# Quarterly Update

Report for the quarter ended 31 December 2024

Skerryvore
ASSET MANAGEMENT

# Contents



Effective August 1, 2024, following regulatory approval from the UK's Financial Conduct Authority, BennBridge Ltd became a wholly owned subsidiary of Skerryvore AM LLP and now trades as Skerryvore Asset Management

# About Us

## INTRODUCTION

**The Skerryvore lighthouse marks a treacherous reef of rocks that lies off the west coast of Scotland. It was designed and built by the Stevenson family, experts in the field of building structures in difficult places that have stood the test of time.**

Skerryvore Asset Management (Skerryvore) is an independent investment management boutique established in Edinburgh in 2019. The boutique was set up to create a business with the independence to pursue and protect its long-term investment philosophy.

Our strategies aim to generate absolute long-term returns by investing responsibly in emerging markets. This is based on an unwavering focus on the quality of the businesses in which we invest. We believe in managing clients’ money as we would our own, aligning our interests with our clients and never losing sight of the trust that is put in us to be responsible stewards of capital.

## ALIGNMENT & QUALITY

Our investment philosophy stresses the importance of alignment. Emerging markets present a distinctive context in which to operate a business, with constant evolution – and sometimes revolution – in economic, political, regulatory and financial conditions. Investing alongside managers and owners with good reputations that share our belief in a long-term approach to investment is an important way to align interests. As a business, we aim to put our investment philosophy into practice. Our remuneration policy is designed to ensure alignment with client outcomes. Partners will co-invest in strategies run by Skerryvore, and the terms of co-investment require holding these investments for a minimum of three years. Consistent with our investment philosophy and process, this underpins an absolute rather than a relative return mind-set that clients can expect from us.

Our core investment team has been together a decade with an average of over 17 years investment experience.

We have a history of preserving as well as growing client capital in Emerging Markets by investing alongside owners and managers with a record of integrity and delivery.

# Executive Summary

## GEM ALL-CAP EQUITY - COMPOSITE PERFORMANCE (AUD)

| | Strategy (Gross) (%) | Strategy (Net) (%) | Benchmark (%) |
|---|---|---|---|
| Quarter | 1.66 | 1.51 | 3.08 |
| 1 Year | 10.25 | 9.62 | 18.48 |
| 3 Year (% p.a) | 6.60 | 6.27 | 3.47 |
| Since Inception (% p.a) (15/12/20) | 7.52 | 7.25 | 3.70 |

## KEY CHARACTERISTICS

| | |
|---|---|
| Number of holdings | 47 |
| Number of countries | 20 |
| Number of sectors | 8 |
| Number of industries | 24 |
| Active share (%) | 89 |
| 12 months trailing turnover (%) | 94 |
| 7-day liquidity at 20% market participation (%) | 47 |

## TOP 10 HOLDINGS

| Name | Weight (%) |
|---|---|
| Fomento Economico Mexicano | 5.78 |
| HDFC Bank Limited | 5.67 |
| TSMC | 5.04 |
| Cipla | 4.92 |
| Tata Consultancy Services | 3.58 |
| Coca-Cola HBC | 3.53 |
| Yifeng Pharmacy | 3.34 |
| Franco Nevada | 3.25 |
| Raia Drogasil | 3.05 |
| Kotak Mahindra Bank | 2.88 |

## GEM ALL-CAP EQUITY STRATEGY AUM AS OF 31 DECEMBER 2024

| Currency | Global Emerging Markets All-Cap Equity |
|---|---|
| AUD | 783,675,744 |

## KEY PORTFOLIO ACTIVITY

| New Buys | Complete Sales |
|---|---|
| Airtac International Group | Bajaj Auto |
| Bid Corporation | Banco Bradesco |
| Itausa Pn | |

Representative account holdings are subject to change and should not be considered a recommendation to buy or sell individual securities

**Source: Landy Tech, Skerryvore as of 31 December 2024**
**Note:** Net Return based on highest representative fee (of 75 bps). This is supplemental to the GIPS composite performance report that can be found attached in Appendix A.
Composite: Global Emerging Market Equity. Benchmark: MSCI EM Total Return Index. Reference to the benchmark is for comparative purposes only and is not intended to indicate that the composite will contain the same investments as the benchmark. Investors have the opportunity for losses as well as profits. Past performance is no guarantee of future returns.

