their request to elect an individual to their Supervisory Council as we do not believe they are truly independent. (four resolutions)

We voted against **Selamat Sempurna**'s request to appoint an independent auditor and their authority to set the auditor fees. At the time of voting the company had not disclosed its proposed auditor. (one resolution)

Proxy voting by country of origin



Proxy voting by proposal categories



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Asia Pacific and Japan Sustainability

Image location: Fenghuang County, China

Over the quarter, a rare bout of volatility, in what have largely been unshakeable upward markets, presented the opportunity to increase our exposure to high-quality names in Japan and China.

In Japan, a position in **AS ONE** was initiated after “the market” took issue with short-term results. AS ONE is the leading wholesaler of scientific and healthcare instruments in Japan where dominant scale allows them to offer the broadest collection of products at vastly superior delivery times versus smaller peers, and in doing so creating significant value for researchers and scientists. Effectively operating as a “one-stop shop” for scientists and researchers, AS ONE, facilitated by a long-term family owner, has a unique business model that we believe is capable of weathering economic cycles while generating attractive margins, returns and cash flows. We have studied equivalent businesses in the US and Europe and believe this business model offers durable competitive advantages while playing a critical role in supporting global innovation. Longer term, we believe AS ONE has the potential to improve the quality of its franchise through the shift toward online ordering while also expanding their valued service to research departments in the rest of Asia. We also added to the holding in **Mani** (instruments used in dental and ophthalmic surgery). Mani is another of our Japanese holdings that is very well positioned to take advantage of growth in emerging Asian markets.

Broad weakness in China offered the window to invest in two new names: we continue to build positions in these companies so will refrain from naming them directly. The first is a leading provider of molecular testing equipment that will play a critical role in addressing China’s growing cancer burden. The second, is an emerging local champion in China’s robot industry with attractive long-term tailwinds, driven by growing automation spend and the government’s want to reduce dependence on global multinationals.

These purchases were largely funded through the complete disposal of a small position in **Dabur** (India, Consumer staples) and trimming **Xero** (Australia, IT), **Mediatek** (Taiwan, IT) and **Tokyo Electron Limited** (Japan, IT) due to stretched valuations.

With many markets trading near all-time highs, volatility near all-time lows, the continued focus on narrative rather than fundamentals, a growing list of fraudulent activity and an unshakeable infatuation with high-growth companies, we are keeping an eye on capital preservation and downside protection rather than trying to outrun overly exuberant markets.

We are not in the forecasting business so won’t claim to know when things will change, only that they will. In response to that uncertainty, we look to build resilient portfolios from a diversified collection of high-quality businesses run by high-quality people on reasonable valuations. This disciplined philosophy has protected capital in most drawdowns while allowing us to participate in up markets: a combination that, over the long term, has delivered attractive long-term returns.

The opportunity that lies ahead of a long-term investor in the Asian region is an exciting one. It is home to some of the highest quality stewards, and highest quality franchises globally, with many avenues for long-term growth.

Proxy voting

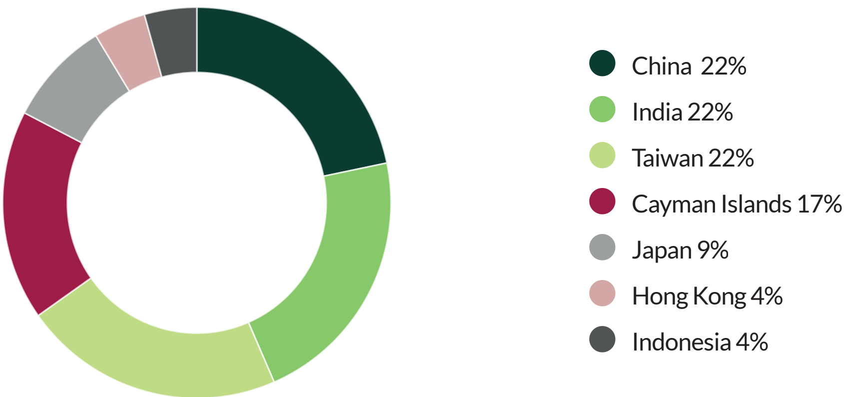
Asia Pacific and Japan Sustainability

During the quarter there were **245** resolutions from **23** companies to vote on. On behalf of clients, we voted against **10** resolutions.

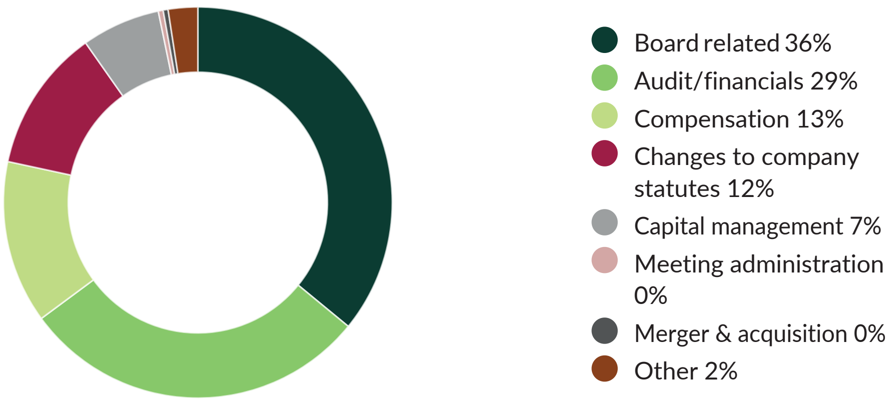
We voted against **Pentamaster International**, **Vinda International** and **AK Medical Holdings**' request to repurchase issued shares, and issue shares without pre-emptive rights, as the share discount rate had not been disclosed and the share issuance was excessive. (six resolutions)

