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Investment philosophy

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

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

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

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

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

Investment objective
To generate attractive long-term, risk-adjusted returns by investing in the shares of those companies which we believe are particularly well positioned to benefit from, and contribute to, the sustainable development of the countries in which they operate.
Through the Looking-Glass

Disbelief.

“So if I understand correctly, you’re saying your business model is based upon buying the rights to products that have been banned in Europe for safety and environmental reasons, and selling those same products into Asian countries which have yet to ban them?”

The CEO nods enthusiastically. “Exactly!” He leans forward. “Environmental arbitrage! So long as they are legal in one or more countries, there is value left in them.”

More disbelief. It’s 2020. How is this still happening? This is a company which easily accesses society’s savings via the stockmarket. There is plenty of disbelief still to be had elsewhere among listed Asia Pacific companies. The power generation company which attributes its success to “not letting the women in.” The mining company whose dam collapsed, killing 19 people and polluting almost 700km of watercourses.

All are the easy recipients of society’s capital. Why?

In the sequel to Lewis Carroll’s ‘Alice in Wonderland’, Alice climbs ‘Through the Looking-Glass’ and finds another fantastical world, absent of reason and where everything is reversed. Time moves backwards. Events can be remembered before they happen. The right foot belongs in the left shoe. This crisis of logic is all too evident when investing in Asia Pacific.

As the Red Queen says to Alice, “it takes all the running you can do to keep in the same place.” Sustainable investment in Asia Pacific is running hard now, but the goal seems to be getting further away. Rather than losing their licence to operate, such companies are having little difficulty accessing equity markets. Why?

Short-termism has for some time now been the prime suspect. As the investment industry has given way to the speculation industry, there is less emphasis on understanding long-term risks and opportunities and more focus on next quarter’s results and a quick trading profit.

But perhaps there is another, more fantastical culprit lurking in Alice’s Financeland in the shape of ‘metric fixation.’

Jerry Muller defines metric fixation as ‘the aspiration to replace judgement based on experience with standardised measurement’. Metric fixation would be at home in Alice’s Looking-Glass world. An ‘upsidedownbacktofront’ idea that wreaks havoc wherever it goes. Muller notes the damage wrought by metric fixation across all aspects of society from academia to policing to healthcare. So too with Asia Pacific investing.

Metric fixation must itself share some of the blame for short-termism. The obsession with performance-related pay based on short-term measurable outcomes has been a major contributor to shrinking time horizons of both companies and investors.
Metric fixation has also been instrumental in the relentless drive towards passive investment. Currently an estimated US$3.75 trillion of society’s savings are allocated passively to listed companies, based not on human judgement but rather on inert quantitative models. Before long, passive investment will be the primary means by which capital is allocated to listed companies in the Region.

The journey towards passive capital allocation has been a long and winding one, but its origins lie less in the search for cheaper costs and more in the desire to quantify and model investment risk. Metric fixation. The real risk of losing money from owning shares is complex and requires subjective judgement. But that is hard to model or count. Instead, the rise of metric fixation has led to the invention of benchmark risk. Benchmark risk is another wonderful Alice character. It makes no sense. Why would losing 40% of an investment, but still outperforming an arbitrary index, be a good outcome? The closer a portfolio is to the index and some of its dubious constituents, the less ‘risky’ it becomes – and for as long as the industry continues to define risk in terms of deviation from arbitrary benchmarks, the outcome is an inexorable move towards passive investment.

And passive investment matters.

According to the WHO, tobacco kills more than one million Indians each year, accounting for 10% of all deaths in the country. More than the global deaths from COVID-19 to date. Each year. So why does India’s largest tobacco company, with a market share of over 70%, have such easy access to society’s savings? With a market capitalisation of over US$30bn, its largest underlying shareholders are all passive funds. Why would society choose to allocate so much capital passively to a company that poses such health dangers? Looking-Glass absurdity.

Why isn’t the move towards sustainable investment in Asia Pacific counterbalancing this? Here too, metric fixation is causing trouble. The obsession with quantifying Environmental, Social & Governance (ESG) is proving particularly challenging. Looking-Glass illogic is rife. The worse the company’s real sustainability impact, often the greater the likelihood of a high ESG score. India’s leading tobacco company has an AA ESG ranking and sits near the top of at least two ESG benchmarks, courtesy of its size and its sizeable ESG reports.

It is not just ESG scoring where metric fixation has warped the outcomes. Sustainable Development Goals (SDGs) mapping makes little sense but is fast becoming the norm. The Asian group hoping to source coal from a new mine next to the fast-bleaching Great Barrier Reef map themselves to the Education, Health and Sustainable Cities SDGs.