# Quarterly Commentary

## INVESTMENT OVERVIEW

Global emerging market all-cap equities rose during the quarter. The strategy rose in value and underperformed the benchmark index[1].

### POSITIONING & STRATEGY

We are fundamental, long-term, bottom-up investors seeking to create a high-conviction portfolio of reasonably valued, high-quality companies that are exposed to, or operate in, emerging markets. Portfolio positioning is the output of our bottom-up based convictions, rather than a specific top-down view.

### ANNUAL REVIEW

Following a period of strong performance over the past three years, 2024 was a difficult year for the All-Cap strategy with acceptable absolute returns but trailing behind a very strong benchmark performance. There were three causes for this. Firstly, it is taking consumers time to digest the higher inflation experienced over the last few years which has slowed growth in our companies exposed to consumer staples such as beer. Secondly, on a relative basis we were not big beneficiaries of the huge stimulus unleashed by China in the second half of the year and finally our Latin American holdings suffered on the basis of political changes. We believe most of these effects are temporary and that the moves in price do not represent changes in the longer-term value of our companies.

The largest positive contributors to the strategy for the year include **TSMC**, **Cipla** and **Syngene** – all of which we've been trimming as their price to value relationships have become stretched. There has also been a notable recovery in the **HDFC** share price after a significant drop at the start of the year where we added to the holding. Merging the wholesale funded parent with the deposit-gathering bank was always likely to cause some short-term indigestion. Near-term comparisons to peers are rather meaningless until it fully completes the transition from a business perspective. We are pleased to see that the bank continues to maintain its leading position in deposit gathering, has undergrown the potentially frothy post-covid retail loan market and continues to show the highest asset quality. We believe the long-term earnings power of this franchise is undiminished and the shares remain attractively valued.

The largest negative contributor to returns for the strategy was from the holding in Mexican convenience store operator **FEMSA**. This has been a function of pulling back after a strong run in 2023 on the back of a more tepid economy and some weakness in the underlying currency. The currency weakness is as a result of the supermajority of the Morena party in elections this year with changes to the judicial system made by the outgoing President. Their largest trading partner hasn't helped either as announcements made by President Trump post the US election threatened tariff rates of 25% on Mexico and Canada. Given the complexity of the interrelationship between the economies of the two countries we hope that cooler heads ultimately prevail. Regardless of the politics, however, we believe that FEMSA has a significant growth opportunity ahead, as it continues its roll out of convenience stores and pharmacies across Latin America. We also take comfort from the fact that it has the financial strength and management team to navigate through these periods of uncertainty, as it has done before, leading to us adding to the position as it fell.

[1] Benchmark MSCI EM Net Total Return Index (AUD) as of 31 December 2024

**Past performance does not predict future returns**

# Quarterly Commentary

## QUARTERLY REVIEW

The strategy rose in value during the period and underperformed the benchmark index during the period. The key driver of this was the low allocation to Chinese equities which recovered in the quarter following further government announcements of support for the broader economy. The largest contributor to returns was from TSMC however in a relative sense this was also the largest negative contributor. As discussed, we believe that it is sensible to continue to reduce the holding size as the share price goes beyond our estimate of fair value.