We voted against **Shenzhen Inovance Tech**'s request to adopt a long-term stock ownership incentive plan as there was a lack of disclosure and transparency on the plan. We also voted against their request to elect an individual to their Supervisory Council as we do not believe they are truly independent. (four resolutions)

Proxy voting by country of origin



Proxy voting by proposal categories



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Global Emerging Markets Sustainability

Image location: Lagos, Nigeria

We initiated a number of new positions during the quarter in the strategy.

During the first half of 2021, there has been a continuing rotation away from quality-growth and towards value-cyclicals, as economies around the world rebound from the COVID-19 pandemic and associated lockdowns. The broader market has been attracted to owning companies that have the best chance of rapid earnings growth in the next twelve months. In many cases, this means companies in cyclical commodity industries like shipping and mining whose earnings collapsed last year and which are most sensitive to re-opening. Whilst these companies may outperform in the short term, we believe in the long run the owners of their equity will likely realise a return more commensurate with their modest returns on invested capital.

One consequence of this rotation has been that a number of high-quality companies which were more resilient throughout 2020, but which now do not offer the same short-term upside, have become much more reasonably valued. This has been particularly true in China, the country which is most advanced in its economic recovery.

Many of the most attractive long-term companies to own in China have become significantly more affordable over the last two quarters.

For instance, we have been watching one specific Chinese plasma and vaccines company for some years. Our first meeting with the company was ten years ago, but it has been in the last few years that we built conviction up to feeling the company met our quality criteria. It has a well-stewarded balance sheet, a competent owner-manager and is the domestic leader in China in an industry we know well, having been long-term shareholders in companies like CSL in Australia.

Since February, the company's share price has fallen by around a third as solid, defensive earnings streams have become less popular relative to those driven by re-opening and recovery. With a return on capital above 20% and medium-term growth rates at a similar level, this felt like an opportune time to initiate a position in what we believe will be a long-term winner in China.

The same pattern and fundamental logic underlies recent new positions in a China software company and two Chinese medical diagnostics companies, plus **Mercadolibre**, an Argentina; e-commerce and fintech company.

In order to fund these ideas, we trimmed some existing positions. These were primarily holdings which have done very well and where a combination of resultant position size and valuation multiple has led us to take some profit, whilst retaining meaningful exposure.

One example would be **EPAM Systems**, a Belorussian IT services company listed in New York, which has benefited hugely from a surge in corporate spending on 'digitalisation'. Another would be **Dabur**, an Indian ayurvedic consumer goods company which has seen very strong results as people increasingly spend on wellness products in the wake of the COVID-19 pandemic.

We continue to believe the companies we own in the strategy in emerging markets offer attractive long-term opportunities for capital growth.

Please click here to listen to the latest webcast on the strategy from Jack Nelson.

Proxy voting

Global Emerging Markets Sustainability

During the quarter there were **403** resolutions from **31** companies to vote on. On behalf of clients, we voted against **11** resolutions.

We voted against **Vinda International** and **AK Medical Holdings**' request to repurchase issued shares, and issue shares without pre-emptive rights, as the share discount rate had not been disclosed and the share issuance was excessive. (four resolutions)

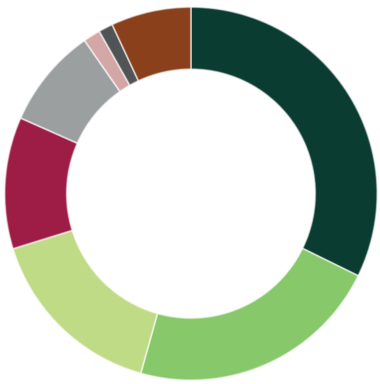
We voted against **Shenzhen Inovance Tech**'s request to adopt a long-term stock ownership incentive plan as there was a lack of disclosure and transparency on the plan. We also voted against their request to elect an individual to their Supervisory Council as we do not believe they are truly independent. (four resolutions)

We voted against **Natura**'s request to establish a Supervisory Council as we do not believe it is necessary given they are a one share, one vote company and we are comfortable with management. (one resolution)

We voted against **Tencent**'s request to issue shares without pre-emptive rights as the share discount rate had not been disclosed and the share issuance was excessive. We also voted against their request to adopt the share option plan of a subsidiary as there was a lack of detail provided on the terms of the plan. (two resolutions)

Proxy voting by country of origin

Proxy voting by proposal categories



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Global Emerging Markets Leaders Sustainability

Image location: Thailand

We initiated a number of new positions in the strategy during the quarter.

During the first half of 2021, there has been a continuing rotation away from quality-growth and towards value-cyclicals, as economies around the world rebound from the COVID-19 pandemic and associated lockdowns. The broader market has been attracted to owning companies that have the best chance of rapid earnings growth in the next twelve months. In many cases, this means companies in cyclical commodity industries like shipping and mining whose earnings collapsed last year and which are most sensitive to re-opening. Whilst these companies may outperform in the short term, we believe in the long run the owners of their equity will likely realise a return more commensurate with their modest returns on invested capital.