The requirement to quantify the impact of investor engagement with companies is also nonsensical. Improving access to affordable medicines. Phasing out toxic chemicals. Encouraging greater board diversity. Increasing tax rates. Improving working capital for smallholder suppliers. More governance checks and balances. Engagement success in these areas usually takes years and can rarely, if ever, be attributed to one actor. Even when it can, putting a dollar price on such qualitative aspects of impact is
as nonsensical as the Looking-Glass Jabberwocky.

If metric fixation is a problem, what are the solutions? In the world of sustainable investment very little which counts can be counted or ‘metricated’, let alone standardised. Rather than produce banks of ESG data, the far greater challenge facing Asia Pacific companies and investors is to be authentic, resonant and imaginative when it comes to sustainability. These three characteristics do not lend themselves to metrication nor incentivisation. They require judgement and much effort to understand.

Is the approach to sustainability authentic and built upon a clear sense of purpose? Or a box-ticking, marketing-driven path towards short-term gain? Does it resonate across all aspects of the business? Or is it a marriage of convenience with little commonality? The coal company with the solar panels. The tobacco company with the award-winning eco-hotel business.

Is there evidence of imagination? The Asian bank which developed a successful mobile payments system, enabling millions of people in rural areas without access to bank branches to access simple savings products in a country where financial inclusion is still below 50%. The computer power supply company building an electric vehicle power business. Or is management stuck with a fixed mindset, unable to imagine how sustainability can be a driver of returns? The paint company still selling toxic paint where it is still legal to do so. The all-male board unable to imagine how to get from A to B.

Asia Pacific is home to many of the world’s greatest development challenges. According to the UN, 25% of the population still live in multidimensional poverty. Over 600m people still have to resort to open defecation. Inequality. Water scarcity. Climate change. There are still plenty of companies which are part of the problem, exploiting vulnerabilities and cutting corners without consequence.

Fortunately, there are also plenty of wonderful companies in the region, full of purpose and resolve to address Asia’s development challenges. The medical diagnostics company providing over 40m affordable tests a year in a country which spends less than US$75 per person, per year on healthcare. The testing company helping to reduce the use of hazardous substances across supply chains. Prudent “micro-mortgage” providers helping to solve India’s 75 million unit housing shortage challenge. The sustainable plant-based nutrition company. Affordable medicines. The electric vehicle powertrain maker. The electric vehicle testing company. The solar inverter manufacturer.

1 Source: UBS August 2020
3 Source: https://www.un.org/en/events/toiletday/

Source for company information: Stewart Investors investment team and company data. For illustrative purposes only. Reference to the names of each company mentioned in this communication is merely for explaining the investment strategy, and should not be construed as investment advice or investment recommendation of those companies. Companies mentioned herein may or may not form part of the holdings of Stewart Investors.
Agricultural techniques have changed dramatically over the last 50 years, particularly in more developed nations. More efficient farm machinery, genetic modification of seeds and the use of fertilisers and agrochemicals have all helped to increase crop yields significantly. However, while the industrialisation of farming has brought a multitude of benefits, it is also contributing to an array of unintended negative consequences, particularly for the environment.

**Challenges**

The Stockholm Resilience Centre has identified nine planetary boundaries which humanity should not breach if we are to maintain a safe operating space for society. Modern agriculture practices contribute negatively to eight of the nine boundaries, including biodiversity loss, climate change, fresh water use, land system change, and nitrogen and phosphorus flows to the biosphere and oceans. In most of these areas, safe limits have already been breached.

Emissions from agriculture, forestry and land clearing make up 23% of the world’s greenhouse gas emissions and if the entire food chain is included (e.g. fertiliser, transport, processing) the contribution could be as high as 37%\(^1\). Cattle and dairy cows alone emit enough greenhouse gases to put them on a par with the highest-emitting nations. Agricultural expansion also continues to be the main driver of deforestation, forest degradation and the associated loss of forest biodiversity. Large-scale commercial agriculture, primarily cattle ranching and cultivation of monoculture\(^2\) soya bean and palm oil, alongside subsistence agriculture, accounts for up to 80% of deforestation globally\(^2\).

The overuse of chemical fertilisers has also contributed to water pollution and soil degradation in many areas, with excess nitrogen in the soil causing soil acidification and salinisation (increasing salt content). According to the United Nations (UN), a third of the world’s soil is now moderately to highly degraded, largely due to intensive agricultural practices\(^3\). Overuse of garden variety herbicides and weed killers also threatens the health of waterways and fish, and some products are currently the subject of ongoing investigations about their carcinogenic qualities.

