Stewart Investors
Sustainable Funds Group

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Worldwide Sustainability Strategy

Investment rationales

31 December 2020

Investment terms

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

01. A. O. Smith - Family - Founded in 1874 by Charles Smith - the Smith family own 16% with some family still on the Board

Company profile:

A. O. Smith makes high-end, energy efficient water heaters and purifiers, as well as air purification products.

What we like:

- We believe the business is run by a very capable, long-tenured, professional management team which has maintained a strong culture, based on honesty and integrity.
- The company is financially strong and has growth potential in emerging markets, particularly in China and India. It maintains an industry-leading position in the US.
- A. O. Smith are well positioned to benefit from sustainability tailwinds, including trends towards energy efficiency and emissions reduction, as well as the increasing need for air purification products, particularly in emerging markets.

Risk:

We believe that risks for the company include changes to the pricing and competitive environment, a slowdown in growth from China or fallout from the US-China trade disputes.

Relevant Sustainable Development Goals:

A.O. Smith has developed a technology that increases the yield of clean water from reverse osmosis water treatment products by up to 200%.

Quality water heaters drive energy efficiency, thereby lowering fuel consumption and emissions, meanwhile their products last 14 years on average.

Areas for engagement:

- Debt levels and use of buy-backs.
- Stopping stock splits.

02. Ain Holdings - Entrepreneur - Founded by Mr Otani in 1982 who still owns 9% of the business and remains the Chair of the Board

Company profile:

Ain operates exclusively in Japan as a franchisor of pharmacies, dispensing prescription and generic drugs, as well as being an operator of drugstores selling consumer health and food products.

What we like:

- The company is well positioned to meet the growing demand for medicines in a country with a rapidly aging population and its mission is aligned with the Japanese government's goal of improving access to more affordable generic drugs.
- We believe it is a well-stewarded, owner-managed franchise with a clear sense of purpose which has proven it can navigate the tough government-controlled pharmaceutical pricing and reimbursement regime.
- Ain's share of the highly fragmented and competitive dispensing market is small, but it has the potential to lead consolidation and benefit from it because of its financial strength.

Risk:

Revenues ought to be relatively defensive as they are derived largely from non-discretionary spending by consumers. We believe that risks for the company include sudden, or far-reaching, changes in the pricing and competitive environment.

Relevant Sustainable Development Goals:

Ain dispenses prescription and generic drugs, consumer health and food products, helping to meet the growing demand for medicines and health related products in a country with a rapidly aging population. They also offer breast cancer screening and education programs.

Through their large distribution network, Ain are providing easy access to healthcare in communities around Japan.

Areas for engagement:

- Gender diversity in the management team and Board.
- Remuneration structures.

03. Alcon - Free Float - Run by professional management

Company profile:
Alcon is a US-listed manufacturer of prescription contact lenses, equipment for eye surgery and other eye-care products. The business has been operating for over 70 years under various ownership structures, but has recently been spun out from Novartis and is now a standalone company.

What we like:

- We believe Alcon's competitive advantage is derived from its strong brands, reputation for high quality products, established relationships with eye surgeons and health care professionals, as well as its global scale in manufacturing and distribution.
- The company has the largest installed base of surgical equipment in the world, providing a 'one stop shop' for health care professionals.
- They also benefit from sustainability tailwinds due to favourable demographics.
- Revenues should be resilient through the cycle. Margins have been weaker in the last few years due to increased investment in research & development, manufacturing and the workforce, which should benefit the business in the longer term.

Risk:
We believe that risks for the company include product liabilities, disruption from new technology and increased competition.

Relevant Sustainable Development Goals:

Alcon's suite of surgical equipment and eye care products help to improve vision which in turn dramatically improves people's quality of life as well as supporting mental well-being.

Correcting people's vision advances socio-economic development through increased participation and productivity by allowing children to flourish at school and adults to succeed in the workplace. Alcon partner with organisations to provide training and equipment to surgeons in emerging markets and have developed portable machines for procedures where there is no water or electricity. As a result, hundreds of thousands of underserved patients have received quality eye care services they might not have otherwise received

Areas for engagement:

- Debt levels.
- Internal controls, historical allegations of fraud and price fixing.

04. Alfen - Free Float - Run by professional management

Company profile:
Alfen is a company that is operating at the heart of the sustainable energy revolution. It has been a leader in supplying transformer substations for over 80 years, and has successfully transitioned into an end-to-end renewable energy systems integrator, including smart grids, electric vehicle charging stations and energy storage systems.

What we like:

- Alfen's products help to transform, store and distribute electric energy and is a key component in connecting solar farms and wind turbines to the grids.
- It was listed in 2018 and continues to experience rapid growth, both within the Netherlands and is now expanding organically and inorganically throughout Europe.
- It is an asset light business model, with a reputation for high quality, technologically advanced products, including their proprietary, platform agnostic, software.
- The business benefits from cross-selling between their business lines and all three segments are expanding their recurring service revenues.

Risk:
We believe risks for the company relate to increasing competition, changing government regulations and subsidies as well as technological disruption.

Relevant Sustainable Development Goals:

Alfen's unique offering combining its smart grids, EV charging and energy storage solutions are helping to accelerate the transition to a sustainable energy system. Their products help to transform, store and distribute sustainable electric energy and is a key partner in connecting solar farms and wind turbines to the grids.

Alfen continues to invest in research & development for new sustainable solutions. Some examples of recent innovations include a second generation mobile energy storage solution for locations where temporary green energy is required such as festivals and events, a high density stationary storage concept which accommodates higher capacities in similar-sized containers, dedicated EV chargers for the German and French market, and being one of the world's first to receive full Open Charge Point Protocol (OCPP) 1.6 certification.

Areas for engagement:

- Diversity on the Board and management team, and the size of the Board.

05. ANSYS - Free Float - Run by professional management

Company profile:
Ansys is a global leader in engineering simulation and software. It has a large customer base spanning diverse industries and a track record of conservative and responsible stewardship.

What we like:

- The company's software enables researchers and engineers to simulate and predict how new product designs will perform and behave in real world environments.
- By facilitating a shift from hardware to software-based design, innovation and testing, the company is helping improve efficiency, reduce innovation costs and time, and improve safety and reliability.
- Ansys is contributing to a shift towards a more circular economy by enabling product developers to minimise wastage and optimise product design, performance and the use of materials.
- The company is three times the size of its nearest competitor in terms of sales and three-quarters of its business is repeatable.
- Ansys is debt-free and spends more than 15% of its revenue on research & development.

Risk:

We believe that risks for the company include a scaling back of IT spending in an economic downturn and technological breakthroughs which render the company's competitive advantage obsolete.

Relevant Sustainable Development Goals:

Ansys' software can develop thousands of designs for products in the same time it takes to make one physical prototype, driving innovation across multiple industries. They are facilitating a shift from expensive hardware to efficient software-driven design & safety testing and contributing to the circular economy by allowing developers to optimise product design, performance, reliability and efficient use of materials.

Their software contributes to a shift towards a more circular economy by enabling product developers to minimise wastage and optimise product design, performance and the use of materials. Sustainability examples include: fuel efficiency in vehicles, improving wind turbine design and enhancing water pump efficiency.

Areas for engagement:

- Diversity on the Board.
- Complex remuneration structures.
- Increasing revenues from the defence industry.

06. Arista Networks - Entrepreneur - Founder owner, Andy Bechtolsheim, owns c.17% of the company and CEO owns c.5%

Company profile:
Arista is a global leader in networking hardware and software solutions that are used to enable high speed internet connections and cloud computing.

What we like:

- Arista is a well-regarded technical founder chaired young company with a high quality management team that has executed very well.
- It is an innovator that enables the internet and cloud to become faster and more efficient.
- The business has strong tailwinds from digitalisation, adoption of the cloud and 5G.

Risk:

We believe risks include concentration of sales with key customers, including Microsoft and increasing competition.

Relevant Sustainable Development Goals:

Arista's products and software enables the internet to be quicker and more reliable aiding innovation and greater productivity. Arista Networks serves cloud, enterprise and service provider customers and is essential to the continued operation of critical infrastructure.

Arista assists with economic growth, supporting technological innovation and supporting the connectivity of individuals and businesses.

Areas for engagement:

- Sustainability considerations in their choice of suppliers.
- Sustainability reporting.

07. Atlas Copco - Family - Venture capital firm Investor AB owns 17%, which is founded and run by the Wallenberg family

Company profile:
Founded in 1873, Atlas Copco is one of the highest quality industrial companies in Europe. It is a conglomerate, comprising of businesses that manufacture compressors, vacuum solutions, generators, pumps, power tools and assembly systems.