One consequence of this rotation has been that a number of high-quality companies which were more resilient throughout 2020, but which now do not offer the same short-term upside, have become much more reasonably valued. This has been particularly true in China, the country which is most advanced in its economic recovery.

Many of the most attractive long-term companies to own in China have become significantly more affordable over the last two quarters.

For instance, we have been watching one specific Chinese plasma and vaccines company for some years. Our first meeting with the company was ten years ago, but it has been in the last few years that we built conviction up to feeling the company met our quality criteria. It has a well-stewarded balance sheet, a competent owner-manager and is the domestic leader in China in an industry we know well, having been long-term shareholders in companies like CSL in Australia.

Since February, the company's share price has fallen by around a third as solid, defensive earnings streams have become less popular relative to those driven by re-opening and recovery. With a return on capital above 20% and medium-term growth rates at a similar level, this felt like an opportune time to initiate a position in what we believe will be a long-term winner in China.

The same pattern and fundamental logic underlies recent new positions in a China software company and two Chinese medical diagnostics companies.

In order to fund these ideas, we trimmed some existing positions. These were primarily holdings which have done very well and where a combination of resultant position size and valuation multiple has led us to take some profit, whilst retaining meaningful exposure.

One example would be **EPAM Systems**, a Belorussian IT services company listed in New York, which has benefited hugely from a surge in corporate spending on 'digitalisation'. Another would be **Dabur**, an Indian ayurvedic consumer goods company which has seen very strong results as people increasingly spend on wellness products in the wake of the COVID-19 pandemic.

We continue to believe the companies we own in the strategy in emerging markets offer attractive long-term opportunities for capital growth.

Proxy voting

Global Emerging Markets Leaders Sustainability

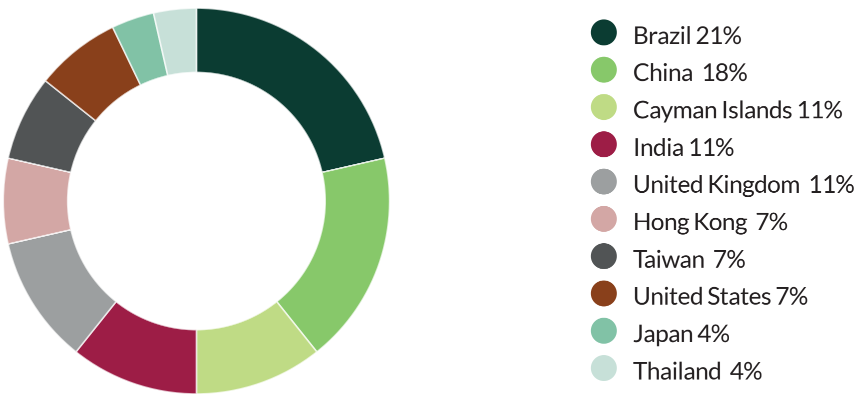
During the quarter there were **332** resolutions from **23** companies to vote on. On behalf of clients, we voted against **seven** resolutions.

We voted against **Shenzhen Inovance Tech**'s request to adopt a long-term stock ownership incentive plan as there was a lack of disclosure and transparency on the plan. We also voted against their request to elect an individual to their Supervisory Council as we do not believe they are truly independent. (four resolutions)

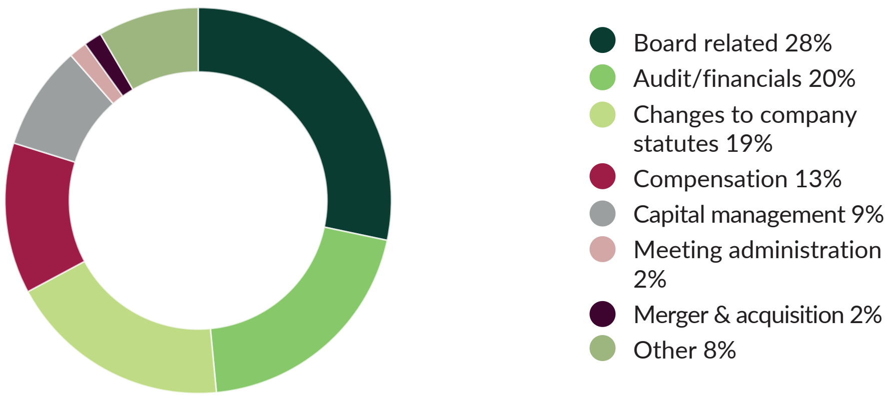
We voted against **Natura**'s request to establish a Supervisory Council as we do not believe it is necessary given they are a one share, one vote company and we are comfortable with management. (one resolution)

We voted against **Tencent**'s request to issue shares without pre-emptive rights as the share discount rate had not been disclosed and the share issuance was excessive. We also voted against their request to adopt the share option plan of a subsidiary as there was a lack of detail provided on the terms of the plan. (two resolutions)

Proxy voting by country of origin



Proxy voting by proposal categories



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Indian Subcontinent Sustainability

Image location: Dhaka, Bangladesh

During the course of this quarter, we initiated two new positions in **Cholamandalam Financial Holdings** and **Blue Dart Express** in the strategy.