Demographics and changing human diets also present environmental challenges. Global populations are set to rise to 10 billion people by 2050 versus 7.8 billion today\(^4\), meaning agricultural demand could grow over 50% in a business-as-usual scenario\(^5\). Increased demand for food is also driven by rising incomes in emerging markets, and the UN estimate that meat consumption is set to rise 76% by 2050, including a doubling in the consumption of poultry, a 69% increase in beef and a 42% increase in pork\(^6\). High levels of meat consumption have been linked to negative health consequences, including colorectal cancer, diabetes and heart disease, as well as dire impacts on the environment\(^7\).

There is also a severe imbalance in the production and distribution of food globally, with 80% of the world’s population relying on imported...
food and countries today not producing enough food to feed themselves. Global supply chains are increasingly coming under the spotlight, especially in light of Covid-19, with countries placing more importance on local versus global production. At the same time, 50% of the population is either overweight or undernourished (39% overweight, 11% undernourished), while 25-30% of all of the food that is grown globally goes to waste. In developing countries food is mostly lost from ‘farm to fork’, where a large amount of food spoils before it reaches the consumer due to poor infrastructure, while in developed countries food is mostly wasted by retailers and consumers buying more than they need, and letting food spoil.

There are other serious challenges related to intensive factory farming, animal welfare, antibiotic use, the rise of livestock epidemics, monocultures and genetic engineering, climate change threats to food security, lack of land tenure and a need for agricultural land reform in many emerging markets... the list could go on and on.

**A vision for a more sustainable future**

Although there are many farmers and food producers globally that utilise sustainable agricultural practices, it is clear that many parts of the ‘food system’ would benefit from a fundamental overhaul. Given the severity of the challenges ahead, systemic change is required in order to protect our soils, waterways, forests and wildlife, reduce emissions and at the same time to feed our growing population.

In particular, there is an urgent need to conserve and restore tropical forests in order to protect against biodiversity-loss but also to increase carbon sequestration. This is highlighted by Project Drawdown, an initiative that has identified and researched 80 climate change solutions with the potential to solve collectively the climate crisis. Project Drawdown has identified 14 solutions related to food and agriculture, including forest protection, reducing food waste and a shift to plant-based diets, and has calculated that these alone could contribute over 20% of the emission reductions needed to achieve the goal of the Paris Agreement.

In addition, greater adoption of more holistic regenerative farming techniques can also help to rebuild the quality of the soil and, in the process, help to sequester carbon. Typically this involves using cover crops and perennials so that bare soil is never exposed, reducing the use of tilling, rotating diverse crops and integrating livestock, limiting the use of chemicals, and composting and recycling as much farm waste as possible.

There is evidence to suggest yields from this type of agriculture can be higher than conventional agriculture, while at the same time helping to prevent soil erosion, re-mineralising the soil, protecting groundwater and reducing damaging pesticide and fertiliser runoff.

**Future food market solutions (USD billion)**

![Future food market solutions (USD billion)](image-url)
Investment opportunities

This shift to a more sustainable food system is presenting a number of excellent investment opportunities. Bank of America estimate that the ‘future food solutions’ market is worth over USD200 billion in 2020 and is set to grow at an 8.6% compound annual growth rate (CAGR) to 202512.

The market for sustainable food ingredients such as organic, local, ‘free-from’ products has been increasing rapidly in developed markets along with soaring demand for plant-based proteins. The global plant-based protein market is forecast to reach USD35.5 billion in 2024, representing 14% annual growth for the period spanning 2020-202413. Considering a typical plant-based burger uses up to 95% less water and land, generates 90% fewer greenhouse gases, and requires 46% less energy than a normal beef burger, this can only be a good thing for the environment and human health14.

Indoor vertical farming15 is also booming, especially in urban areas, which offers the prospect of more local production. Vertical farming can increase yields 300x compared with conventional outdoor farming16, with the potential to have an almost closed loop system, reusing water and nutrients, without soil contamination and pollution run off.

Precision farming is also a growing area which offers huge potential. Agri-robots, artificial intelligence (AI) and big data, satellite positioning, drones, weather prediction and soil testing all offer the potential to enhance yields and reduce environmental impacts. The food waste management sector is also steadily growing, and is anticipated to expand at a CAGR of 5% between 2019 and 202516.

How are we positioned?

There are clearly a number of rewarding investment opportunities that can support this vital transition to a more sustainable food and agricultural system, including a Hong Kong listed maker of over 300 plant-based products, such as soya and nut milk, tofu, tea and juices. Their beverages offer sustainable nutrition and a healthy alternative to sugar-laden carbonated drinks, with their core raw ingredient, soy beans, being high in protein and cholesterol-free. Growing soy beans is significantly less water and resource-intensive than meat or dairy production, however it is also linked to deforestation in certain regions. It is estimated that over 85% of soy is grown to feed livestock, underlining the systemic nature of these issues17. We have engaged with the company on deforestation and they continue to improve their sourcing policies, traceability and standards for contract farmers.