What we like:

- Atlas Copco are the clear global leader in compressors, being three times the size of their nearest competitor.
- It is a highly decentralised business model with a wonderful culture characterised by a deep respect and trust in individuals, and a quest for continual improvement and innovation.
- It is an asset light business model, outsourcing 75% of its manufacturing capability which allows for higher flexibility and higher margins. c.60% of its revenues are generated from equipment sales and 40% from rental and aftermarket services which also provide stability of cash flows.
- The business grows organically and via mergers and acquisitions and has substantial exposure to growth from emerging markets. The conservative balance sheet, high returns and cash generative nature of the business also makes this an attractive proposition.

Risk:

We believe risks to the company include their reliance on cyclical sectors such as manufacturing, automotive and semi-conductors as well as heightened competition, emphasised by the recent merger between Ingersoll and Gardner Denver.

Relevant Sustainable Development Goals:

Atlas products are designed around a goal for energy efficiency and is a key selling point for the business. One of the Group's most ground-breaking innovations is the VSD (variable speed drive) technology in compressors. This is a good example of an innovative technology which helps customers increase their energy efficiency, reduce carbon-dioxide (CO2) emissions and at the same time reduces cost.

Atlas Copco has been successfully increasing the amount of reused, recycled and recovered waste from their product designs. Specifically, they also manufacture abatement systems that remove greenhouse gases from the air in the semiconductor industry.

Areas for engagement:

- Exposure to the oil and gas industry.
- Increase circularity (re-use and recycle) in the design of their products.

08. bioMérieux - Family - The Mérieux family own 59% and Alexandre Mérieux is the CEO/Chairman

Company profile:
bioMérieux provides instruments and solutions that are used for diagnosing infectious diseases, cancer screening, as well as detecting microorganisms in agri-food, pharmaceutical and cosmetic products.

What we like:

- bioMérieux are a global leader in microbiology (culturing biological samples, identifying microorganisms and measuring resistance to antibiotics) and are growing quickly in molecular biology, including syndromic tests.
- The company benefits from long-term economic stewardship from the Mérieux family who have dedicated themselves to the healthcare sector for generations.
- Roughly 90% of their revenues come from reagents and services which makes this a resilient and predictable business model.
- Growth opportunities remain from international expansion, further growth and scale from molecular biology and merger & acquisitions.

Risk:

We believe risks to the company relate to disruptive technologies, product quality issues and competition.

Relevant Sustainable Development Goals:

bioMerieux' products are used for diagnosing infectious diseases, cancer screening and monitoring, and cardiovascular emergencies.

Innovation has been at the heart of bioMérieux's strategy since the Company's beginnings and is developed through international, multidisciplinary public and private-sector collaborations with academic research organisations, the medical and scientific community, and cutting-edge biotech companies.

Areas for engagement:

- Diversity in senior management and separate the Chair/CEO role.
- More ambition around circular economy.

09. Chr. Hansen - Foundation - The Novo Nordisk Foundation own 22% of the company

Company profile:
Chr. Hansen is a leading manufacturer of natural ingredients for the food, nutritional, pharmaceutical and agricultural industries.

What we like:

- Its cultures and enzymes are used in the dairy industry predominantly, but are also used to improve the yield, taste, nutritional value and shelf life of a wide range of foods. They also offer probiotics for dietary supplements, infant formula, animal feed, as well as microbes to naturally improve plant and soil health.
- 82% of Chr. Hansen's revenues contribute directly to the UN Sustainable Development Goals (source: https://www.chr-hansen.com/en/about-us) and we believe the company is well positioned to benefit from increasing trends towards natural food and healthy lifestyles.
- Founded by Christian Hansen in 1874, the company has been through a number of ownership structures, including being owned by the Lundbeck Foundation, followed by a stint under private equity ownership.
- The Novo Nordisk Foundation is the largest shareholder of Chr. Hansen, which provides stable and long-term stewardship.

Risk:
We believe the risks for the company include increasing competition and slowing dairy sales, particularly in China.

Relevant Sustainable Development Goals:

Chr. Hansen supports farmers in meeting rising food demands in a sustainable way. Their products allow farmers to eliminate their use of pesticides and antibiotics, helping to safeguard the environment, local communities and animal welfare.

Chr. Hansen's natural ingredients help food manufacturers to produce food with less salt, fat and sugar and eliminate the need for artificial additives and colours. Their natural bacteria and probiotics help to boost health, including supporting the gut health of adults, children and babies.

Areas for engagement:

- Debt levels.
- Diversity in executive leadership.

10. Cochlear - Free Float – Run by professional management

Company profile:
Founded in 1981, Cochlear has grown to become the market leader in implantable hearing solutions, and has commanded roughly 65% of global market share consistently for the last decade.

What we like:

- Cochlear's significant investment in research & development has created a strong technological advantage and their strong brand is built on trust.
- The business is well placed to support an increasingly aging population in developed markets whilst further growth opportunities exist within emerging markets.
- The service business accounts for more than a quarter of sales which provides recurring cash flows that are set to increase alongside the growing base of implant recipients.

Risk:
We believe Covid-19 offers some short-term headwinds for the company due to delayed elective procedures however, we believe the longer term prospects are attractive. Other risks relate to product safety, tightening healthcare budgets and advances in gene therapy.

Relevant Sustainable Development Goals:

The WHO has estimated that over 460 million people – over 5% of the world's population – live with disabling hearing loss, which includes 1 in 3 people over the age of 65. With prevalence rates rising, the global cost of unaddressed hearing loss has been estimated at $750 billion per year. If left untreated, hearing loss can have severe mental, physical and physiological problems. In adulthood it is associated with greater unemployment, increased risk of poor health, depression and dementia.

Cochlear collaborates with the world's leading clinicians and researchers to improve patient outcomes and enhance lives, including funding the Cochlear Centre for Hearing and Public Health in partnership with John Hopkins Bloomberg School of Public Health.

Areas for engagement:

- Gender diversity.
- Product pricing/Increasing universal access.

11. Coloplast - Family - 36% owned by the Louis-Hansen family, Niels Peter Louis-Hansen sits on the Board

Company profile:
Coloplast is a global leader in ostomy, continence, urology and wound care products which aim to make life easier for people with deeply personal and private medical conditions.

What we like:

- We believe the business benefits from long-term stewardship from the founding family; the son of the founder remains on the Board and the family own over a third of the company.
- It operates in a niche medical segment, has an excellent reputation for high quality products and has built up long-term brand loyalty from both patients and physicians.
- They continue to expand their product range and are targeting further growth from increasing market share in the US as well as emerging markets, including China.
- The business generates strong cash flows and high returns and is well placed to benefit from structural healthcare trends.

Risk:

We believe that risks for the company include changes to healthcare reimbursement regimes, product failures and increasing competition.

Relevant Sustainable Development Goals:

Coloplast's products (colostomy bags, urinary incontinence products and more) make a significant difference to the quality of life of the thousands of people with deeply personal and private medical conditions.

Coloplast partner with local and international organisations to improve access to healthcare and improve conditions for those with intimate healthcare needs. This includes anything from forming end user groups to address quality of life issues, to working with policy makers to improve standards of care and simplify the reimbursement environment for those with intimate healthcare needs.

Areas for engagement:

- Gender diversity on the Board.
- Recyclability of products/reducing medical waste.

12. Constellation Software - Entrepreneur - Founded by Mark Leonard in 1995

Company profile:
Constellation Software is an international provider of software and services, which acquires, builds and manages a broad portfolio of niche market-leading software businesses. Examples of acquired businesses include anything from clinical research software for the medical industry, to case management for social workers and law enforcement agencies.

What we like:

- The business funds the majority of its acquisitions from its own free cash flow and focuses on purchasing companies that offer specialised software solutions, with high market share, high switching costs and a diversified customer base.
- It is a low capital intensity and high returns business, with an excellent track record of success.
- The founder, Mark Leonard continues to run the company with a long-term, conservative mindset and in our opinion, shows clear signs of integrity e.g. he takes no salary or bonus from the business.

Risk:

We believe that risks for the company include unsuccessful acquisitions as well as an economic slowdown, although a slowdown would likely present them with an excellent opportunity to capitalise on lower acquisition purchase prices.

Relevant Sustainable Development Goals:

Many of the companies that Constellation Software has acquired over the years serve important social needs, such as enhanced public services for cities, information systems for schools and supporting efficient transit systems.

Constellation Software has acquired two companies, Delta Logic and Equivant which support the legal system by providing justice information to help courts, clerks and law enforcement agencies.

Areas for engagement:

- Diversity.
- Exposure to the fossil fuel sector.

13. CSL - Free Float - Run by professional management

Company profile:
CSL is a high quality global franchise that rose to prominence almost 100 years ago when it developed an influenza vaccine during the Spanish Flu pandemic.

What we like:

- The company has a dominant market position in blood plasma derivatives, for which there are no alternatives. It operates one of the world's largest plasma collection networks and is the chosen national plasma fractionator in several Asian countries.
- CSL is also one of the largest global providers of influenza vaccines. It is well placed to capitalise on growth opportunities created by the growing demand for vaccines and plasma-derived products in emerging markets where access to treatment is improving.
- CSL is a highly cash generative company with a reputation for consistently paying impressive dividends to shareholders.
- Management is strong, stable and focused on the safety and security of all CSL products.