Rhetoric versus reality. The Chinese government's decision to effectively underwrite risk in its property and banking sectors to offset strengthening deflationary forces sectors led to some extraordinary share price moves across the market there. We had added both **Yifeng Pharmacy** and **Hangzhou Robam** during the early part of this year as we looked to take advantage of better valuations in high-quality businesses with aligned owners, but didn't find as many bargains as we might have hoped. Both of these businesses are not strategic to the Chinese government in a way that leads to warped costs or demand. Robam is a maker of high-end extraction hoods and kitchen appliances, and not of interest to the government. Yifeng is one of three large, listed pharmacy chains that in our view has the best governance. It is aligned with government interests in that they help avoid some of the corruption that had become common place in hospitals, as well as helping to treat an aging population. Over the long term, we expect the industry to consolidate as it has in other countries.

Potential opportunities in political turmoil. There may be some interesting investment opportunities presenting themselves in South Korea. The strategy has benefitted this quarter from steering clear of Korean equities – predominantly because of our long-held concerns that we have had over acceptable levels of governance for the large Chaebols. What has also kept us away has been valuation concerns for those businesses where we've not felt that one must compromise on either quality or alignment. South Korea's chip-building evolution over the past 30 years has created scale for local specialist equipment suppliers to blossom into global leaders. Take the examples of three companies we visited on a research trip in 2023, which specialise in inspection and testing equipment – **Koh Young Technology**, **Park Systems** and **Leeno Industrial**. All three started without ownership ties to Chaebols or government and are still run today by their founders, who own significant stakes. Other common characteristics include being global market share gainers in their niches, selling 'high-value-add' products (as is demonstrated by strong gross margins) and having robust balance sheets capable of withstanding downturns. We are mindful that the political turmoil following the swiftly cancelled imposition of martial law by the suspended Korean President Yoon Suk Yeol and some signs of a cyclical slowdown in end markets could present us with some interesting buying opportunities.

# Quarterly Commentary

## PORTFOLIO ACTIVITY

Portfolio turnover for the calendar year has been consistent with our investment horizon of 3-5 years. New positions in **Airtac International**, **Bid Corporation** and **Itaúsa** were established during the quarter. Airtac is a Taiwanese manufacturer of components used in industrial automation, primarily pneumatic components used in most factories. The company has a sizable presence in Mainland China and would benefit from any pickup in economic activity there and has a balance sheet that affords it the luxury of time. The slowing economy in China presented us with a chance to buy this excellent business at a reasonable price. Bidcorp is a South African logistics business specialising in the food service industry. The company's operations are globally diversified with significant operations in Europe, Australasia and South Africa. The company has a history of steady growth based on shrewd acquisitions and organic growth.

We completely sold two holdings during the period. The first was **Bajaj Auto**, a leading Indian manufacturer and distributor of two- and three-wheel scooters and rickshaws. The position had been purchased during a COVID related sell off in 2020 and there has been a significant volume recovery since the pandemic lows as the business recovered and grew. Whilst there is still some room for a normalisation in both international demand and profits, the share price incorporated overly optimistic assumptions with no room for a bump in the road. The capital raised was invested into other holdings within the portfolio where we believe we can make better returns. The second was the holding in Brazilian bank **Bradesco**. We exited the position to fund higher conviction ideas in the portfolio due to a lack of confidence in the longer-term growth opportunity for this business.

We have also significantly reduced the holding size in **TSMC**. This is purely on valuation grounds as there's no doubt that TSMC is a clear beneficiary of the emergence of artificial intelligence and more generally the incorporation of more microchips into more things. Growth in the business has narrowed and we worry that others have become overly optimistic. This as well as many other names in the AI supply chain look stretched from a valuation perspective and would be vulnerable to any disappointment.

## OUTLOOK

We believe the strategy currently offers investors the opportunity to invest in long-term growth at attractive valuations. Through a challenging quarter and year, the companies we own continued to show underlying earnings growth, and a combination of currency weakness and lowered expectations from other participants means that the overall valuation of the strategy is more attractive than it was when we started the year. It is not unusual for the strategy to be pointing in a different direction to the crowd, and whilst this can be uncomfortable in the short-term, we believe it will allow us to generate attractive returns over the long-term.

