February 2021

Stewart Investors
Sustainable Funds Group

Why do Payable Days matter?

'Payable Days' is the number of days a company takes to pay its suppliers. Investors often learn in 'Finance 101' courses that the longer a company takes to pay its suppliers the stronger its bargaining power is with them. Consequently, this is considered as key evidence of a strong franchise.

We beg to differ.

High-quality companies require a healthy supply chain. And a healthy supply chain requires suppliers getting paid within a reasonable time frame. Why is this important? Long payment cycles leave most suppliers with little choice but to borrow at high interest rates to meet cash flow needs or, eventually, dilute quality standards. Smaller and fragmented suppliers, such as farmers, are disproportionately affected by one-sided payment terms. Banks often treat such borrowers as high risk, compounding their cash flow problems.

A bankrupt, low quality or an unpredictable supply chain can do more harm to a company's sustainability than the savings accrued in the short-term by squeezing it. Paying suppliers promptly and in reasonable time is not only the right thing to do but also the smart thing to do.

It is the right thing to do as there is a clear and quantifiable positive impact on the lives of many, particularly smaller suppliers who have been disenfranchised over decades. A more sensible approach impacts numerous Sustainable Development Goals (SDGs), including, but not limited to, no poverty, zero hunger, reduced inequality, decent work and sustainable communities. This is impact at scale.

It is also the smart thing to do because trust is built by treating suppliers well. A trusted supplier stays with you during good and bad times and will ensure quality. This positive circle of trust creates long-term entry barriers that are often underestimated by companies and investors.

'We maintain a positive working capital by choice', quips Marico's Saugata Gupta.[1] He goes on to explain that during times of low farm output, Marico has never felt a supply squeeze. The company attributes this potentially to the partnership they have slowly built with farmers over decades. Amongst the many positive interventions Marico makes with its farm supply chain is the philosophy of paying farmers quickly and paying them market prices. Marico clears all farmers' dues within 7 days, with more than 50% receiving payment on the same day. Marico is one of India's leading consumer staples companies.

'It is diabolical that big businesses want 90-100 day credit terms from small suppliers',[2] says Don Braid, CEO of Mainfreight, New Zealand's largest logistics services provider. He is right to be upset. Mainfreight pays its truck owners well and pays them within the first 20 days of the month. This has helped build a loyal base of truckers who value a stable long-term partnership with the company. This partnership has been crucial to their success and we believe is likely to continue to be in the foreseeable future.

The benefits of such a trust-based system is not only visible in the long term but equally it is a long-term mindset that patiently builds trust. Marico and Mainfreight are stewarded by founder-shareholders who have nurtured a strong culture that understands the importance of such stakeholder relationships. A key engagement across many of our investee companies over the years has been to improve and shorten payment cycles. We must, however, admit to not making satisfactory progress in this area.

Numbers or ESG metrics alone do not explain quality sufficiently. Numbers are a good starting point for conversations with management on various sustainability issues. Such discussions are key to our understanding of quality. Our qualitative approach has always sat comfortably with many of the fashionable ESG metrics that the investment world is obsessed with these days. We never have and never will compromise one for the other.

Sashi Reddy
February 2021

Investment terms

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

Source for company information: Stewart Investors investment team and company data. For illustrative purposes only. Reference to any companies mentioned in this communication is merely for explaining the investment strategy, and should not be construed as investment advice or investment recommendation of those companies. Companies mentioned herein may or may not form part of the holdings of Stewart Investors.

[1] Source: Stewart Investors. Extract from company meeting June 2020.

[2] Source: Newsroom, New Zealand. 24 April 2017.

Important information

This document has been prepared for general information purposes only and is intended to provide a summary of the subject matter covered. It does not purport to be comprehensive or to give advice. The views expressed are the views of the writer at the time of issue and may change over time. This is not an offer document, and does not constitute an offer, invitation, investment recommendation or inducement to distribute or purchase securities, shares, units or other interests or to enter into an investment agreement. No person should rely on the content and/or act on the basis of any matter contained in this document.

This document is confidential and must not be copied, reproduced, circulated or transmitted, in whole or in part, and in any form or by any means without our prior written consent. The information contained within this document has been obtained from sources that we believe to be reliable and accurate at the time of issue but no representation or warranty, express or implied, is made as to the fairness, accuracy or completeness of the information. We do not accept any liability for any loss arising whether directly or indirectly from any use of this document.