Risk:

We believe that risks for the company include changing government regulations, healthcare reforms, collection processes and product safety.

Relevant Sustainable Development Goals:

CSL provides blood plasma biotherapies used for treating rare diseases, supporting organ transplants, and developing vaccines and anti-venom serums. During the H1N1 pandemic, CSL donated 1.453 million doses of vaccines to the WHO (World Health Organisation) to help at risk low income countries.

CSL promote research and scientific collaboration and partnerships among academic and industry research participants. These partnerships often result in shared knowledge, intellectual property or products.

Areas for engagement:

- Publication of donor data (especially social data) and ensuring proper regulation of their collection practices.

14. Demant - Foundation - Run by professional management and 55% owned by the Oticon Foundation

Company profile:
Demant is the second largest hearing health company in the world and draws on more than 115 years' experience of treating hearing loss.

What we like:

- Hearing aids and diagnostic technologies account for the bulk of revenues, while the implants business is small but growing quickly.
- Demant benefits from significant tailwinds from an aging population, with the number of people over 65 more than doubling over the next 30 years.
- By investing consistently in research & development the company remains at the forefront of innovation, which increasingly is focused on the opportunities digital and mobile technologies offer for greater patient interaction, dynamic data exchange and real-time optimisation of device performance.
- A key competitive advantage lies in the strong relationships the company has built with audiologists around the world.

Risk:

We believe that risks for the company include intense competition, industry consolidation and changes in the regulatory environment in different countries, as well as excessive indebtedness and an overreliance on share buybacks to generate shareholder returns.

Relevant Sustainable Development Goals:

Demant's products help to improve the hearing health of millions of people around the world which in turn improves their well-being and overall quality of life. They also donate over 100 million DKK to research, education and projects aimed at alleviated hearing loss all over the world.

Demant enhances scientific research and innovation through funding research projects, partnering with universities and research institutions, as well as having their own state of the art research centre.

Areas for engagement:

- Levels of debt and use of buy backs.
- Diversity in the Board and management team.

15. DiaSorin - Family - 45% owned by the Denegri family

Company profile:
DiaSorin is an Italian multinational biotechnology company that produces and markets equipment and testing materials for in-vitro diagnostics - tests conducted on a sample of bodily fluid in labs that detect diseases.

What we like:

- Management are professional, long-term focused stewards who own a large amount of the company following a management buyout.
- The franchise has ample barriers to entry in the form of research & development expertise, distribution networks and regulatory hurdles and the company's strong balance sheet demonstrates careful stewardship.

Risk:

We believe that risks for the company include changing regulatory environments, increasing competition and disruption from new diagnostic technologies.

Relevant Sustainable Development Goals:

DiaSorin's tests allow for the early and accurate diagnosis of illness and in turn improves treatment quality and likelihood of patient recovery.

DiaSorin supports innovation through multiple partnerships with research centres, universities, clinics and scientific institutions to advance the science of diagnostics.

Areas for engagement:

- More efficient in-process use of chemicals and water and improved downstream use and handling of hazardous chemicals and waste.
- Improving access to their products in emerging markets.

16. Diploma - Free Float - Run by professional management

Company profile:
Diploma is a broad collection of niche distributors of technical products and services within three segments: Life sciences (healthcare and environment), Seals (sealing products, gaskets, filters etc) and Controls (wiring, cables, fasteners etc).

What we like:

- The company follows a proven philosophy whereby they purchase high quality small-medium sized enterprises that sell niche products with leading market shares and high barriers to entry.
- These businesses operate independently within Diploma, whilst also benefitting from economies of scale and efficiencies in areas such as shared warehousing.
- It is a cash generative business with high returns and a consistently net cash balance sheet.

Risk:

We believe that risks for the company include unsuccessful mergers & acquisitions and an economic downturn.

Relevant Sustainable Development Goals:

The healthcare business (24% of revenues) comprises of suppliers of products for diagnostics test kits, consumables, surgical devices and hospital supplies which all aid human health and welfare.

The environmental business includes products which monitor greenhouse gas emissions (GHG) as well as environmental analysers which detect and measure sulphur and nitrogen being released from the petrochemical industry.

Areas for engagement:

- Gender diversity.
- Sustainability reporting.

17. Edwards Lifesciences - Free Float - Run by professional management

Company profile:
Edwards Lifesciences develops products that support the large and growing patient populations with cardiovascular disease, to live longer, healthier and more productive lives. Their products include tissue replacement heart valves and repair products, as well as transcatheter heart valves for those patients considered at greater risk for conventional valve replacement.

What we like:

- We believe the company has a wonderful, patient focused culture, led by a thoughtful and impressive CEO.
- It is a niche healthcare company, focused on alleviating the number one cause of death globally, cardiovascular disease, which kills almost 18 million people each year.
- The majority of their significant research & development spend is focused on heart valves and transcatheter technologies versus their competitors that are more diversified healthcare businesses.
- The company has a net cash position, strong balance sheet, cash-generating abilities and long-term sustainability credentials.

Risk:

We believe that risks for the company include product failure, increasing competitive pressure and government interventions on pricing.

Relevant Sustainable Development Goals:

Edwards Lifesciences is dedicated to improving the lives of patients with structural heart disease by developing world leading artificial heart valves, transcatheter therapies and surgical monitoring technologies.

The company collaborates with the world's leading clinicians and researchers to address unmet healthcare needs, working to improve patient outcomes and enhance lives.

Areas for engagement:

- Access to healthcare for all.
- Payments to doctors.

18. Energiedienst - State Owned Enterprise - Run by professional management with shareholder ownership from a German state and Swiss Canton

Company profile:
Energiedienst is a vertically-integrated German/Swiss group of companies providing renewable and environmentally-friendly energy to residential and commercial customers. The company has been a producer of renewable energy for over 100 years, focusing largely on hydro-electric power.

What we like:

- The business is evolving from being a pure energy provider to offering more services to help customers generate and use energy themselves. These services range from consulting on energy efficiency, through to selling solar panels, heat pumps, storage systems, smart metering, and charging stations for electric vehicles.
- The business has a high market share and strong local relationships within their operating region of southwest Germany and central/southern Switzerland.
- The company is run by an experienced management team with a conservative track record and has controlling shareholder ownership from a German state and Swiss Canton.
- A net cash position, strong balance sheet, cash-generating abilities and sustainability credentials make this an attractive investment.

Risk:

We believe that risks for the company include overcapacity in the German energy market, weather-related droughts, falling energy demand and changing government policies.

Relevant Sustainable Development Goals:

Energiedienst generates and provides clean energy from hydropower supplemented by carbon neutral natural gas for residential and commercial customers in Germany and Switzerland.

Domestic thermal heating, photovoltaic installation, smart metering and electric vehicle sharing and charging solutions help reduce energy consumption and pollution and improve overall quality of life.

Areas for engagement:

- Reduce reliance on natural gas to supplement supplies.
- Continue to improve measures for the safe passage of marine and bird life in their hydro operations.

19. Fanuc - Free Float now but some family members remain on the Board

Company profile:
Founded in Japan in 1958, Fanuc has grown to become the largest maker of industrial robots in the world, focusing on computer numerical control (CNC) systems, lasers and robot systems.

What we like:

- The company boasts world leading technology and is set to benefit from structural tailwinds from industrial Internet of Things (IoT) trends.
- It has very high technical barriers to entry, long-term relationships with customers, a strong brand and a reputation for quality.
- It has a unique culture and strong commitment to its principles, including belief of simple design, innovation, concentration and a sense of urgency to always stay ahead of competition.
- It is a cash generative business with a consistently net cash balance sheet. Their products support stricter control of product quality, enhance factory efficiency and support industries with a lack of key skilled workers.

Risk:

We believe that risks for the company include cyclicality in end markets, economic slowdowns and increasing competition.

Relevant Sustainable Development Goals:

Fanuc is a world leader in industrial automation supporting efficiency and innovation in a wide variety of industries including automotive, electronics, consumer etc.

Fanuc manufacture high quality products with a 'lifetime guarantee' where Fanuc provide repairs and support services for as long as the company owns the product.

Areas for engagement:

- Increase transparency of financial accounts.
- Gender diversity.

20. Fisher & Paykel Healthcare - 100% Free Float

Company profile:
A world-leading designer, manufacturer and marketer of products and systems in respiratory care, acute care, surgery and the treatment of obstructive sleep aponea..

What we like:

- A world-class franchise with an outstanding reputation and leading market share across all of their markets.
- Cash flows are resilient thanks to 85% of sales coming from consumable products, while significant investment every year into research and development (R&D) cements technological leadership.
- Their products have a material role in improving quality of life for patients and reducing healthcare costs: a very attractive proposition for healthcare providers globally.

