



Stewart Investors  
Sustainable Funds Group

# Stewart Investors Sustainable Funds Group Research Tender Overview

2020 | For professional/institutional/Australian Adviser/US qualified clients only



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This document outlines what we mean by a Research Tender and provides examples of the projects we have commissioned, including a summary of their main insights and engagement items.

At Stewart Investors our investment process is augmented through the use of external research. We find this third party research helpful to challenge our thinking and extend our understanding of sustainable development issues. Historically this research was predominantly from a panel of sell-side providers, whom we paid to access their research product. However, more recently we have sought to broaden our knowledge and provider base by commissioning research from out-with this pool, paying for one-off, standalone articles of research.

The process by which we select and commission this work is referred to as a Research Tender.

The tender process is driven by the Investment team and supported by the Research Management team, who are responsible for coordination of the process, including: provider selection, management of submissions and conclusion of legal matters with the successful provider.



## Why do we commission research?

A vital part of our investment process is trying to understand better in which areas the companies we invest will face sustainability headwinds and the challenges faced by specific industries and sectors.

We often find our key questions on these matters, crucial to our evaluation of investment opportunities and risks, were not adequately addressed by 'off the peg' research.

With a view to exploring the market for new research talent and also to fill the gap in research available on specific issues and areas of interest, we commenced the research tender process in 2015.

We find that commissioning research in this manner is beneficial, because we can define the focus, scope and timing of the projects.

It has also allowed us to select and establish relationships with a wide range of partners with different experiences, perspectives and insights. This includes academics, independent research institutes, consultants, non-governmental organisations and private individuals, as well as the research teams of more traditional brokerage groups and banks.



When a new topic of interest is identified, the Investment team will appoint a project sponsor who will act as a main point of contact and be responsible for any decision making throughout the duration of the project. The sponsor will also produce a project overview to outline the purpose and scope of the project. This is sent to the Research Management team who will work with them to draw up a shortlist of providers, who will then be invited to tender to complete the research. This list of providers may also include a research marketplace, who will in turn advertise the project to their client base.

If interested in tendering to complete the research, providers will be asked to submit a proposal to outline how they would conduct the research, over what timeframe and at what price. On a predetermined closing date, all submissions will be collated and sent to the analyst sponsoring the project. They will then review the proposals and select a successful applicant, who will be notified of their decision. Ahead of commencing any work, a legal contract will be drawn up to formalise the agreement between Stewart Investors and the selected provider.

The sponsoring analyst will liaise with the provider throughout the process to assist with any questions as they may arise. Upon completion of the research, it will be circulated round the Investment team for comments and feedback, ahead of concluding the project.

To close out the research, the sponsor will complete a project 'precis'. This provides a synopsis of the research, its key findings and also details any engagement priorities. The precis will also look to assess the success of the project and our commissioning process, with a view to streamlining our approach as required.



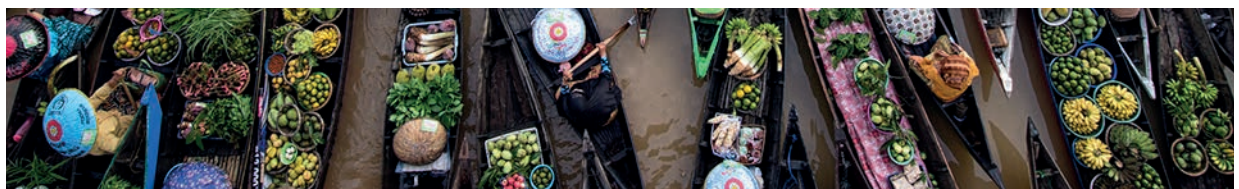
### What lessons have we learned?

The process has been a learning curve, and we have aimed to adapt and refine our approach over time.

Historically the research tenders were released in 'rounds'. However, it became obvious that commissioning a project was more time consuming than anticipated, both in terms of administration and also for the analyst sponsoring the project. Interest in the process far exceeded our expectations, with the first round attracting 62 proposals for 8 projects. Consequently, we now commission projects on an ad hoc basis, as required.

Additionally, we now commission projects by targeting a specific set of providers, rather than publically releasing all tenders to the market. By advertising publically, it became apparent we were receiving proposals from providers we did not feel looked at the world in same way as us, thus reducing the likelihood of a successful outcome. Using a more focused approach appears to yield more relevant proposals. Further, the process has helped build new relationships with a number of providers whom we now know well and understand their areas of expertise. We can call on these providers should a relevant subject matter arise.