Two Danish companies, are also playing a significant role in improving global food and agricultural practices. The first is a global leader in producing natural enzymes and microorganisms that are used across a range of industries, including the food and agriculture industries. In agriculture, their microbes and enzymes increase crop yields, reduce the need for pesticides and fertilisers and improve animal health. In food production, their enzymes are used to extract protein from plants, to improve the texture and flavour of plant-based ‘meats’, and to reduce the sugar and lactose content in dairy products.

The second, is another global leader, this time in manufacturing microbes and enzymes. Its cultures are used to improve the yield, taste, nutritional value and shelf life of a wide range of foods, while at the same time reducing the need for artificial additives and preservatives. Their bacteria and microbes are also used to improve soil health naturally, increase crop yields and protect plants against disease and pests.

Other companies which support the transition to a more sustainable food and agricultural system include:

- A US-listed maker of food safety diagnostic tests, animal health products and genomics test kits. The company is investing in blockchain2 and AI technology to track the environmental conditions of food and animal products all the way from ‘farm to plate’.
- A Norwegian-listed maker of automated recycling technology and a global leader in sensor-based food sorting and peeling technology. Their sorting machines inspect millions of individual food pieces per hour,
help increase the yield of produce by 5-10% and save as much as 25,000 trucks of potatoes every year\(^8\).

- A UK-listed maker of testing and measurement instruments. They offer soil analysis tools to help farmers analyze soil fertility and enhance crop yields, contributing to agricultural productivity and ensuring sustainable food production systems.

### Research and engagement

As long-term, active investors, we regularly conduct research and engage with companies on a wide range of sustainability topics. We have commissioned and undertaken our own research into challenges within the palm oil and soy supply chains and have conducted extensive engagement on the topic of deforestation. We have also engaged a number of consumer companies on sugar content in their product portfolios and plastic packaging, and will soon begin a new round of research and engagement on the use of agricultural chemicals, as well as the importance of supporting smallholder farmers.

In summary, the future of food and sustainable agriculture offers a myriad of investment opportunities that can benefit our clients, and at the same time, help to support and promote a more sustainable and resilient food system. We believe this can be a positive situation for all, but there are many hard yards still to be covered.

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1. Source: [https://www.ipcc.ch/srccl/chapter/summary-for-policymakers/](https://www.ipcc.ch/srccl/chapter/summary-for-policymakers/)
2. Source: [https://globalforestatlas.yale.edu/land-use/industrial-agriculture](https://globalforestatlas.yale.edu/land-use/industrial-agriculture)
7. Source: [https://www.bmj.com/content/365/bmj.l2110](https://www.bmj.com/content/365/bmj.l2110)
10. Source: [www.drawdown.org](http://www.drawdown.org)
18. Source: Company data

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Engagement

The European Commission Renewed Sustainable Finance Strategy Consultation

On 8 April, the European Commission published a consultation on its renewed and ambitious sustainable finance strategy, which it aims to adopt in the second half of this year. The consultation comes as a follow-up to the initial Sustainable Finance Action Plan which was published in March 2018. As a business, we are extremely supportive of such proactive government engagement – it is something we would not have believed as little as five years ago. However, there is a risk that so much is being released with indigestible explanation and unrealistic time frames for implementation that both financial institutions and investors might in fact be dis-incentivised to engage with sustainable investment.

Please visit our microsite to read our full response: https://sfg.stewartinvestors.com/european-sustainable-finance-consultation

Trip report

Due to the ongoing pandemic, we have had to cancel several research trips planned this year to Japan, the United States, Europe and Korea. We therefore do not have any trip reports to share for this quarterly report.

On a practical basis, the team have been committed to working flexibly, including remotely, for many years and are adept at multi-location meetings. As a result, there has been minimal disruption to the investment process from home confinement.

Over the quarter, the team have managed to replace these trips with 88 company meetings via video conference.
Other news

Statement on racism and racial diversity
We recognise the existence of inequality and institutional racism across the world – we share the horror felt by so many as we have witnessed events that highlight the inequality, prejudice and sheer injustice faced by members of the black community the world over.

As we sit at our desks and analyse companies, we recognise we do not have all the answers on this issue. Indeed, we approach this issue with so much to learn, especially as it relates to the experiences of so many. These long-standing issues stem from a centuries-old and complex cultural and historical context. In some cases our team members have also experienced the unjust and unfair effects of racism, both in and outside the workplace. But this can only be an excuse for so long.