Risk:

We believe that risks to the company include reduced healthcare budgets and stretched resources from expansion overseas.

Relevant Sustainable Development Goals:

The provision of innovative healthcare devices that improve the health and quality of life for people all over the world.

Committed to improving environmental management system, reducing greenhouse gas (GHG) emissions and carbon disclosure project.

Areas for engagement:

- Gender equality.

21. Fortinet - Entrepreneur - Founded and run by brothers Ken and Michael Xie who own 14%

Company profile:
Fortinet is a US-listed cybersecurity company that develops and markets hardware and software services, such as firewalls, anti-virus, intrusion prevention and endpoint security.

What we like:

- The company was founded in 2000 by two entrepreneurial brothers Ken and Michael Xie, who have over 30 years of experience in the industry and still own roughly 14% of the company. The brothers continue to provide long-term, competent stewardship and remain actively involved in the business.
- Listed in 2009, Fortinet has grown at an average of 24% per annum and is the second largest cybersecurity company by revenues.
- The company is set to benefit from continued structural growth tailwinds, including the rollout of 5G broadband, increasingly distributed enterprises, and greater volumes of data and transactions.
- Their focus on network security combined with consistently high research & development, helps them maintain a technological advantage.
- The business has robust cash generation, the balance sheet has zero debt, and more than half of assets are cash or equivalents. .

Risk:

We believe that risks for the company include potential data/security breaches, competition and technological disruption.

Relevant Sustainable Development Goals:

Fortinet provides necessary defences and protections in an increasingly virtual world. Fortinet's global threat map (https://threatmap.fortiguard.com/) records cybersecurity threats encountered and resisted. In the US alone, it records 170,000 malicious website accesses, 545,000 network intrusion attempts and 140,000 malware programs are blocked per minute.

Fortinet play a crucial role in protecting a wide range of customers including financial services, telecommunication companies, education, healthcare, government and retail.

Areas for engagement:

- Understand more about sharing of data, e.g. with the US government.
- Gender diversity.

22. Godrej Consumer Products - Family - Founded by Ardeshir Godrej in 1897. The Godrej family still owning 62% - Adi Godrej is Chair of the Godrej Group and Nisa Godrej is Chair of Godrej Consumer

Company profile:
Godrej Consumer has established itself as a leading emerging markets consumer goods company. The company is a leading supplier of household insecticides, helping millions of people in tropical climates curtail the spread of malaria and other diseases.

What we like:

- The Godrej family, with a 62% stake in the company, provide long-term stewardship and continue to be actively involved in the business.
- The franchise is highly cash-generative, ambitious and innovative, with products launched in the last five years accounting for 70% of revenues and 20% of global growth. Revenues are split evenly between India and international markets, with positive growth momentum in Asia, Africa and Latin America.
- The business culture is built on integrity and trust and the impressive 'Godrej Good and Green' strategy offers a vision for a more inclusive and sustainable India.

Risk:
We believe that risks for the company include international expansion, Mergers & Acquisitions (M&A) and debt. Another risk is issues around financial quality, including the use of complex reverse factoring arrangements and Mauritian tax structures.

Relevant Sustainable Development Goals:

Godrej's personal care products and household insecticides help curtail the spread of malaria and other diseases. In 2016, they commissioned a project to help eliminate mosquito borne endemic diseases, by improving the knowledge and awareness of communities through behaviour change campaigns.

They have ambitious goals to reduce energy use, waste and address the issue of plastic packaging. By 2025, they aim to reduce packaging consumption per unit of production by 20%; ensure that 100% of their packaging material is recyclable, reusable, recoverable or compostable and use at least 10% Post-Consumer Recycled content in their plastic packaging.

Areas for engagement:

- Debt levels
- Improving financial quality by reconsidering use of complex tax structures e.g. Mauritian tax structure

23. Halma - Free Float - Run by professional management

Company profile:
Halma's history dates back to 1872, originally operating as a tea company. Today it has transformed into an impressive group of nearly fifty industrial businesses focused on protecting and improving the quality of life for people worldwide.

What we like:

- Halma's underlying businesses are global or national leaders in non-cyclical, niche markets and fit into one of four segments: infrastructure safety, medical, environmental and analysis, and process safety.
- The company has a consistent track record of sticking to its proven mergers & acquisitions (M&A) philosophy, which results in consistently generating excess cash flows which are used to purchase more businesses.
- The company is also set to benefit from structural growth tailwinds including urbanisation, growing safety regulation, increasing demand for healthcare, energy and water, whilst at the same time, expanding into emerging markets.

Risk:

We believe that risks for the company relate to the levels of debt on their balance sheet, poor execution in M&A or product related failures.

Relevant Sustainable Development Goals:

Halma's technology helps to diagnose and treat disease earlier and more accurately; to improve road safety and to reduce water and air pollution.

Halma's products and services help to ensure access to clean drinking water; to ensure efficient and effective wastewater treatment; and to maintain robust water and wastewater networks, minimising leakage and maintaining pressure.

Areas for engagement:

- Circular economy design of products.
- Transparency of underlying businesses.

24. HDFC - Free Float - run by professional management

Company profile:
HDFC is the leading provider of housing loans in India and is one of the strongest and most trusted brands in the country.

What we like:

- Founded in 1977 by the late and visionary Shri H.T. Parekh, HDFC has a strong value system and a vital role to play in addressing the widening rural-urban wealth divide in India.
- The company is well positioned to serve the country's growing mid-pyramid housing finance segment which is still under-penetrated and under-supplied.
- The HDFC franchise has been built on making small loans and the maintenance of consistently high asset quality with very low default rates. The ethos and track record of conservative mortgage lending has permeated the company's approach to establishing and operating its insurance, general banking and asset management businesses.

Risk:
We believe that risks for the company include increasing competition, changes to capital requirements and property price collapses.

Relevant Sustainable Development Goals:

53% of HDFC's banking outlets are situated in rural or semi-urban areas and their Sustainable Livelihoods Initiative provides financial services and financial literacy training to people at the bottom of the pyramid. This initiative has helped more than 8.1 million households since inception.

Their Sustainable Livelihood Initiative focuses particularly on supporting underprivileged women in rural parts of India. The bank 'firmly believes that by empowering women, we empower family, society and in the ultimate analysis, the nation'.

Areas for engagement:

- Integration of Environmental, Social and Governance (ESG) principles into lending processes.
- Improving sustainability reporting.

25. Hoya - Family - Founded in 1941, by the Yamanaka brothers - the current CEO is the third generation of the founding family, who continue to own c.2% of the company today

Company profile:
Founded in 1941 in Tokyo, Hoya is a leading global med-tech company, manufacturing lenses for eyeglasses, contact lenses, medical devices as well as key components for semiconductor devices and other electronic equipment.

What we like:

- The current CEO is the third generation of the founding family, who continue to own a small proportion of the company today.
- The business strategy has been to focus on niche industries where they can be a dominant player and use the cash flows from the mature IT business to invest further in life care.
- Hoya have fostered a strong and unique culture, with the majority of employees coming from overseas.
- The business generates strong cash flows, is net cash and benefits from long-term structural growth from an aging population and better access to healthcare in emerging markets.

Risk:
We believe that risks for the company include management succession, cyclicality of the semiconductor and IT business, and increasing competition.

Relevant Sustainable Development Goals:

Hoya's lens business helps improve vision which dramatically improves people's quality of life as well as supporting mental well-being. Hoya also donates one euro for each pair of Hoyalux iD premium multifocal lenses sold to OneDollarGlasses, a charity organisation dedicated to helping people to receive affordable glasses that can improve their quality of life.

Correcting people's vision advances socio-economic development through increased participation and productivity by allowing children to flourish at school and adults to succeed in the workplace.

Areas for engagement:

- Diversity at Board level.
- Improved sustainability reporting.

26. Illumina - Free Float - Run by professional management

Company profile:
Illumina is the world leading maker of gene sequencing technologies that are used by scientists and researchers across life sciences, oncology, reproductive health, agriculture and other emerging segments.

What we like:

- From diagnosing rare diseases to understanding the biodiversity in our ecosystems, Illumina is helping to unlock the power of the genome.
- Their technology advancements have helped to reduce the cost of sequencing a human genome from $1million in 2007 to less than $1,000 today and they are pushing to reduce this to just $100 per person.
- Illumina's technology also makes it possible to track the transmission of contagious diseases, develop therapies and vaccines, and make the world safer and more secure.
- The company has an innovative and ethical culture and a high quality supervisory and ethics board. It earns significant recurring revenues from the sale of consumables and services and is benefitting from the growth in preventative healthcare and personalised medicine.

Risk:

We believe risks to the company relate to competition, regulations and the potential for misuse/unethical use of patient data.

Relevant Sustainable Development Goals:

Illumina's products and services are bringing down the cost of genome sequencing and is therefore reducing healthcare costs, whilst improving healthcare outcomes.