Cholamandalam Financial Holdings owns a 45% stake in Chola Finance, an NBFC (Non-Banking Financial Company) we have previously owned in this strategy, and a 60% stake in Chola MS General Insurance. The business is 49% owned by the Murugappa family, who have a century-long history of conservative growth in India. We have watched the family evolve over the past decades, and built comfort in their stewardship and improving capital allocation. We are encouraged to see the management changes in the insurance business, and a growing focus on underwriting profits. In an insurance market as underpenetrated as India is, a conservative insurer keen to grow profitably with the Murugappa heritage behind them is well set up to continue taking market share.

Our second new position this quarter, Blue Dart Express, is the Indian express logistics subsidiary of the Deutsche Post Group who continue to own 75% of the business. Average tenure of senior managers within the business is 15 years, with the current CEO having been with Blue Dart for over 35 years. These managers have built the leading express franchise within the country, consistently reinvesting behind expanding the reach of their network. In the face of multiple rounds of price-based competition, they have also demonstrated the ability to remain focused on their core strengths of quality and speed, enabling them to retain their strong competitive position. We believe Blue Dart remains well situated to continue benefiting from the tailwinds around improved logistics and connectivity within India.

We also continued to add to businesses like **CG Power** and **Bosch India**, that stand to benefit from sustainable tailwinds around industrial growth and improved penetration of electric vehicles. Both businesses are managed by competent stewards, with long runways for structural growth. Bosch, the only listed subsidiary of the international group, is owned ultimately by a foundation which gives them the benefit of a time horizon measured in decades rather than quarters. This has allowed them to make early investments into electrification across automotives. Similarly, CG Power's electric motors are essential in sustainable infrastructure across the country. Emerging from bankruptcy under its previous owners, the company is now well set up to focus in on profitable growth under their new stewards, **Tube Investments**, which is also a large holding in the strategy and a Murugappa company.

We decided to exit our position in **SKF India**, a maker of ball bearings for automotive and industrial end uses, choosing instead to add to what we believe to be higher quality industrials, mentioned above. While SKF India remains a well-managed company, we believe the others have better opportunities for growth in the decade ahead.

Proxy voting

Indian Subcontinent Sustainability

During the quarter there were **53** resolutions from **nine** companies to vote on. On behalf of clients, we did not vote against any resolutions.

Proxy voting by country of origin

Proxy voting by proposal categories

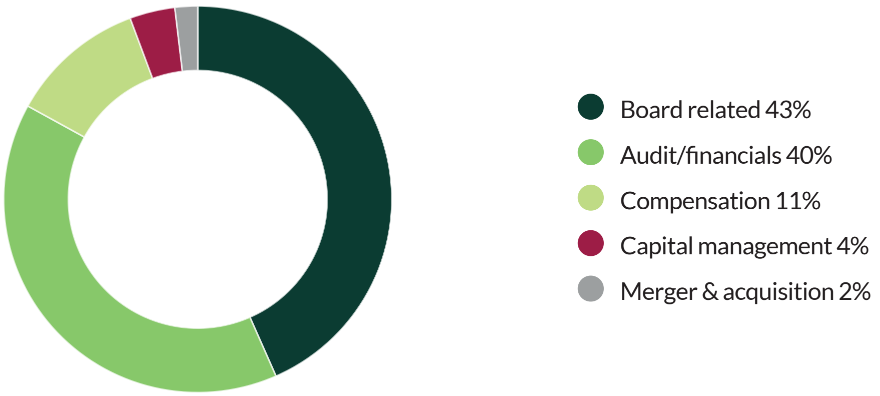

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Image location: Toronto, Canada

In a quarter that continued to set new market highs, we remained wary of valuations that are even more stretched. We sold out of **Tokyo Electron Limited** and **Novozymes** on valuation grounds. The quality of these companies remains good and we would be happy to own them again at more reasonable valuations. We also sold out of **Tech Mahindra**. Although not particularly expensive, its performance is more volatile in comparison to our other top holding **Tata Consultancy Services**.

Two new companies were added to the portfolio this quarter. The first, **Techtronic**, is a company we have known and admired for a long time through our Asian portfolios. Well stewarded by the Pudwill family, the company has an excellent position in its power tools and appliances business. The company leads the industry in replacing high-polluting, fossil-fuelled products with environmentally-friendly, clean, cordless powered technology. Their early investment in battery technology, as well as strong brands in consolidated areas has meant they enjoy pricing power too. The company is also a leader in making its batteries compatible across tools and the batteries are compatible with products up to 12 years old.

Another company we added to the portfolio was **Cognex**, a research and development driven franchise that should continue to benefit from the growth tailwinds of automation and inspection across a variety of industries. The company has a very sound financial foundation to endure the cyclicality of end customers and remains expensive. As their products and services help improve manufacturing quality and reduce waste, we expect plenty of growth in the years ahead. Although founder-chairman and chief culture officer, Bob Shillman has now retired and stepped down from the board, the company continues to be well stewarded by long tenured Cognoids (employees and management of Cognex are known as Cognoids). The company also produces the most original annual reports that we have come across.

We continued to add to other significant holdings in **bioMérieux**, **Deutsche Post** and **Philips** as valuations remain very attractive.

Proxy voting

Worldwide Leaders Sustainability

During the quarter there were **317** resolutions from **23** companies to vote on. On behalf of clients, we voted against **16** resolutions.