As investors, we have always favoured companies that understand the need to, and live by the principles of, operating in the right way. While this may sound vague, we know what it looks like. It is as simple as showing an open mind to diversity, through to more complicated matters of respecting all communities and supporting their advancement, not abusing minorities or human rights, as well as operating within an explicit or implicit licence to operate.

On top of that, it is about looking for companies that understand the links between poverty, disadvantage, accessibility to services, basic human rights and climate change. We have long sought out and invested in companies which build necessary goods and services, such as providing clean reliable water, sanitation, access to medicines and healthcare, and essentials, such as soap and personal care goods. Added to this in recent years are internet access, mobile telephony, clean electricity, basic banking services and micro insurance. Our hope is that our clients’ capital can support companies which sustain and advance the livelihoods of those most in need of these services and who face the greatest challenges, regardless of ethnicity.

Although this is an integral part of our investment philosophy, there is much more we can and should be doing to play our part in addressing racism and racial diversity.

We plan to:
- Educate ourselves better as investors and not shy away from the complex issues particularly around caste, ethnicity, Black Economic Empowerment (BEE), specific challenges faced by indigenous communities, as well as similarly localised issues of race. We will educate ourselves by listening, discussing, sharing, understanding, analysing and commissioning research where necessary.
- Engage more persistently on diversity in all forms with companies. For example, we have written to many companies about racial diversity on boards over the past 20 years, but we have not been active enough in following up or taking tough decisions. We need to work harder with the companies we invest in as genuine partners.
- Educate ourselves better as people. A few years ago every Sustainable Funds Group team member took part in a two-day course on unconscious bias. It is time to revisit and challenge our biases as individuals.
- Stand firm and be prepared to call out racism when we see it. In the past, we may not have been firm enough on this issue. We will work towards a clear mechanism for identifying and addressing racial bias that allows us to engage with the relevant parties in a constructive manner. Often these parties are external, which creates its own challenges, but we need to learn how to overcome them.

Unequivocally it is time for change, and for us as an investment team, there is much we can and will be doing to play our part in this change.
Our position on harmful and controversial products and services

All members of Stewart Investor’s investment team sign our Hippocratic Oath, which includes the commitment that we will not pursue risk-adjusted returns to the extent that our actions will knowingly harm others. In accordance with our investment philosophy and strategy, the investment team is responsible for avoiding the allocation of client capital to harmful activities.

We do not use quantitative thresholds in the quality assessment of companies in our investment process. For example, we prefer companies to manage their balance sheets conservatively but do not set specific debt thresholds. Our analysts and portfolio managers must be able to justify, and are accountable for, the decisions they make.

However, for harmful products and controversial industries, we appreciate that our clients reasonably expect clarity on what exposures they may have to negative activities. Please find more information on the activities and practices we find inconsistent with our investment philosophy on our microsite: https://sfg.stewartinvestors.com/our-position-on-harmful-and-controversial-products-and-services

This position statement does not represent any change to our investment process. It is merely an articulation of our approach.

Good Money Week

We are proud to partner with Good Money Week - the UK national campaign to help people find sustainable options for banking, pensions, savings and investments which are good for people and the planet.

Now in its 12th year, the 2020 Good Money Week will look at how money can support a green and fair recovery after the pandemic, ensuring we build back in a way that works for people, the planet, health and wealth.

In support of the campaign, Lorna Logan explains in a short video what sustainable investment is, why it’s important and the approach we take to support it. To watch the video please visit our microsite: https://sfg.stewartinvestors.com/good-money-week

In Australia we have also partnered with RIAA (the Responsible Investment Association of Australasia) to sponsor their Good Money Week, known as Ethical Investment Week, event ‘Saving Planet A with your Super’ which takes place on Thursday 29 October, 12pm AEDT.

This is a one-hour Responsible Returns event hosted by the War on Waste and Fight for Planet A’s Craig Reucassel, where he will be joined by a range of guests to unpack the role superannuation pension programmes in Australia can play in creating the world we want to live in and the simple steps to take to align your money with your values.

To register or watch this event live on Facebook, please visit our microsite for more information: https://sfg.stewartinvestors.com/ethical-investment-week

Good Money Week runs from 24-30 October 2020.
Updated sustainability interactive map
Over the last couple of months we have been further developing the interactive map on our microsite, which allows clients to easily access detail on the companies held in our Sustainability strategies and how they are contributing to sustainable development.

On the site we have also included many of our articles written by the broader investment team which explore our thinking on sustainable investment, including the challenges and issues we grapple with in our search for high quality companies.