Illumina's innovations are enabling advancements in life science, genomics, molecular diagnostics, agriculture and even supporting conservation biology.

Areas for engagement:

- Minimising the risk of potential unethical uses for data (e.g. racial profiling, insurance etc).
- Circular economy (machine design and consumables).

27. Infineon Technologies - Free Float - Run by professional management

Company profile:
Infineon Technologies is a world leader in semiconductor solutions across four segments: Automotive, Industrial Power Control, Power & Sensor Systems and Digital Security. In the automotive segment, they are the market leader in applications for e-vehicles, autonomous vehicles and connected cars. In Industrial Power Control their semiconductors provide solutions for smart and efficient energy generation, including wind and solar power and in Power Management their semiconductors make devices and lighting more energy efficient and smarter.

What we like:

- The business is well positioned for a sustainable future, particularly in relation to clean energy and safer, more efficient transport.
- The business was spun off from Siemens in 1999 and is led by an experienced and long-tenured management team.
- They continue to invest in research & development, in developing their manufacturing facilities and have recently completed a large acquisition, making them one of the top 10 semiconductor manufacturers globally.

Risk:

We believe risks to the company relate to cyclicality in end markets, competition and the success of their recent acquisition.

Relevant Sustainable Development Goals:

Sustainable cities require optimally connected mobility systems and Infineon's semiconductors are used in both local public transportation within trains, subway trains, trams, high speed networks, as well as in electric and autonomous vehicles

Semiconductors from Infineon enable a more efficient production of electricity from renewable energy sources. They offer increased efficiency in all stages of energy production: in generation, transmission and in particular in the use of electric energy.

Areas for engagement:

- Gender diversity.
- Labour rights (union related issue in Malaysia).

28. Jack Henry & Associates - Free Float - Run by professional management

Company profile:
Jack Henry is a provider of core banking software, cyber security and IT outsourcing for about half the credit unions in the US and is the leading provider to mid-sized US banks.

What we like:

- This high quality company has a stable management team, humble culture, loyal customers and strong industry reputation.
- The business has an impressive track record of providing returns through credit cycles and banking crises, which is a function of being an asset-light business with high barriers-to-entry.
- Jack Henry is cash generative and maintains highly recurring sales, equivalent to roughly 80% of revenues.
- It should be a beneficiary of increased e-banking/e-payments and outsourcing by customers who want to enhance their efficiency, as well as meeting increasing regulatory demands.

Risk:
We believe that risks for the company include fintech disruption, consolidation in the banking industry and vulnerability to systemic risks.

Relevant Sustainable Development Goals:

Jack Henry's core banking services are essential for the thousands of tier two and three US banks to function and ensure cyber security.

Jack Henry's services strengthen the capacity of domestic financial institutions to expand access to banking, insurance and financial services for all.

Areas for engagement:

- Use of buy backs.
- Gender diversity.

29. Kotak Mahindra Bank - Founder owns around 30%

Company profile:
Founded in 1986 in Mumbai, Kotak Mahindra Bank is one of India's leading full-service financial conglomerates, offering retail banking, securities, investment banking, insurance, microfinance and asset management services.

What we like:

- Long-term stewardship is provided by promotor and managing director Uday Kotak while most of the management team have served the company for more than 15 years.
- Built on principles of simplicity and prudence, Kotak Mahindra is regarded as one of the most efficient and high-performing banks in India.
- The business is well positioned to capture growth opportunities from rising income levels and greater penetration of banking services (still only 50% of the population) in India.

Risk:
We believe that risks for the company include succession, competition from the granting of new banking licenses and capital losses in riskier areas of the business, such as investment banking and asset management.

Relevant Sustainable Development Goals:

Kotak Mahindra Bank offer low cost products and services for the unbanked and under-served sections of society, particularly in rural India. For example, they offer deposit accounts with no minimum balance requirements and simple know-your-customer (KYC) on-boarding.

Its microfinance business lends primarily to rural women involved in agricultural communities. They have also established the Kotak education foundation, which focuses on supporting the educational needs of underprivileged boys and girls.

Areas for engagement:

- Integrating Environmental, Social and Governance (ESG) principles in their lending procedures.
- Risks relating to the investment banking business.

30. Lenzing - 50% owned by B&C Industrieholding

Company profile:
Lenzing is a global leader in the production of wood-based cellulose fibres used to make textiles, clothes, medical and household products. These fibres are an alternative to cotton. They are purer, more hygienic, last longer and decompose naturally.

What we like:

- Fibres are sourced entirely from certified sustainably managed forests and are processed using efficient technologies, including chlorine-free bleaching and bio-energy to reduce the ecological footprint.
- The company benefits from its leading position in terms of market share, low cost (via vertical integration and scale) and technological advantage from being the only producer of viscose, modal and lyocell fibres on an industrial scale.
- We believe Lenzing is in a good position to benefit from sustainable tailwinds which we expect to be driven by the declining supply of cotton and the increasing demand for more environmentally friendly fibres.
- They maintain a superior track record, a reputation for quality control and long standing relationships with branded apparel companies globally.
- Lenzing's controlling shareholder is an industry-foundation which allows management to operate the company for the long-term.

Risk:

We believe that risks for the company include cotton prices, substitutes and increasing competition.

Relevant Sustainable Development Goals:

Lenzing has a long standing practice of responsible sourcing and efficient use of raw materials. In addition, they are currently working to improve and reforest degraded land in Albania and train local communities in forest management.

Lenzing reduce the dependency on inadequately managed natural resources by producing cellulosic fibres from sustainability managed forests as an alternative to cotton, which is a supply-constrained, water-thirsty crop that is often produced using unsustainable methods. Cellulosic fibres such as viscose, modal, lyocell and tencel are purer, more hygienic, last longer and decompose naturally, meaning others generate fewer GHG (greenhouse gas) emissions. They also use chlorine-free bleaching production methods, as well as renewable biomass energy.

Areas for engagement:

- Chemical and nutrient pollution (Indonesia example).
- Diversity of Board members and management.

31. Marico - Family - Founded in 1971 by Harsh Mariwala who remains the Chair - the family owns c. 53%

Company profile:
Marico can trace its roots back to 1971 when its founder Harsh Mariwala graduated and joined the family business, Bombay Oil Industries.

What we like:

- Mr Mariwala had envisioned a branded Fast Moving Consumer Goods (FMCG) market for coconut oil and refined edible oils in small consumer packs, and set up a nationwide distribution for the Parachute brand.
- Over the years, Marico branched into shampoos, deodorants, skin care and healthy breakfast oats. It also set up copra collection centres to procure directly from farmers, increasing farmers' margins by eliminating intermediaries (they also pay their raw material suppliers within a day).
- Today Marico continues to expand within India and is also steadily building a business in Bangladesh and other emerging markets across South East Asia, Africa and the Middle East.
- We believe that the company should benefit from strong sustainability tailwinds as it contributes to improved personal hygiene and healthier foods.
- It also operates responsibly with a broad and inclusive commitment to serving all stakeholders and improving the lives of ordinary people.

Risk:
We believe that risks for the company include copra prices, changing consumer preferences and views on the health giving qualities of coconut oil.

Relevant Sustainable Development Goals:

Marico's products help to improve the health, hygiene and well-being of more people, mostly in India and South Asia, Southeast Asia, Africa and the Middle East, by providing hair, skin and other personal care products, coconut and other edible oils, health foods and fabric care products.

Marico support farmers in their supply chain through productivity improvement programmes, research and training to help improve overall agricultural yields. They also provide ongoing financial, agricultural extension and cooperative establishment support to increase supply chain resilience and socioeconomic position of smallholder farmers.

Areas for engagement:

- Gender diversity.
- Reducing plastic packaging.

32. Merck KGaA - Family - The founding family still own 70% of the business

Company profile:
Founded in 1668, Merck is the world's oldest operating pharmaceutical and chemical company. They are leaders in the innovation and production of top quality high-tech products in health care, life sciences and performance materials.

What we like:

- Merck make a meaningful contribution to human development and better health outcomes globally by helping to treat multiple sclerosis sufferers and combat schistosomiasis, an infection caused by a parasitic worm that lives in fresh water in subtropical and tropical regions (280 million infections worldwide, 200,000 deaths a year, mostly children in Africa (World Health Organisation estimate, 2014)).
- The founding family still own 70% of the business and the KGaA structure (family members are personally liable partners) ensures stable stewardship, a long-term focus and shareholder alignment.

Risk:

We believe that risks for the company include cyclicality and periodic bouts of weakness in the performance materials division. Another risk is the challenge of innovation in the health care division, which is still reliant on a portfolio of very successful legacy pharmaceutical products.

Relevant Sustainable Development Goals:

Merck helps to improve the health and well-being of people by providing life-saving medicines, drugs and materials used in the life sciences industry to undertake medical research, and drug development. Since 2007, Merck has been donating up to 250 million praziquantel tablets to the World Health Organization each year to help battle schistosomiasis and has helped launch the Global Schistosomiasis Alliance to address the remaining gaps in the fight against the disease.