We voted against **Adobe**'s equity compensation plan and executive compensation as we believe the CEO's median pay ratio is too high and the plan is unnecessarily complex, and we do not have enough information to determine whether the plan will benefit solely employees or will be very top heavy. (two resolutions)

We voted against the approval of **Texas Instruments**' executive compensation as we believe the CEO's median pay ratio is excessive. (one resolution)

We voted against the approval of **Alcon**'s executive compensation and their compensation report as we believe the CEO's pay is excessive and we have reservations on the company awarding bonuses for the year despite all financial targets being missed. (two resolutions)

We voted against the approval of **Edward Lifesciences**' executive compensation because they changed the goalposts of their plan in light of COVID-19 and the company was not achieving the threshold performance level for any of the corporate financial metrics. (one resolution)

We voted against **Ansys**' equity compensation plan and executive compensation as we believe they do not reflect long-term thinking and are unnecessarily complex. (two resolutions)

We voted against **Illumina**'s executive compensation because they changed the goalposts of their long-term incentive plan in light of COVID-19. (one resolution)

We voted against **Constellation Software**'s request to appoint KPMG as their auditor for the 26th year, and their ability to set the auditor fees. We believe the non-audit fees are excessive, given they exceed those paid for audit related services, and a change in the auditor would be in shareholders' best interests. (one resolution)

We voted against a shareholder proposal relating to **Synopsys** where shareholders were requesting the company lower the recently introduced provision for shareholders with a 20% holding for over one year to be able to a call a special meeting, to a 10% holding and no minimum holding period. We do not want to encourage any activist-driven change in the company's culture to a more short-term focus. (one resolution)

We voted against two shareholder proposals relating to **Texas Instruments** and **Edwards Lifesciences** which would have enabled shareholders to take action with written consent on important issues that arise between annual meetings. We consider ourselves active shareholders and voting an important responsibility in our investment management duties. (two resolutions)

We voted against a shareholder proposal relating to **Nestlé** where shareholders were requesting the use of an independent proxy to vote on additional or amended proposals from shareholders at annual general meetings (AGMs). We consider ourselves active shareholders and voting an important responsibility in our investment management duties, as such we do not wish for any other business to be transacted at the AGM. (one resolution)

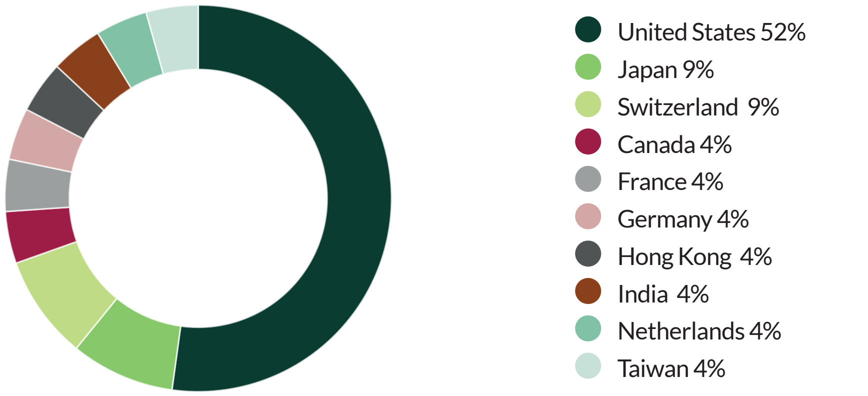
We voted against a shareholder proposal relating to **Ansys** where shareholders were requesting the company eliminate the super majority vote they have in some circumstances and replace it with a simple majority vote. We believe the current arrangement better protects the company's independence and growth over the long term. (one resolution)

We voted against a shareholder proposal relating to **Veeva** where shareholders with 15% of the company's outstanding shares would be able to call a special meeting. We do not want to encourage any activist-driven change in the company's culture to a more short-term focus, and believe the company's proposal of 25% and one year holding requirement is better for long-term stewardship. (one resolution)

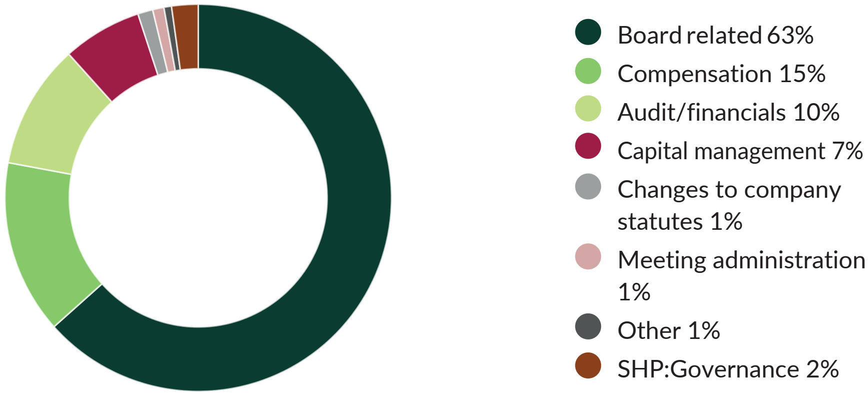
Proxy voting

Worldwide Leaders Sustainability

Proxy voting by country of origin



Proxy voting by proposal categories



Source for company information: Stewart Investors investment team and company data. This stock information does not constitute any offer or inducement to enter into any investment activity. Portfolio data shown is from representative strategy accounts of the strategy shown above. Named new investments disclosed relate to holdings with a portfolio weight over 1%. 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. Proxy voting chart numbers may not add to 100 due to rounding. SHP means: Shareholder Proposal.