Importantly, the demographic case for growth in the developing world has not changed. It also provides varied and different forms of growth to what's driven markets in 2024 and this may be helpful for protecting investors, particularly if any cracks appear in the US economy.

Finally, many central banks appear to consider the spectre of inflation to have been banished leading to falling interest rates which may help Emerging Markets and encourage investment which should lead to improved growth. It is also important to note that despite rising US rates, the developing world has demonstrated it to be more resilient than many imagined, and it's those countries in the developing world and the G7 that are facing fiscal and balance sheet challenges that one would associate with emerging markets. History has taught us, however, that investing on the basis of what might happen is less useful than focusing on what has happened in the form of long-term track records of the businesses we own. We continue to believe that the owners and managers of our companies will be in a good position to take advantage of whatever the economic weather throws at them.

**Past performance does not predict future returns**

# Key Portfolio Activity

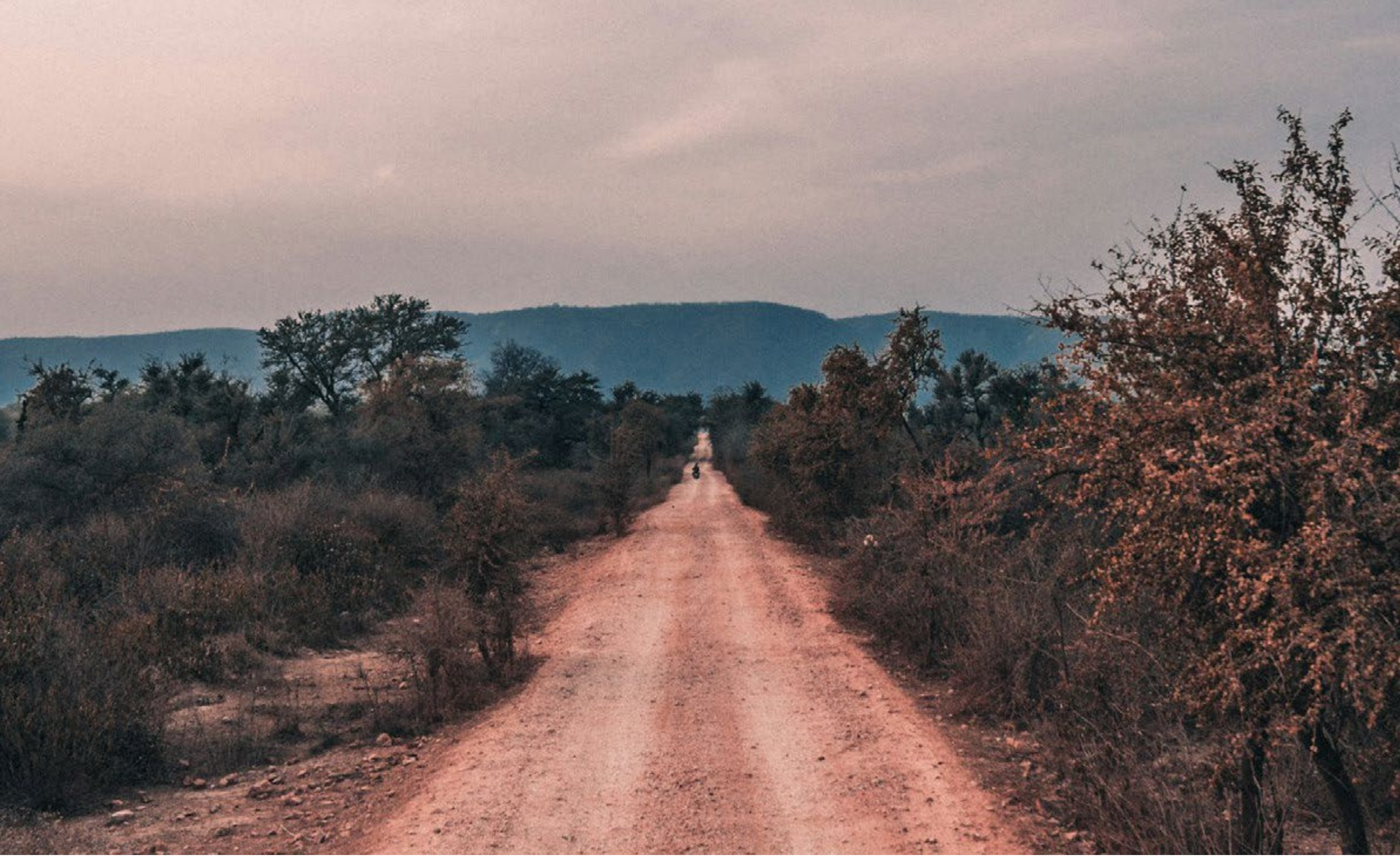
## NEW BUYS

| Holding | Commentary |
|---|---|
| **Airtac International Group** | Airtac International Group is a Taiwanese headquartered and listed business that manufactures and supplies pneumatic equipment worldwide. Established in 1988 and still led by its founder the business has grown to become a market leader in industrial automation products as a result of its investment in its product offering and distribution strength. We have long admired this business and recent weakness in the share price over the last twelve months has given us an attractive opportunity to buy this high-quality industrial business at a valuation that meets our required rate of return. |
| **Bid Corporation** | Bid Corp is a South African listed and headquartered global food service business, serving independent and small chain restaurants, hotels, caterers, shipping lines, and public sector cafeterias. It has a fragmented customer base and has used its logistics and scale advantages to pass on price advantages to its customers allowing it to gain market share. The shares have de-rated over the past couple of years despite strong operational performance and we believe they offer an attractive return opportunity at current levels. |