The performance materials business provides specialty chemicals and high tech solutions for a number of industries, including the semi-conductor industry which supports mega tends such as Internet of Things (IoT), mobility, connectivity and big data. In addition, their performance materials help to reduce emissions by providing inputs for ultra-efficient solar cells, as well as saving energy in liquid crystal and OLED technology.

Areas for engagement:

- Debt levels.
- Reduce chemical and nutrient inputs and pollution.

33. Monotaro - 50% owned by W.W. Grainger Inc

Company profile:
Monotaro is a business-to-business online platform which sells maintenance, repair and operations (MRO) products such as cutting tools, safety products, bearings and fasteners as well as office equipment and medical products.

What we like:

- Monotaro sell mostly to small-medium sized enterprises and 600,000 of their c.18 million stock items are available for next day delivery.
- They have been growing revenues on average by 25% CAGR over the last decade and given the low capital intensive nature of the business model, they generate an attractive amount of leverage as the company scales. In addition, their relatively low gross margin and high asset turn ratio results in a ROCE of over 50%.
- W.W. Grainger owns 50% of the business which helps provide stable stewardship along with a mutually beneficial relationship through sharing expertise and industry insights across different geographical regions.

Risk:

We believe that risks for the company include increasing competition as well as online disruption from the likes of Amazon.

Relevant Sustainable Development Goals:

Monotaro provides a service that allows small to medium sized enterprises to purchase products that keep their operations running and employees safe. By doing so they create the required infrastructure for businesses to thrive and create jobs.

Monotaro's e-commerce infrastructure supports economic development by providing a multitude of products that are used across the manufacturing sector. Their business model offers one price to all customers, providing price transparency and efficiency for producers.

Areas for engagement:

- Gender diversity.
- Circular economy.

34. Neogen - Free Float - Founder owns 0.6% of company. Run by professional management

Company profile:
A US listed biotech business focusing on food testing and animal safety products.

What we like:

- The food testing division sells diagnostic kits used mostly by food producers to detect allergens, toxins, drugs, GMOs, antibiotics or bacteria in food.
- The animal safety division sells veterinary instruments, wound care products, vaccines, kits to detect drugs in racing horses, and rodenticides, insecticides and disinfectants to clean and protect livestock.
- They also have a fast growing genomics business which identifies positive traits in livestock, pets and plants to pass onto offspring, as well as identifying potential future health issues. It has excellent sustainability positioning, high returns, strong and consistent historic growth, and a consistently net cash balance sheet.
- The CEO has a good track record and a vision to take the business into the digital age (big data, tech, block chain).

Risk:

We believe that risks for the company include changing regulations, trade wars, agricultural cycles and extreme weather patterns impacting agricultural spending.

Relevant Sustainable Development Goals:

More than 400,000 people die and an estimated 600 million people become sick from the food they eat (https://www.who.int/news-room/fact-sheets/detail/food-safety). In addition, the frequency of food allergies is increasing, particularly in the west. Neogen's food and allergy testing equipment is well placed to benefit from these trends, as well as helping to protect human health.

The world population will reach almost 150 billion by 2050, bringing strain to the global food supply (https://www.un.org/development/desa/en/news/population/world-population-prospects-2019.html). Intensive factory farming is likely to increase, which requires greater levels of food safety and inspection as well as animal health supplies. The global livestock industry is losing millions of animals to genetic and viral diseases e.g. avian flu, foot and mouth disease and African Swine fever and Neogen's animal health products help to protect animals and support food safety.

Areas for engagement:

- Gender diversity.
- Potential environmental impacts from pesticides and unintended consequences of rodenticides (pesticides that kill rodents).

35. Nordson - Family - Nordson family and Trust own c.6% and the business is now run by professional management

Company profile:
Nordson is a US-listed company that manufactures dispensing equipment for consumer and industrial adhesives, sealants and coatings.

What we like:

- Nordson's products are used in the manufacture of everything from mobile phones to diapers and help manufacturers reduce raw material consumption and costs through their efficient dispersal technology.
- Nordson is a high quality franchise, operating in a niche segment, with many large multi-national companies as their long-term customers.
- Sales can be impacted by down turns, however cash flows remain strong through the cycle whilst the business generates consistently high margins.
- The original family continues to hold a stake in the company which is run by a professional, long-tenured management team with a good track record of organic growth and merger & acquisition (M&A) success. They have increased annual dividends for the last 55 consecutive years.

Risk:

We believe that risks for the company include cyclicality of end markets, increasing competition and poorly managed acquisitions.

Relevant Sustainable Development Goals:

Ingrained within Nordson's customer value proposition is the design and manufacture of products that reduce energy use, reduce waste, enhance throughput and reduce material (paints, adhesives, sealants, etc.) consumption.

Nordson partners with universities, venture investments and companies all around the world to spur new ideas for innovation and product development. For example, they have collaboratively designed a new adhesive dispensing tracking system for the packaging industry which helps customers reduce their waste.

Areas for engagement:

- Debt and use of buy-backs.
- Gender diversity.

36. Novozymes - Foundation - Run by professional management - 27% owned by the Novo Nordisk Foundation

Company profile:
Novozymes was founded in 2000 as a spin-out of the pharmaceutical company Novo Nordisk. The company develops enzymes (proteins that trigger biochemical reactions) that enable customers in the food and beverage, pharmaceutical, home and laundry care, agricultural and bioenergy sectors to do more with less.

What we like:

- Sustainable development benefits include safer foods free from carcinogens and allergenic ingredients, more cost effective drug production and more nutritious animal feed and animal health treatments based on probiotics instead of antibiotics.
- Other benefits include stronger and longer lasting textiles made with less water and chemicals, tougher laundry detergents that work better at lower temperatures and more efficient waste water treatments.
- Novozymes is a well stewarded franchise with a triple bottom line enshrined in its articles of association.

Risk:

The company invests heavily and consistently in research and innovation. Although its customer base is broad and diversified, its revenues are impacted by fluctuations in the end markets of its customers.

Relevant Sustainable Development Goals:

Novozymes' enzymes enable more sustainable food production systems and improved nutrition by increasing crop yields and disease resistance; helping to maintain soil quality and reduce chemical inputs in farming.

Their enzymes reduce the consumption of water, energy and chemicals used in the production of pulp, paper and textiles, leather tanning, laundering of clothes and washing of dishes.

Areas for engagement:

- Diversity.
- Dependence on bio-fuels.

37. Philips - 100% Free Float

Company profile:
A healthcare conglomerate with leading market shares in their core areas: respiratory kit and patient monitoring systems.

What we like:

- Philips is a leader in sustainability thinking and approach, and its culture is moving towards more accountability.
- They have entrenched market shares and have an emerging markets focus through affordability.
- They are leaders in a diversified set of products and are becoming more focused.

Risk:

We believe that the company faces the risk of a rise in competitive intensity, the potential loss of focus on quality and innovation and an inability to maintain the balance between their obligation as a healthcare company and profits.

Relevant Sustainable Development Goals:

Philips' products are lifesaving in nature. A focus on affordability means Philips aims to positively impact the well-being of a larger section of society in the future than they do today.

Philips is leading the industry in increasing the circularity of its products through recycling, refurbishing, reusing and repurposing its products. This will have a material impact on the resource intensity of the business and for the industry at large.

Areas for engagement:

- Improved gender diversity in top management.
- Better accounting choices.
- Simpler remuneration structure.

38. Rational - Family >50% held by the estate of the founder. Run by professional management

Company profile:
Rational design, manufacture and service professional cooking appliances which are increasingly a mix of hardware and software.

What we like:

- Rational are dominant in their industry with market share of around 50%. While restaurants are 45% of their business, mass catering such as supermarkets, caterers (ready meals), military and prison facilities, schools and universities, hospitals, butchers, service stations, and care facilities comprise around 40% of sales.
- Rational appliances enable the preparation of healthy food in professional kitchens with greater safety, reliability, precision and efficiency.
- Rational products help reduce food waste and save raw materials, energy, water, cleaning agents and time.
- Rational appliances are long-lasting and components are recyclable. If customers wish, Rational collect old appliances and return them to the raw material cycle.

Risk:

Due to COVID-19 there is a risk of a structural shift away from eating out which may impact demand in their restaurant market (c.45% revenues). Similarly, as restaurants and hotels go out of business due to the pandemic, there may be an increase in the second-hand market for Rational products. Another risk would be that a powerful competitor suddenly emerges and challenges their market dominance.

Relevant Sustainable Development Goals:

Rational's combi steamers comprise 95% of all products they have sold and remain 90% of total sales. Steaming of food preserves minerals, vitamins and other nutrients lost in other forms of cooking. Combi-steamers also allow for very low fat frying.

Rational's appliances are significantly more energy efficient than the multiple appliances they are designed to replace. One study found an upgraded kitchen used ~30% less energy and ~50% less water than before.