On occasion we have had projects where the output has fallen short, or drifted away from our initial aim. We now appreciate it is critical we are clear about the scope of the project and ask the right questions from the outset. A hands-on approach from the sponsoring analyst throughout the process is also crucial to ensure things stay on track and we get the insights and information we are after.

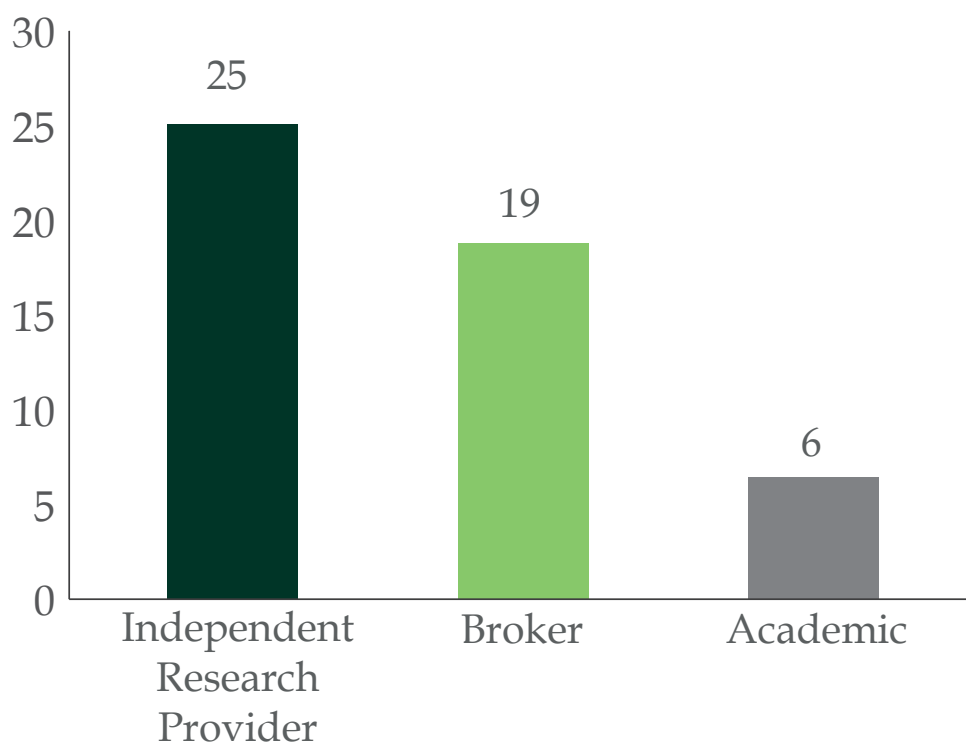


(between January 2016 and October 2020)

- A total of **50** individual research tenders have been commissioned
- These 50 projects have covered **35** individual research subjects
- **31** individual providers have conducted the work
- **19** of these providers have been new to the team
- One provider has gone on to undertake **six** individual projects

### Tenders by provider type

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### How does this support our Investment Philosophy and enhance our investment process?

As outlined above, the research tender process has helped us broaden our knowledge on specific topics and improved our understanding of matters we feel are fundamental to the investment case of some of our portfolio holdings.

The research generated has also added value by: influencing investment decisions, providing thought stimulus and prompting engagement items.

It has also helped us form long-term partnerships with providers of insightful research whom we otherwise would not have known. This in turn supports our aim to have access to a broad range of analysis, and to reward research and providers who add real investment value.



# B Corps and Benefit Corporations

## Background

In 2017, we released a public tender for a research project to help us understand the emerging trend of B Corps and Benefit Corporations.

B Corps are companies accredited by B Lab as meeting certain ESG criteria, while Benefit Corporations are a new form of legal corporate incorporation, which involve a high degree of transparency around sustainability issues, including a binding legal commitment on directors to consider the interests of all stakeholders, not just shareholders. They seemed to us a potential method of countering the short-termism and an unhealthy focus on 'shareholder value' that often drives poor decision making, particularly with regards to long-term sustainability issues. Moreover, we had begun to see a number of listed companies in our markets electing to make the switch and become B Corps, including a large holding in our Global Emerging Markets Sustainability strategies at the time, Natura Cosméticos.