Worldwide Sustainability

Image location: London, UK

Recent market movements have gyrated off the back of the short-term economic re-opening thematic, and expectations, or speculation, on whether inflation will be transitory or long-lasting with obvious implications for interest rates. Either way, some economies are discussing a move to tighter money supply and slowing quantitative easing programs and uncertainty remains.

We remain focussed on the long term and the strategy is not exposed to outsized investment risks for inflation or deflation in future. We continue to examine the liquidity and solvency of our companies and the strategy is largely invested in companies with net cash balance sheets. Our companies are not over-reliant on government action or support, and the strategy is predominately invested in companies that historically show strong pricing power and resilience in a variety of economic conditions. About 45% of the strategy portfolios remain invested in companies with some form of shareholding steward, either a family, founder or foundation, who have guided their company through cycles and sometimes generations.

During the quarter we invested in **Cognex**, a US-listed inspection and machine vision company for industrial automation. The founder, Bob Shillman, and other executives, provide the research and development and engineering-excellence culture that makes this company successful. They guide a very high profit margin business sensibly, selectively choosing growth opportunities to maintain their pricing power. Cognex is a contributor to sustainable production as their products and software help ensure manufacturing quality, reduce waste in the process by minimising errors, reduce costs through the manufacturing process, and allow for greater traceability and control.

This new investment was funded through selling investments in **Novozymes**, **Lenzing** and **Topicus**. Novozymes appears very expensive considering its moderate long-term growth and more recent moves to push inventory through distribution channels, although the market voting machine has disagreed with us in the short term. Lenzing is one of our rare cyclical companies and with elevated industry inventory levels and commodity pricing for cotton, appears fully valued. Topicus was a gift to us after spinning out from our investment in parent company **Constellation Software**. We prefer to remain invested in the parent company and struggle to understand the structure that was created to set Topicus free.

We remain positive about the prospects for our sustainable, quality companies as we enter an uncertain second half of 2021 where a delicate balance remains between central bank policies and the fragility of real and consistent economic growth.

Please click here to listen to the latest webcast on the strategy from Oliver Campbell.

Proxy voting

Worldwide Sustainability

During the quarter there were **417** resolutions from **28** companies to vote on. On behalf of clients, we voted against **13** resolutions and abstained on **one**.

We voted against the approval of **Texas Instruments**' executive compensation as we believe the CEO's median pay ratio is excessive. (one resolution)

We voted against the approval of **Edward Lifesciences**' executive compensation because they changed the goalposts of their plan in light of COVID-19 and the company was not achieving the threshold performance level for any of the corporate financial metrics. (one resolution)

We voted against **Atlas Copco**'s remuneration report as we believe the increase in base CEO pay, and the awarding of exceptional bonuses based on short-term and unusual circumstances, is excessive. (one resolution)

We voted against the approval of **Alcon**'s executive compensation and their compensation report as we believe the CEO's pay is excessive and have reservations on the company awarding bonuses for the year despite all financial targets being missed. (two resolutions)

We voted against **Constellation Software**'s request to appoint KPMG as their auditor for the 26th year and their ability to set the auditor fees. We believe the non-audit fees are excessive, given they exceed those paid for audit related services, and a change in the auditor would be in shareholders' best interests. (one resolution)

We voted against **Ansys**' equity compensation plan and executive compensation as we believe they do not reflect long-term thinking and are unnecessarily complex. (two resolutions)

We voted against **Zebra Technologies**' executive compensation as we believe the CEO's median pay ratio is too high and the plan is unnecessarily complex. (one resolution)

We voted against **Illumina**'s executive compensation because they changed the goalposts of their long-term incentive plan in light of COVID-19. (one resolution)

We voted against two shareholder proposals relating to **Texas Instruments** and **Edwards Lifesciences** which would have enabled shareholders to take action with written consent on important issues that arise between annual meetings. We consider ourselves active shareholders and voting an important responsibility in our investment management duties. (two resolutions)

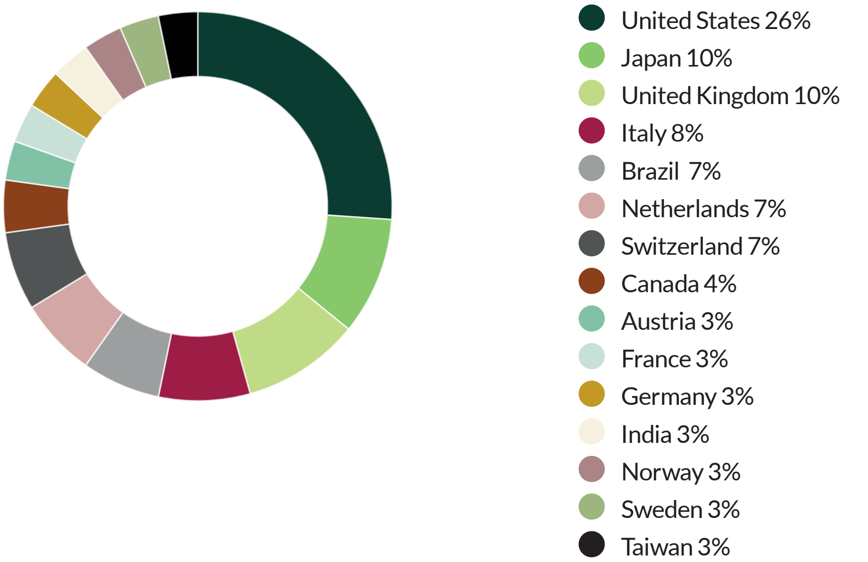
We voted against a shareholder proposal relating to **Ansys** where shareholders were requesting the company eliminate the super majority vote they have in some circumstances and replace it with a simple majority vote. We believe the current arrangement better protects the company's independence and growth over the long term. (one resolution)