Importantly, the microsite is ‘ungated’, so unlike much of the investment industry’s content, it is not reserved for just institutional and wholesale investors.

We invite you to visit our new microsite: https://sfg.stewartinvestors.com/

Stewart Investors Asia Pacific Leaders strategy – name change
On 22 September 2020, the Stewart Investors Asia Pacific Leaders strategy was renamed to the Stewart Investors Asia Pacific Leaders Sustainability strategy. This name change is to highlight that the strategy is managed by the Sustainable Funds Group which focuses on investment in companies which are positioned to benefit from, and contribute to sustainable development. There has been no change to the team managing the strategy.

Team update
On 6 August 2020, Douglas Ledingham relocated back to Edinburgh from Sydney having spent almost four years there. Due to current working restrictions Doug is currently working remotely from home like the rest of the business.

First State Investments rebrand to First Sentier Investors – 22 September 2020
On the 22 September 2020, First State Investments, a stand-alone asset management business and the home of investment teams including Stewart Investors, rebranded to First Sentier Investors. The brand change was part of a global re-branding programme which began in 2019 following the company’s acquisition by Mitsubishi UFJ Trust and Banking Corporation, a wholly-owned subsidiary of Mitsubishi UFJ Financial Group, Inc. At that time, the company decided to adopt a single corporate global brand name, and the business has operated as First Sentier Investors in Australia since September 2019.

There is no change to the branding of Stewart Investors or to the way this team manages client assets.
Glossary

**Blockchain:** digital information (the block) stored in a public database (the chain).

**Indoor vertical farming:** the practice of growing produce stacked one above another in a closed and controlled environment. By using growing shelves mounted vertically, it significantly reduces the amount of land space needed to grow plants compared to traditional farming methods.

**Internet of things:** the interconnection via the internet of computing devices embedded in everyday objects, enabling them to send and receive data.

**Monoculture:** the agricultural practice of producing or growing a single crop, plant or livestock species, variety, or breed in a field or farming system at a time.

**Paris Agreement:** The Paris Agreement sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C. It also aims to strengthen countries’ ability to deal with the impacts of climate change and support them in their efforts. The Paris Agreement is the first-ever universal, legally-binding global climate change agreement, adopted at the Paris Climate Conference (COP21) in December 2015.
Strategy updates

Worldwide Sustainability Strategy - 30 September 2020

Strategy Size  US$2.6bn  Number of Holdings  54

Ten Largest Holdings

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<th>Stock Name</th>
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Total 34.2 0.4

New Addition†

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<td>bioMerieux SA</td>
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Complete Disposals

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<td>Beiersdorf AG</td>
<td>Consumer Staples</td>
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Sector Breakdown

- Health Care 32.5% (12.6%*)
- Information Technology 24.9% (21.7%*)
- Consumer Staples 17.6% (6.0%*)
- Industrials 14.4% (9.6%*)
- Materials 3.8% (4.8%*)
- Financials 2.4% (12.3%*)
- Utilities 0.5% (3.1%*)
- Other 0.0% (27.8%*)
- Cash and Cash Equivalents 4.0% (0.0%*)

Regional Breakdown

- North America 36.4% (61.0%*)
- Europe & Middle East ex UK 25.4% (13.2%*)
- Japan 15.1% (6.9%*)
- UK 12.4% (3.5%*)
- Emerging Markets 10.2% (12.4%*)
- Pacific ex Japan 6.5% (3.0%*)
- Cash and Cash Equivalents 4.0% (0.0%*)

Cash Equivalents may include T-Bills.

Market Capitalisation (% in USD)

<table>
<thead>
<tr>
<th>0 to 50bn</th>
<th>50bn to 1bn</th>
<th>1bn to 2.5bn</th>
<th>2.5bn to 5bn</th>
<th>5bn to 10bn</th>
<th>10bn to 50bn</th>
<th>50bn to 100bn</th>
<th>100bn+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Weight</td>
<td>-</td>
<td>0.0</td>
<td>6.1</td>
<td>8.2</td>
<td>9.6</td>
<td>60.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Benchmark Weight</td>
<td>-</td>
<td>0.0</td>
<td>0.3</td>
<td>1.9</td>
<td>6.4</td>
<td>32.3</td>
<td>16.9</td>
</tr>
</tbody>
</table>

Factset does not always have full stock coverage; weights may not total 100%.