| **Itaúsa** | Itaúsa is a Brazilian listed holding company and conglomerate that was established in 1975. The control of the company rests predominantly with the Setubal and Villela families who have been sensible long-term stewards of the business. The company controls several companies active in areas such as finance, real estate, industrial, health, chemical, and fashion. The jewel in the crown is Itau Unibanco which is a leading Brazilian and Latin American financial services business which is more exposed to a wealthier demographic. The share price is very attractively valued at this time and the holding company structure allows strong alignment with the founders. |

## COMPLETE SALES

| Holding | Commentary |
|---|---|
| **Banco Bradesco** | We exited the position in Bradesco due to higher conviction ideas within the portfolio. |
| **Bajaj Auto** | The position had been purchased during the middle of 2020 and there has been a significant volume recovery since the pandemic lows which has been supplemented by strong bottom-up execution by the business which has launched new models that have been well received. Whilst there is still some room for a normalisation in both international demand and profits, the share price now incorporates some very rosy thinking by others in the market. A recent review of the investment case led us to believe that we would unlikely be able to earn our required rate of return from the shares at their current price and we decided to completely exit the position. |

**Past performance does not predict future returns. The securities shown are intended to be an example of the process and is for illustrative purposes only. They should not be considered a recommendation to buy or sell a specific security.**



THE LONG VIEW

# The Price of Integrity

At Skerryvore, we look beyond short-term financial results to check whether they're underpinned by sound behaviours.
Here, we explain how assessing intangible value builds our confidence in a business.

## IDENTIFYING A MISALIGNMENT

In our view, it has become clear that increased recognition of the long-term challenges facing society – including growing inequality and the degradation of the environment – led to a financial marketer's dream as far as ESG is concerned. But in the end the misalignment between our industry's desire to create relevant products, and its customers' hoped-for outcomes, has led to accusations of greenwashing and a regulatory and political backlash that has not helped make progress on these serious issues. Trust has suffered. An investment manager in the US, for example, justifying an about-face on some of its ESG commitments, has quoted laws that now require money managers to act solely in clients' long-term economic interests, with the implication that investing in companies that are pushing sustainable agendas is bad for business. As an independent fund manager, Skerryvore is immune to pressure from a marketing department or a CEO worrying about quarterly earnings and, indeed, we have long held the opposite view. Why is this?