Voting in line with **WEG**'s Board for the election of two independent non-executive directors to serve on their Supervisory Council resulted in us abstaining on the minority shareholder nominee. (one resolution)

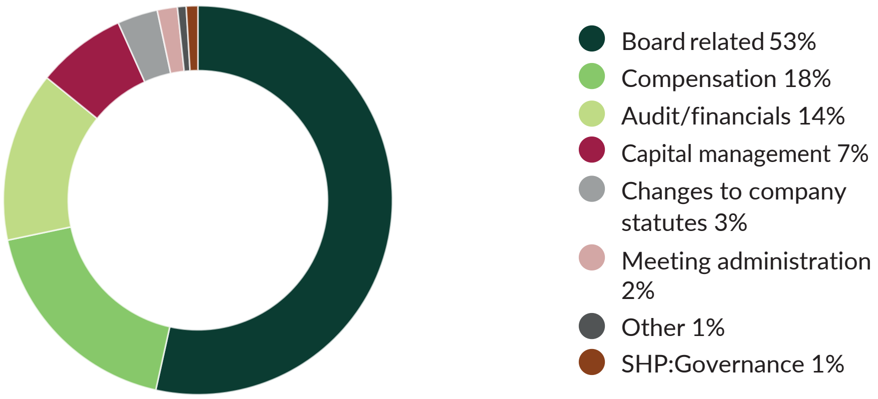
Proxy voting

Worldwide Sustainability

Proxy voting by country of origin



Proxy voting by proposal categories



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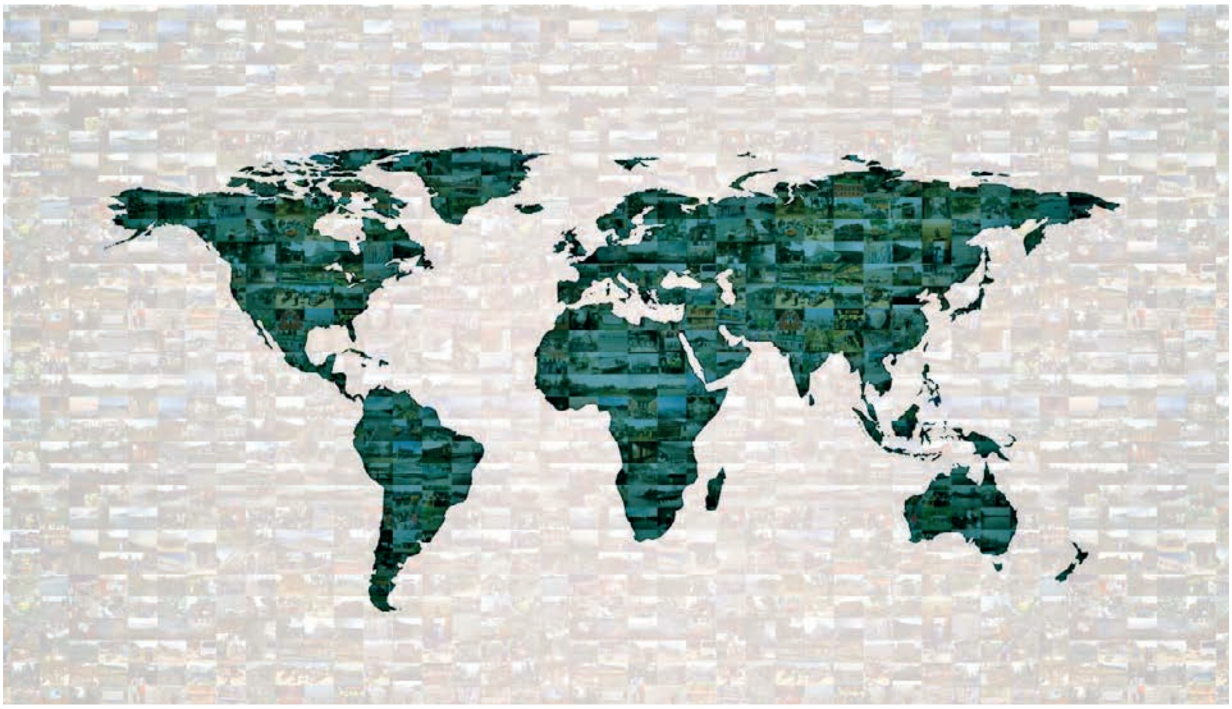
A world of sustainable companies