Contribution Analysis - 12 Months

Top Three Contributing Stocks

<table>
<thead>
<tr>
<th>Stock Name</th>
<th>Portfolio Weight (%)</th>
<th>Value Added (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DiaSorin SpA</td>
<td>4.6</td>
<td>238</td>
</tr>
<tr>
<td>Varian Medical Systems, Inc.</td>
<td>3.7</td>
<td>129</td>
</tr>
<tr>
<td>Chr. Hansen Holding A/S</td>
<td>1.2</td>
<td>115</td>
</tr>
</tbody>
</table>

Bottom Three Contributing Stocks

<table>
<thead>
<tr>
<th>Stock Name</th>
<th>Portfolio Weight (%)</th>
<th>Value Added (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Henkel AG &amp; Co. KGaA</td>
<td>0.0</td>
<td>-133</td>
</tr>
<tr>
<td>Lonza AG</td>
<td>1.3</td>
<td>-99</td>
</tr>
<tr>
<td>Deutsche Telekom AG</td>
<td>0.0</td>
<td>-96</td>
</tr>
</tbody>
</table>

Past performance is not a reliable indicator of future results.

*Source for Stewart Investors Worldwide Sustainability All-Cap Composite: Stewart Investors. Data is shown in USD and is gross of fees. Performance figures do not reflect the deduction of investment fees and expenses. A client’s return will be reduced by the effect of investment fees and expenses. If a client placed $100,000 under management and a hypothetical gross return of 10% was achieved, the investment assets before the effect of fees and expenses would have grown to $299,374 in 10 years. However, if fees and expenses to the value of 1% were incurred, investment assets would have grown to $234,573, or an annual compounded rate of 8.9%.

**Source for MSCI AC World index: FactSet. Index returns are shown on a total return basis and gross of tax. Since launch relates to launch of the composite on 1 December 2012. Periods greater than one year are annualised. Portfolio data shown is for a representative Stewart Investors Worldwide Sustainability account.

†New investments show positions with a portfolio weight over 0.5%. All complete disposals are shown. Contributions are gross of fees and include cash. This information is provided for illustrative purposes to demonstrate Stewart Investors’ activity within the strategy for the period shown. It is not a recommendation or solicitation to purchase or invest in any fund. This stock information does not constitute any offer or inducement to enter into any investment activity.

Annualised Composite Performance (% in USD) to 30 September 2020

<table>
<thead>
<tr>
<th>Strategy*</th>
<th>10 yrs</th>
<th>5 yrs</th>
<th>3 yrs</th>
<th>1 yr</th>
<th>YTD</th>
<th>6 mths</th>
<th>3 mths</th>
</tr>
</thead>
<tbody>
<tr>
<td>17.3</td>
<td>-12.0</td>
<td>8.9</td>
<td>17.6</td>
<td>10.8</td>
<td>27.6</td>
<td>9.3</td>
<td>8.7</td>
</tr>
</tbody>
</table>

Calendar Year Composite Performance (% in USD)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>27.3</td>
<td>-8.9</td>
<td>24.6</td>
<td>8.5</td>
<td>-1.8</td>
<td></td>
</tr>
</tbody>
</table>
Global Emerging Markets Sustainability Leaders Strategy - 30 September 2020

Strategy Size US$128m Number of Holdings 44

Ten Largest Holdings

<table>
<thead>
<tr>
<th>Stock Name</th>
<th>Portfolio Weight (%)</th>
<th>Index Weight (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tata Consultancy Serv. Ltd</td>
<td>5.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Unilever PLC</td>
<td>5.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Alibaba Group Holding</td>
<td>5.0</td>
<td>8.7</td>
</tr>
<tr>
<td>Taiwan Semiconductor (TSMC)</td>
<td>4.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Unicharm Corporation</td>
<td>4.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Marico Limited</td>
<td>4.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Housing Development Finance Corporation Limited</td>
<td>4.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Vitasey International Holdings</td>
<td>3.7</td>
<td>0.0</td>
</tr>
<tr>
<td>Tech Mahindra Limited</td>
<td>3.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Hoya Corp.</td>
<td>3.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>43.4</td>
<td>15.7</td>
</tr>
</tbody>
</table>

New Additions

<table>
<thead>
<tr>
<th>Stock Name</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Silergy Corp</td>
<td>Information Technology</td>
</tr>
<tr>
<td>Network International Holdings Plc</td>
<td>Information Technology</td>
</tr>
</tbody>
</table>

Complete Disposals

<table>
<thead>
<tr>
<th>Stock Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>There were no complete disposals during the period</td>
</tr>
</tbody>
</table>

Sector Breakdown

- Consumer Staples 35.0% (6.1%*)
- Information Technology 28.4% (18.5%*)
- Financials 9.7% (7.1%*)
- Consumer Discretionary 9.6% (20.2%*)
- Health Care 3.1% (4.3%*)
- Communication Services 3.0% (12.7%*)
- Industrials 2.5% (4.4%*)
- Materials 1.5% (6.9%*)
- Other 0.0% (9.8%*)
- Cash and Cash Equivalents 7.3% (0.0%*)