References to "we" or "us" are references to Stewart Investors. Stewart Investors is a trading name of First Sentier Investors (UK) Funds Limited, First Sentier Investors International IM Limited and First Sentier Investors (Ireland) Limited. First Sentier Investors entities referred to in this document are part of First Sentier Investors, a member of MUFG, a global financial group. First Sentier Investors includes a number of entities in different jurisdictions. MUFG and its subsidiaries do not guarantee the performance of any investment or entity referred to in this document or the repayment of capital. Any investments referred to are not deposits or other liabilities of MUFG or its subsidiaries, and are subject to investment risk including loss of income and capital invested.

Past performance is not a reliable indicator of future results.

Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell. Reference to the names of any company is merely to explain the investment strategy and should not be construed as investment advice or a recommendation to invest in any of those companies.

Hong Kong and Singapore

In Hong Kong, this document is issued by First Sentier Investors (Hong Kong) Limited and has not been reviewed by the Securities & Futures Commission in Hong Kong. In Singapore, this document is issued by First Sentier Investors (Singapore) whose company registration number is 196900420D. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore. Stewart Investors is a business name of First Sentier Investors (Hong Kong) Limited. Stewart Investors (registration number 53310114W) is a business division of First Sentier Investors (Singapore).

Australia

In Australia, this document is issued by First Sentier Investors (Australia) IM Limited AFSL 289017 ABN 89 114 194 311 (FSI AIM). Stewart Investors is a trading name of FSI AIM.

United Kingdom

This document is not a financial promotion. In the United Kingdom, this document is issued by First Sentier Investors (UK) Funds Limited which is authorised and regulated in the UK by the Financial Conduct Authority (registration number 143359). Registered office: Finsbury Circus House, 15 Finsbury Circus, London, EC2M 7EB, number 2294743.

European Economic Area ("EEA")

In the EEA, this document is issued by First Sentier Investors (Ireland) Limited which is authorised and regulated in Ireland by the Central Bank of Ireland (registered number C182306) in connection with the activity of receiving and transmitting orders. Registered office: 70 Sir John Rogerson's Quay, Dublin 2, Ireland, number 629188.

Middle East

In certain jurisdictions the distribution of this material may be restricted. The recipient is required to inform themselves about any such restrictions and observe them. By having requested this document and by not deleting this email and attachment, you warrant and represent that you qualify under any applicable financial promotion rules that may be applicable to you to receive and consider this document, failing which you should return and delete this e-mail and all attachments pertaining thereto.

In the Middle East, this material is communicated by First Sentier Investors (Singapore).

Kuwait

If in doubt, you are recommended to consult a party licensed by the Capital Markets Authority ("CMA") pursuant to Law No. 7/2010 and the Executive Regulations to give you the appropriate advice. Neither this document nor any of the information contained herein is intended to and shall not lead to the conclusion of any contract whatsoever within Kuwait.

UAE - Dubai International Financial Centre (DIFC)

Within the DIFC this material is directed solely at Professional Clients as defined by the DFSA's COB Rulebook.

UAE (ex-DIFC)

By having requested this document and / or by not deleting this email and attachment, you warrant and represent that you qualify under the exemptions contained in Article 2 of the Emirates Securities and Commodities Authority Board Resolution No 37 of 2012, as amended by decision No 13 of 2012 (the "Mutual Fund Regulations"). By receiving this material you acknowledge and confirm that you fall within one or more of the exemptions contained in Article 2 of the Mutual Fund Regulations.

United States of America

In the United States, this document is issued by First Sentier Investors International IM Limited, as SEC registered investment adviser. Stewart Investors is the trading name of First Sentier Investors International IM Limited. This material is solely for the attention of institutional, professional, qualified or sophisticated investors and distributors who qualify as qualified purchasers under the Investment Company Act of 1940 (hereafter the "1940 Act"), as accredited investors under Rule 501 of SEC Regulation D under the US Securities Act of 1933 ("1933 Act), and as qualified eligible persons as defined under CFTC Regulation 4.7. It is not to be distributed to the general public, private customers or retail investors.

Other jurisdictions

In other jurisdictions where this document may lawfully be issued, this document is issued by First Sentier Investors International IM Limited which is authorised and regulated in the UK by the Financial Conduct Authority (registration number 122512). Registered office 23 St. Andrew Square, Edinburgh, EH2 1BB number SC079063.

Contact details

Edinburgh

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

London

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

Singapore

58 Duxton Road
2nd & 3rd Floor
Singapore 089522
t. +65 680 59670

Sydney

Suite 10, Level 3
13 Hickson Road
Dawes Point
Sydney NSW
Australia 2000
t. +61 2 8274 8000

info@stewartinvestors.com
stewartinvestors.com