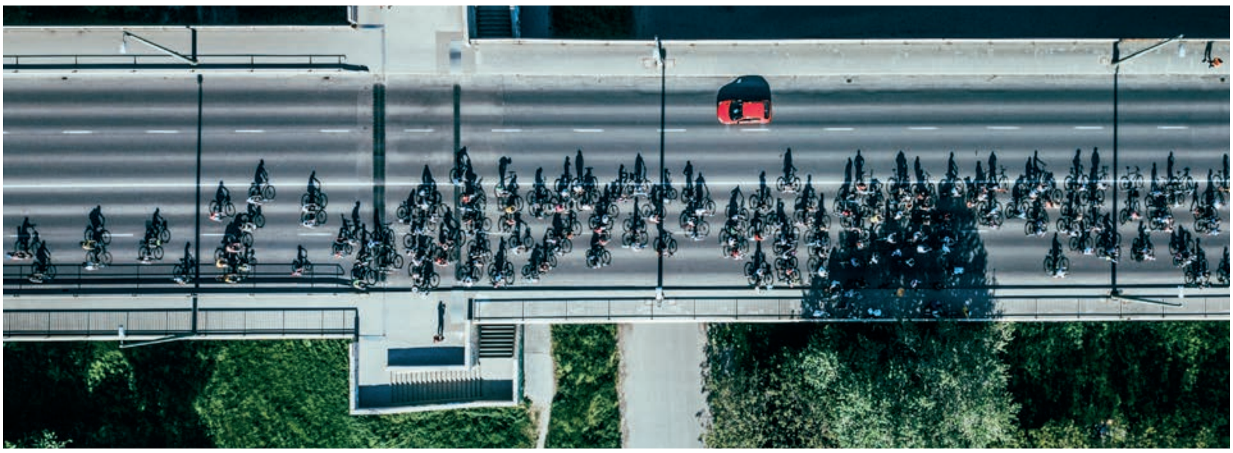
Explore how the companies in our strategies are contributing to sustainable development.

We provide full transparency of company holdings and their investment rationales via an interactive map on our dedicated sustainability microsite including their contribution to the Sustainable Development Goals.

We believe sustainability is core to any company's business model, not an optional extra. We look for businesses whose success is tied to the social and environmental benefits they deliver, whether the provision of basic sanitation products or advanced engineering software.

For more information

- Interactive map
- Microsite
- Subscribe to updates



Stories of sustainable investment

Our investment process starts with a blank page, not a benchmark.

Below are links to our latest articles, statements and videos which explore our thinking on sustainable investment, including the challenges and issues we grapple with in our search for high-quality companies.

We believe that our focus on quality, sustainability positioning and stewardship should reward both patient investors and society. We hope our content highlights the careful and deliberate way we invest and engage with companies – both when we get it right and when we do not.

Climate change statement

We commit to allocate capital to high-quality companies developing and implementing solutions to alleviate climate change, to provide full transparency of our investments, to encourage companies to take positive actions and to reduce emissions in our own operations.

> Read the full statement

Making a difference through science and innovation

We spoke to the Chairperson and Managing Director of Dr. Reddy's, a generic pharmaceutical company, about their pioneering spirit and how it continues to drive their commitment to accessible, affordable and innovative healthcare.

> Watch the video

The magic of microbes

We spoke to the Chief Science Officer of Chr. Hansen, a manufacturer of natural ingredients for the food and agricultural industries, about the challenges of sustainable development and how microbes can play a vital role in building a more sustainable future.

> Watch the video

Good Old-Fashioned

We often introduce ourselves as "good old-fashioned, long-term investors". In an environment where returns are counted by the day, there is a tendency to equate this approach with being stuck in the past. Let's challenge this perception.

> Read the full article

Avoiding the perils and pitfalls of high impact healthcare investment

Healthcare companies seem an obvious choice for sustainable investors.

But as with any sector, there are good and bad healthcare companies. Finding those that are truly sustainable and providing tangible benefits can be challenging.

> Read the full article

Emerging markets' new generation of tech firms

Technology in emerging markets used to mean hardware assembly in Taiwanese factories or outsourcing repetitive data entries to India.

Today emerging markets economies are producing truly world-leading tech firms.

> Read the full article

Paying a fair corporate tax rate matters

Paying a fair rate of corporate tax is an important contribution that companies make to society. If companies are proactively seeking to minimise their tax payments, this should be seen as a red flag.

> Read the full article

For more articles and videos please visit our website or subscribe to our updates via email

Update to our position on harmful and controversial products and services

We have updated our position on harmful and controversial products and services to provide more clarity on the 0% revenue threshold we have for tobacco production and controversial weapons. In addition, we will disclose any material exposures above agreed thresholds on our website.

FAIRR Initiative

We have signed up to the FAIRR Initiative, an investor network that raises awareness of the ESG risks and opportunities in the global food sector.

We have also supported and co-signed their global investor statement Where's the beef?, which urges G20 governments to help build a more transparent, resilient and sustainable global food system, and disclose specific targets for reducing agricultural emissions within their Nationally Determined Contributions (NDCs) in the lead up to the UN Climate Change Conference (COP26) later this year.

Febelfin Towards Sustainability initiative

During the quarter our fund which is available to European clients within the Worldwide Sustainability strategy was awarded the Belgium Febelfin Towards Sustainability label. The label aims to instil trust and reassure clients and potential investors that the financial product is managed with sustainability in mind and is not exposed to unsustainable practices. More information on the label is available on the Towards Sustainability site.

European Sustainability strategy launch

On the 10th June, the team's first dedicated European Sustainability strategy was launched for UK and European clients. More information on why we believe Europe offers exciting company investment opportunities that are leading the way in sustainable business is available on our microsite.

> Reasons to invest in Europe

> Is Europe leading the way in sustainable business?

Important information

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