Country Breakdown

- India 30.7% (9.2%*)
- China 11.0% (42.0%*)
- Japan 9.5% (0.0%*)
- Taiwan 9.1% (12.7%*)
- UK 7.6% (0.0%*)
- USA 6.1% (0.0%*)
- South Korea 4.1% (12.1%*)
- Brazil 4.1% (4.6%*)
- Hong Kong 3.7% (0.0%*)
- Other 7.0% (20.4%*)
- Cash and Cash Equivalents 7.3% (0.0%*)

Cash Equivalents may include T-Bills.

Market Capitalisation (% in USD)

<table>
<thead>
<tr>
<th>Portfolio Weight</th>
<th>0 to 500m</th>
<th>500m to 1bn</th>
<th>1bn to 2.5bn</th>
<th>2.5bn to 5bn</th>
<th>5bn to 10bn</th>
<th>10bn to 50bn</th>
<th>50bn to 100bn</th>
<th>100bn+</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>0.0</td>
<td>2.4</td>
<td>7.7</td>
<td>16.4</td>
<td>36.6</td>
<td>11.9</td>
<td>17.7</td>
<td></td>
</tr>
</tbody>
</table>

Benchmark Weight

<table>
<thead>
<tr>
<th>Portfolio Weight</th>
<th>0 to 500m</th>
<th>500m to 1bn</th>
<th>1bn to 2.5bn</th>
<th>2.5bn to 5bn</th>
<th>5bn to 10bn</th>
<th>10bn to 50bn</th>
<th>50bn to 100bn</th>
<th>100bn+</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>0.0</td>
<td>2.2</td>
<td>8.1</td>
<td>13.2</td>
<td>35.0</td>
<td>7.0</td>
<td>34.6</td>
<td></td>
</tr>
</tbody>
</table>

FactSet does not always have full stock coverage; weights may not total 100%

Contribution Analysis - 6 Months

Top Three Contributing Stocks

<table>
<thead>
<tr>
<th>Stock Name</th>
<th>Portfolio Weight (%)</th>
<th>Value Added (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan Semiconductor Manufacturing Co Ltd.</td>
<td>6.8</td>
<td>232</td>
</tr>
<tr>
<td>Alibaba Group Holding</td>
<td>5.0</td>
<td>199</td>
</tr>
<tr>
<td>Tata Consultancy Service Limited</td>
<td>5.7</td>
<td>194</td>
</tr>
</tbody>
</table>

Bottom Three Contributing Stocks

<table>
<thead>
<tr>
<th>Stock Name</th>
<th>Portfolio Weight (%)</th>
<th>Value Added (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network International Holdings Plc</td>
<td>0.9</td>
<td>-86</td>
</tr>
<tr>
<td>Jaconimo Martinez SIPS A</td>
<td>1.4</td>
<td>-18</td>
</tr>
<tr>
<td>Clicks Group Limited</td>
<td>1.2</td>
<td>-15</td>
</tr>
</tbody>
</table>

Cumulative Composite Performance (% in USD) to 30 June 2020

<table>
<thead>
<tr>
<th>Since Inception</th>
<th>10 yrs</th>
<th>5 yrs</th>
<th>3 yrs</th>
<th>1 yr</th>
<th>YTD</th>
<th>6 months</th>
<th>3 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy*</td>
<td>32.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>32.0</td>
<td>15.6</td>
</tr>
<tr>
<td>Benchmark**</td>
<td>29.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29.6</td>
<td>9.7</td>
</tr>
</tbody>
</table>

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*Source for Stewart Investors Global Emerging Markets Sustainability Leaders Composite: Stewart Investors. Data is shown in USD and is gross of fees. Performance figures do not reflect the deduction of investment fees and expenses. A client’s return will be reduced by the effect of investment fees and expenses. If a client placed $100,000 under management and a hypothetical gross return of 10% was achieved, the investment assets before the effect of fees and expenses would have grown to $200,374 in 10 years. However, if fees and expenses to the value of 1% were incurred, investment assets would have grown to $152,573, or an annual compounded rate of 8.9%.

**Source for MSCI Emerging Markets Index: FactSet. Index returns are shown on a total return basis and gross of tax. Since launch relates to launch of the composite on 1 April 2020. Periods greater than one year are annualised.

Portfolio data shown is for a representative Stewart Investors Global Emerging Markets Sustainability Leaders account. Any stocks held/listed in non-index countries have economic activity >50% from developing economies.

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