Areas for engagement:

- Stronger commitment to circular economy and end of product life responsibility.
- Further research on energy, water and food waste savings possible through use of Rational appliances.

39. Spectris - Free Float - Run by professional management

Company profile:
Spectris manufacture and sell hardware and software used in materials analysis, product design optimisation and industrial controls across a number of industries.

What we like:

- Many of their products help shorten development cycles, improve product quality and increase efficiencies.
- Spectris is a high quality company with technological and reputational barriers to entry, supported by strong investment in Research & Development and long-term customer relationships.
- Acquisitions have been a key component of their long-term strategy and they continue to grow into niche markets with solid potential.
- We believe the company is set to benefit from continued growth opportunities from increasing automation and efficiency trends, as well as from software, services and aftermarket sales.
- With the majority of manufacturing being outsourced, the low capital expenditure requirements and high margins, result in strong cash flow.

Risk:

We believe that risks for the company include cyclicality of demand and the potential for mistakes in their approach to mergers & acquisitions (M&A).

Relevant Sustainable Development Goals:

Spectris offer soil analysis tools to help farmers analyse soil fertility and enhance crop yields, contributing to agricultural productivity and ensuring sustainable food production systems.

Spectris' remote wind turbine monitoring equipment support renewable energy companies by providing early warnings of mechanical problems, enabling better planning of maintenance activity and efficient execution of repairs.

Areas for engagement:

- Gender diversity across all levels of the business.
- Fossil fuel exposure: there remains a potential risk related to stranded assets, although many products support fuel efficiency.

40. Spirax-Sarco Engineering - Free Float - Run by professional management

Company profile:
Spirax-Sarco is a global leader in industrial and commercial steam systems, electrical heating and temperature management systems, and liquid pump technologies.

What we like:

- The company serves a diverse customer base including food and beverage producers, pharmaceutical companies, energy providers and waste water utilities. Their products help to increase operating efficiency, improve product quality, optimise plant safety, and reduce energy, water and waste.
- It is a franchise which benefits from a global manufacturing footprint, scale and depth in their product offerings and a direct sales team which builds deep relationships with clients.
- Growth is expected to come from expanding their market share and geographic reach, particularly into emerging markets, as well as from energy efficiency regulations, and on-going product replacement cycles. There is also margin growth potential from bringing scale and efficiencies to the recently acquired businesses (Chromalox, Thermocoax and Gestra).
- The management team has built a strong culture which is focused on the long-term success of the business and the balance sheet is consistently conservative.

Risk:

We believe risks relate to an economic downturn, fossil fuel exposure and the success of recent acquisitions.

Relevant Sustainable Development Goals:

Spirax-Sarco is a recognised leader in driving sustainable and energy efficient industrialisation. Their products help to increase operating efficiency, improve product quality, optimise plant safety, and reduce energy, water and waste. Their products are used in multiple settings such as heating hospitals, producing food on an industrial scale, sterilising pharma equipment, or generating a constant supply of hot water.

The products Spirax-Sarco develop enable their customers to improve energy efficiency and reduce greenhouse gas, with an estimated saving of 7.2 million tonnes of CO2 in users' emissions last year.

Areas for engagement:

- Exposure to fossil fuels end markets.
- Gender diversity.

41. Taiwan Semiconductor Manufacturing (TSMC)

87% free-float, 6% owned by the Taiwan government and the rest is employees

Company profile:
TSMC is the world's largest independent semiconductor foundry, offering the most advanced semiconductor process technology available in the world (currently 5-nanometer capabilities). The company manufactures and sells integrated circuits that are used in a wide variety of end products including smart phones, PC's, automotive electronics and industrial equipment.

What we like:

- TSMC has roughly 50% of the market share in global foundry, which is more than double the level of its nearest competitor, Samsung.
- The company benefits from economies of scale, leading-edge technology, excellent operational execution and high levels of trust from their clients.
- Their balance sheet is consistently net cash, cash flows remain strong through the cycle and they continue to invest significantly in research and development (R&D).

Risk:
Risks relate to technology maturity (Moore's law), trade wars (particularly between China and the US), increasing competition and a general economic slowdown.

Relevant Sustainable Development Goals:

TSMC chips are a core component of innovative technologies helping to improve lives across various domains (e.g. smart phones, electric and autonomous vehicles, Internet of Things (IoT)). They spend c.9% of sales on R&D and have over 34,000 global patents.

TSMC pay above average wages (in the top 25% of the industry) and the average monthly salary of direct labour in TSMC's facilities in Taiwan is 3 times higher than minimum wage.

Areas for engagement:

- Due diligence in their supply chain (including 3TG conflict minerals).
- Gender diversity.

42. Tata Consultancy Services (TCS)

Foundation - Run by professional management and 72% owned by the Tata Trust

Company profile:
TCS has evolved, prospered and established itself as a leading Asian and global IT and business consulting franchise.

What we like:

- The company is the jewel in the Tata Group crown, and the Tata code of ethics instils a strong sense of commitment to sustainability, community and the ethos of the group.
- A culture of long-term thinking has enabled the management to develop a highly devolved business model to manage growth, cope with scale, and ensure the highest possible level of employee engagement.
- The company is well positioned to benefit from and contribute to innovation and informational, operational and resource efficiencies created by the digital economy.
- TCS has become integral to the functioning of many US and European corporations and earns most of its revenues in hard currencies.

Risk:
We believe that risks for the company include slower revenue and margin growth if corporate IT budgets and projects are scaled back or delayed in a global economic downturn.

Relevant Sustainable Development Goals:

TCS is an enabler of efficiency and innovation, is a large employer and investor in the economy and is one of the largest employers of women in the Indian private sector.

TCS helps to strengthen digital infrastructure and help enhance productivity and efficiency, of a vast array of public sector bodies and corporates in developed and developing countries.

Areas for engagement:

- Diversity on the Board and management team.
- Reconsidering the practice of issuing bonus shares.

43. Tecan - Free Float - Run by professional management (25% owned by Investors)

Company profile:
Tecan is a global leader in manufacturing laboratory automation devices and software and has two main segments: Lifesciences which manufactures and sells instruments and automation devices under the Tecan brand, and Partnering which manufactures entire diagnostics platforms and consumables which are distributed to Original Equipment Manufacturer (OEM) companies and sold under their own name.

What we like:

- Tecan's products are used to support drug development, personalised medicine, diagnostics, gene sequencing and genetic testing. They also offer solutions for various applied markets such as criminal forensics, environmental and crop research, the food industry, and veterinary applications.
- Their tools help to increase sample throughput, minimise human error, enhance precision, deliver reproducible test results, document these results and improve productivity as a whole.
- The business is consistently net cash, with growing recurring revenues and has strong growth potential via geographic expansion, mergers and acquisitions and new products resulting from their above average spend on research and development.

Risk:
We believe risks to the company relate to increasing competition, disruptive technologies and product failure.

Relevant Sustainable Development Goals:

The majority of end-users come from the diagnostics market, accounting for around 60% of total sales. Tecan supports both research applications and processes in routine laboratories and helps researchers to discover novel medicines.

Tecan's solutions are used in a wide array of environmental research studies and in particular are being used in studies searching for solutions for how to remove toxins from waste water and drinking water.

Areas for engagement:

- Tax rates.
- Gender diversity.

44. Tokyo Electron - 95% Free Float, with founder Tokyo Broadcasting System still having a residual ownership.

Company profile:
A global leader in the supply of semiconductor production equipment (SPE), manufacturing coating, etching and depositing machinery for the semiconductor and flat panel industries.

What we like:

- The SPE industry is highly consolidated and Tokyo Electron holds ~85% share in the 'photoresist' segment. Photoresist is one of the key steps in the semiconductor manufacturing process where a light-sensitive material is deposited and then the relevant areas are exposed to light.
- The steps in the semiconductor process are relatively straightforward, but certainly not easy and require significant investment to increase production yield, reduce transistor sizes and ultimately lower the cost of semiconductors.
- Tokyo Electron's products play a central role in tomorrow's world of 5G communications, autonomous vehicles, industrial automation and the Internet of Things (IoT), among others, helping to build a more productive and affluent society.
- It is a company with high barriers to entry, a strong culture, and a conservative approach to the balance sheet, with zero debt.

Risk:
We believe risks for the company relate to economic cyclicality, customer concentration (Samsung ¼ of sales) and technological disruption (Moore's law).

Relevant Sustainable Development Goals:

Tokyo Electron's products are a core component of innovative technologies helping to improve lives across various domains (e.g. 5G communications, smart phones, autonomous vehicles, industrial automation and the Internet of Things). They spend c.9% of sales on research & development (R&D) and have over 18,000 global patents.

They are working to reduce their per-wafer emissions of CO2 and have a target to reduce these emissions by 20% by fiscal year 2025. Their waste-reduction initiatives have resulted in recycling rates at sites in Japan in fiscal year 2020 being 98.9%.