## Why did we commission the Project?

The tender was designed to explore the issues and to help us deduce whether we should be encouraging more listed companies to make the shift. We received 13 submissions, and selected KKS Advisors, a strategy consultancy based in Boston and London to undertake the research.

The final report covered how B Corps and Benefit Corporations function, the motivations, benefits and costs associated with the transition, and the barriers and solutions for publicly-listed companies. It also provided ample case studies to give practical examples from around the world.

## Main Insights/Engagement Items?

The report deepened the team's understanding of the legalities around B Corps and Benefit Corporations, and helped inform us of some of the considerations our investee companies might have around making the change. The report was also picked up by the Office of Legislative Research for Connecticut, to be used to help legislators think through policy options.

We continue to come across B Corps and Benefit Corporations in our search for long-term investment ideas. Our understanding of what this means in practice and the signal it sends has certainly been enhanced by the research undertaken for us by KKS.



Dehli, India

# Packaging leaders in emerging markets consumer companies

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## Background

It is easy to assume plastic packaging pollution is a 'developed country' issue for richer countries to address first. The unfortunate reality is that the human burden of plastic packaging pollution falls most heavily on low income families in emerging markets, in terms of both direct health impacts and the environmental degradation of the land and water they depend on for their livelihoods.

Consequently, in 2016, we released a public tender for a research project to help us understand the progress being made towards packaging sustainability by emerging markets consumer companies.

## Why did we commission the Project?

The report aimed to improve our understanding of three specific areas in respect of packaging sustainability:

- To understand the financial liabilities that consumer companies may face over time if regulations were introduced to internalise the external costs of plastic pollution onto company balance sheets.
- To understand how management teams of these companies think about this risk and develop strategies to deal with it, providing valuable information on the broader quality of management and their ability to develop long-term strategic thinking on sustainability challenges.
- There are several listed recycling companies which are of potential interest to us as investors. We wanted to understand the changing landscape around packaging sustainability, to help us to frame the long-term challenges and opportunities they face.

We received nine submissions, and selected the Institute for Sustainable Futures (ISF) part of the University of Technology, Sydney (UTS), to undertake the research.

## Main Insights/Engagement Items?

The report outlined the complexity in packaging and how good companies need to make informed decisions about inherent trade-offs between alternative sustainability strategies.

We learnt much from the willingness of companies to engage and have since sold several of the companies who refused to participate (Dairy Farm, Standard Foods, Juhayna). While not sold specifically for their failure to take packaging sustainability seriously, their unwillingness to engage can be interpreted as a wider reluctance to evolve their businesses to ensure they are fit for purpose over the next decade and more.

Packaging efficiency was identified as the most natural entry point for companies going on this journey, providing us with a tool to engage smaller companies at the beginning of their journey.

There were also a number of company specific insights:

- There was evidence of clear leadership from the top five companies (Henkel, Unilever, Natura, Beiersdorf and Tesco) who consistently scored highly across most dimensions of packaging sustainability.

- Confirmation, if any was needed, of Natura's environmental leadership. It was way ahead of other GEM-based consumer companies in addressing the packaging challenge.
- We also connected Natura with an Indian company who was much earlier on its journey. The Indian company was keen to learn from Natura. This partnership reflected very well on both companies.
- As a result of this and other ongoing engagement, Vitasoy recently announced a number of initiatives to reduce single-use containers and waste in Hong Kong.

The report was subsequently spotted by the Australian Packaging Covenant Organisation (APCO)\* who at the time were considering how to improve the annual reporting process for its member companies. They consequently commissioned ISF to refine and expand the framework it had developed for the Stewart Investors' research, for use by its members as a self-assessment tool for packaging sustainability.

\*APCO is an independent body charged by the Australian government to make all packaging recyclable, reusable or compostable by 2025.

The report also led to the setup of a Packaging Round Table in India in July 2018. Organised by Stewart Investors in partnership with ISF, the event was attended by industry and academic experts, alongside business representatives from a number of Indian consumer corporates, who convened to share knowledge and work collaboratively with a view to addressing the issue of plastics pollution.

This was our first time working with the ISF/UTS. We were impressed by their work and the project helped to identify them as long-term research partners. UTS have since gone on to undertake a number of research projects on our behalf.



Recycled plastic pressed into bales



# Sustainable sourcing of soy

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## Background

In 2019 we released a tender for a research project to help us understand key sustainability issues in soy production.