Areas for engagement:

- Gender diversity.
- Further promoting the circular economy.

45. Tomra - Family - 26% owned by Investment AB Latour (Gustaf Douglas and family)

Company profile:
Tomra is the world leading provider of reverse vending machines (RVMs), automated recycling technology and sensor-based sorting machinery within the agricultural, food and mining sectors.

What we like:

- Through their 82,000 RVMs in over 60 markets, Tomra facilitates the collection of 40 billion drinks containers for recycling, saving these bottles and cans from ending up as litter or in landfills.
- Their sorting technology inspects and sorts millions of individual product pieces per hour, enhancing customer efficiency, increasing quality, yield and safety while reducing waste.
- With the circular economy at the heart of their business model, they are well placed to benefit from sustainability tailwinds associated with increasing demand for better recycling infrastructure.
- The recycling sector is growing quickly with further growth opportunities coming from entering new markets, particularly emerging markets like India and China.
- Management are aligned, conservative and have a sensible attitude to debt. Their entrepreneurial attitude enables them to continue pioneering innovative solutions and complementary technologies.

Risk:

We believe that risks for the company include a reliance on government spending, replacement cycles and exposure to mining segments.

Relevant Sustainable Development Goals:

Improved municipal waste management reduces the adverse per capita environmental impact of cities. Tomra facilitates the collection of 40 billion used beverage containers every year, preventing them from going into landfill. Their metal recycling business recovers 715,000 tons of metal a year and their sorting machines reduce energy consumption in mining by 15%.

Each year, TOMRA Collection Solutions products and services contribute to about 4 million tons in avoided CO^2 emissions.

Areas for engagement:

- Exposure to the tobacco and mining segments via their sorting machines.
- Safety rates and due diligence in their supply chain.

46. Unicharm - Family - Founded by Keiichiro Takahara in 1963 and family ownership remains around 31% via the Unitec and Takahara fund - now run by professional management

Company profile:
A high quality Japanese company renowned for product innovation, Unicharm continues to develop its product offering and expand into new categories that promote hygienic lifestyles and well-being.

What we like:

- The company has developed the first technology for extracting high grade recyclable pulp from used disposable diapers and is working hard on a sanitation product recycling system in Japan.
- Unicharm has grown earnings, strengthened its financial position and gained market share domestically and by expanding into a number of Asian countries, particularly Indonesia and China.
- Despite being capital-intensive, over the past 20 years it has nearly always had a strong balance sheet and consistently paid a dividend.
- It is a family owned and managed company, with family members owning roughly 30% of the company's shares.

Risk:

We believe that risks for the company include extreme currency fluctuations, which can affect raw material costs and the value of non-Japanese yen revenues, potential disruptions to the company's significant wood pulp supply chain, and potential environmental liabilities relating to end-of-life product incineration and landfill.

Relevant Sustainable Development Goals:

Unicharm manufactures and sells everyday personal care items that support the well-being of everyone from babies through to the elderly, including diapers, incontinence pads and feminine personal care products.

In 2015, they launched a disposable diaper recycling program which applies a unique ionisation process that destroys bacteria and generates high-quality pulp that is just as hygienic and safe as virgin pulp. The goal is to make this technology available around the world, thereby meeting a huge environmental and social need.

Areas for engagement:

- Contribution to global waste from disposable products.
- Diversity of Board and management.

47. Unilever - Free Float - Run by professional management

Company profile:
Unilever is a world leading consumer goods business with more than 140 years' experience building brands with an impressive footprint in emerging markets.

What we like:

- The comprehensive and ambitious Unilever Sustainable Living Plan links sales and profit growth with embedded goals for improving the health and wellbeing of more than one billion people and reducing the company's environmental impact by half.
- The Plan also aims to enhance livelihoods for millions through partnerships with smallholder farmers and suppliers of raw materials, employees and communities.
- The Plan includes initiatives such as a vast hand washing and hygiene education programme linked to the company's soap business, sizing and packaging products more efficiently, and training vendors in emerging markets in book keeping skills.
- The combination of iconic, purpose-led brands (12 brands have sales of >£1 billion a year) and essential everyday products gives Unilever pricing power and the capacity to generate consistent cash flows.

Risk:

We believe that risks for the company include excessive leverage, balance sheet deterioration and an overreliance on share buybacks to generate shareholder returns.

Relevant Sustainable Development Goals:

Many of Unilever's best-known brands, including Lifebuoy, Domestos and Signal are helping people take action to improve their health and well-being. For example, Lifebuoy's handwashing campaign has already reached over 1 billion people through schools, health clinics, community outreach and TV campaigns since 2010.

They have committed to ensure 100% of their plastic packaging will be fully reusable, recyclable or compostable by 2025, leading the way towards a more circular plastics economy. They have committed to source 100% of palm oil from physically certified sustainable sources and to have zero net deforestation associated with five commodities – palm oil, soy, paper and board, tea and beef – no later than 2020.

Areas for engagement:

- Negative social connotations of the Fair and Lovely brand.
- Levels of debt and use of buybacks.

48. Vitasoy - Founding family own c.20% - Run by professional management

Company profile:
Vitasoy is a Hong Kong-based producer of over 300 healthy plant-based products including soya milk, tea, juice and tofu, with most of its sales from mainland China.

What we like:

- Founded in 1940, this family-owned, professionally-managed company is uniquely well-positioned in the context of changing consumer trends towards health and well-being, increasing demand for protein and increasing water scarcity in China (growing soy beans are significantly less water intensive than meat production).
- The company generates strong cash flows and is financially robust, demonstrating conservative financial stewardship.

Risk:
We believe that risks for the company include increasing competition from local and multi-national players, US-China trade wars impacting soy bean prices and changing consumer trends i.e. soymilk loses its currently fashionable status.

Relevant Sustainable Development Goals:

Vitasoy's plant-based beverages offer sustainable nutrition as a healthy alternative to sugar laden carbonated drinks. Soya beans are a rich source of protein, are naturally high in fibre and are cholesterol free.

Growing soy beans is significantly less water intensive than meat production. To produce one pound of beef requires 1,799 gallons of water whereas producing one pound of soybeans requires 216 gallons.

Areas for engagement:

- Packaging and approach to recycling.
- Further reduction of sugar content in products.

49. WEG - Family - Founded in 1961 by Werner Ricardo Voigt, Eggon Joao da Silva and Geraldo Werninghaus - the company remains majority owned by the founding families

Company profile:
WEG is a manufacturer of energy efficient electric motors, power and distribution transformers, renewable energy solutions and industrial coatings.

What we like:

- It has a strong brand, global scale and manufacturing footprint and its vertically integrated business model allows for easier customisation of products.
- Having invested intelligently in the development of wind and solar energy technologies, smart grid systems and energy efficient motors, WEG is well placed to benefit from major trends in energy efficiency and renewable energy.

Risk:

We believe that risks for the company include cyclicality of end-markets and raw material prices. However, we believe the company offers strong long-term growth potential.

Relevant Sustainable Development Goals:

WEG manufacture and sell renewable energy solutions used in solar and wind power generation, hydroelectric power plants and biomass helping society to shift away from fossil fuel energy production.

WEG also manufacture and sell energy efficient electric motors, which help their customers reduce their energy requirements and greenhouse gas emissions.

Areas for engagement:

- Tax rates and use of tax structures in Austria.
- Circular economy and recyclability of products.

50. Zebra Technologies - 100% Free Float

Company profile:
Zebra produce hardware and software which helps to connect businesses, their people, goods and assets to each other via thermal barcode printers, scanners, RFID, and networked smart devices.

What we like:

- The company has high market shares in barcode printing (40%), enterprise mobile computing (45%) and data capture (30%) and is well placed to benefit from trends in automation, healthcare, online retailing, Internet of Things, big data, increased tracking of goods and workflow management.
- The business acquired Motorola Solutions in 2017 which pushed Zebra into a leadership position in the Automatic Identification and Data Capture (ADIC) industry and is increasingly moving into the data, tracking and analytics realm.
- The business has proven itself capable of reinventing itself over five decades and is investing heavily in research & development to remain technological leaders.

Risk:

We believe that risks for the company relate to cyclicality of end-markets, increasing competition, product obsolescence and trade tensions.

Relevant Sustainable Development Goals:

As early as the late 80s, Zebra's barcoding products were labelling blood for the American Red Cross to categorize and identify the donations. Today Zebra's products comprise a full suite of healthcare systems from wristband and label printers, scanners, mobile computers and software that provide visibility throughout the medical ecosystem. This mitigates the risks of over or under-dosing or multiple diagnoses and helps ensure that the right patients are connected to the right care.

Zebra's technology allows manufacturers to track components and monitor inventory levels which helps to minimize wastage and maximise efficiency.

Areas for engagement:

- Debt levels.
- Visibility of supply chain - they outsource manufacturing to Jabil Circuit.

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