Feeding the planet's growing population will become increasingly difficult unless land remains productive. But land is under growing human pressure, and this pressure is being intensified by climate change. Agriculture, forest loss and land use change are major contributors to climate change, responsible for almost a quarter of greenhouse gas emissions.

Soy is one of several agricultural commodities driving major land use change, forest loss, increased emissions, social displacement and some problematic aspects of genetic modification. Like palm oil, soy is deeply but almost 'invisibly embedded' in the food system and in cosmetics production. As a result, consumer companies have largely been shielded from the externalities of soy production and trade – more so than for many other commodities.

## Why did we commission the Project?

Our tender was designed to identify the key sustainability issues in the soy value chain and how these are addressed by 10 consumer companies.

We received 10 submissions and selected NIRAS-LTS International, an Edinburgh-based environmental consultancy and project management firm (part of the NIRAS Group) to undertake the project.

## Main insights/Engagement Items

The report identified seven main sustainability issues:

1. Deforestation and biodiversity loss
2. Genetically modified organisms, the (sometimes associated) application of herbicides and pesticides, and water contamination
3. Environmentally damaging outputs such as greenhouse gas emissions and non-recyclable packaging
4. Land grabbing and the treatment of local communities
5. Treatment of workers and safeguarding of rights, health and safety
6. Sustainability leadership and engagement with relevant protocols, certification initiatives and sustainability standards
7. Supply chain traceability

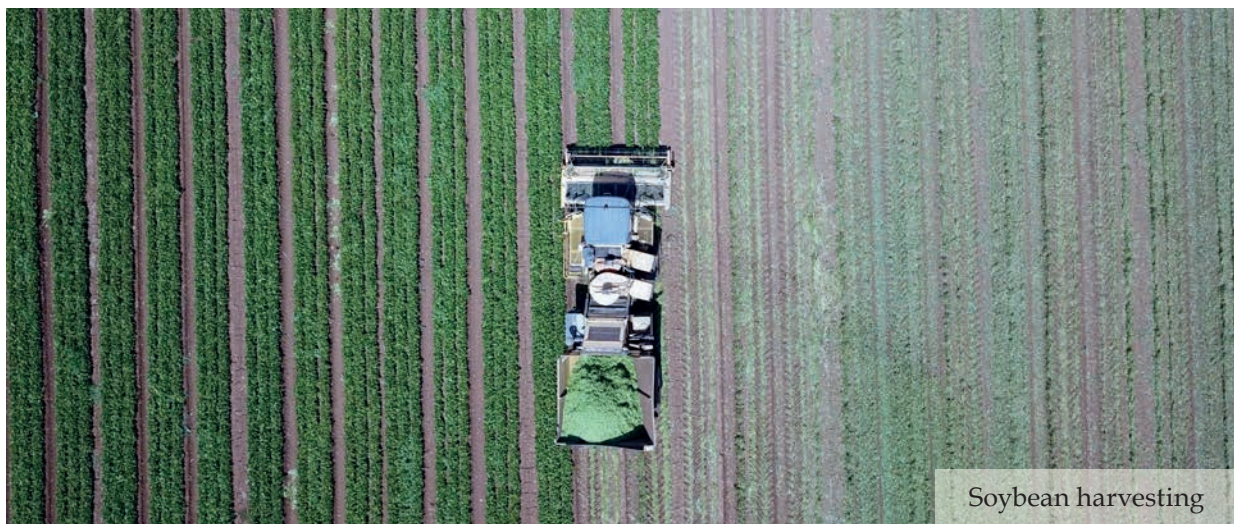
The research also assessed and ranked the 10 companies on their approach to these issues and highlighted issues for engagement.

The report helped us appreciate that a small number of producers and trading houses have considerable control and oversight of key parts of the soy value chain, and thus over many of the

sustainability issues in soy production. Brand owners and retailers (including the companies assessed) have limited direct influence over the nature of soy supply, including where and how it is grown.

As a result of this project, we are better equipped to engage with the companies concerned on the research findings and point to areas where improvements can be made. In particular the report identified:

- Some recommendations that enabled us to engage with Vitasoy.
- Unilever, Danone and Nestlé as leaders based on the sustainability criteria.
- Very few Western companies are taking a strict no-GMO stance or a pro-active stance on GMO labelling, but Asian companies are.
- Few companies have publicly stated ambitions to make soy supply chains transparent and traceable and only two have a robust, comprehensive soy specific policy. However, several have produced commentary on their approach to sustainable soy sourcing.



Soybean harvesting



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