Simply, because the actions businesses take to address governance, environmental and social challenges also lead to the building of a reputation. The average company in the MSCI emerging markets index trades, at the time of writing, on a 1.7 times multiple of its net asset or book value. Net asset value is what is left when you take what a company owes away from what it owns – buildings, factories, machinery, trucks, fridges, inventory etc. By contrast, at the time of writing our funds are nearly double that average, with a multiple of over 3 times. What could justify this difference in price?

## QUANTIFYING THE ABSTRACT

This gets us into the territory of 'intangible' value, that part of a company's value that doesn't have a physical presence. Some of these elements can be valued, such as customer relationships or patents, which typically have a defined lifetime and decline over their useful lives.

However, in many cases there is still a lot of unaccounted-for value that is covered by the catch- all term 'goodwill'. This manifests on balance sheets as the price one company pays for another minus all the things that can have a value ascribed to them; and was first defined in law in the UK in 1810[1]. We opt for a simple understanding: that this intangible value represents a company's reputation – often embodied by the company's brand, which Jeff Bezos once described as 'what people say about you when you're not in the room'.

## BEHAVIOUR: THE FOUNDATION OF TRUST

So if reputation is valuable, how do you go about building it? Henry Ford once said that 'a business that just makes money is a poor business[2]', implying that for a business to endure it has to do more than simply make money in the short term. What then are the other things that matter? Oddly, it turns out these seem to line up with the kind of things that people talk about when they discuss ESG.

Take, for example, governance – a company that is well governed by people with integrity can build trust. **Voltronic**, a Taiwanese maker of uninterruptible power supplies (UPS) among other electrical equipment, has built a very successful business by deciding only to act as a manufacturer for brand owners, which is possible because the company is run by a founder with high integrity, Alex Hsieh.

Another example is **Cipla**, a manufacturer of generic medicines. The willingness of international companies to partner with it and employees to work for it, we believe, is tied to the company's environmental record of not dumping effluent into waterways, which many of its competitors do[3]. Despite the fact it makes generic medicines, one of the most cutthroat and commodity industries that exists, Cipla, like Voltronic, is priced at a significant multiple of its book value.
Cipla has built a trusted brand in India and other emerging markets by maintaining higher standards which has created significant long-term value for shareholders.

Reputation only really matters over the long term, and this gives us an advantage as patient investors. We can see, often at a relatively early stage, whether a company cares about building this intangible value and understands that, despite all the time it takes to build it, it can be destroyed by one bad decision that adversely affects any of its stakeholders. For those who are patient enough to commit to the behaviour required over time, we believe the rewards are persistent and difficult to copy.

**Tata Consultancy Services** makes a point of treating its employees well, for example, training them in new technologies instead of acquiring existing companies. This results in lower staff turnover and higher returns than any of its competitors. Indeed, the Tata family in India has long understood the importance of integrity and the long-term benefits it can bring. One of its most famous products, even today, is salt, a basic commodity with which Tata has been able to engender trust and, as a result, price it at a premium.

**FEMSA**, a Mexican holding company, was able to sell its beer brands to **Heineken**, the Dutch brewer, to focus on retail and Coke bottling, but the family's reputation for integrity was such that the deal included shares in the Heineken holding company, owned for many generations by the Heineken family.

## GOODWILL AS A BEACON IN STORMY WATERS

It is perhaps when things go wrong that the real value of reputation reveals itself. Recently an Indian business magnate who had previously been targeted by a short-selling report found himself charged with fraud by the SEC. When this happens, as an investor in that business, what confidence can you have that you own what you thought you owned, or that the value of the business will ever recover? This makes it difficult to buy when the company stumbles. Contrast this with the companies that we own which, if they fall in price, don't leave us wondering about the integrity of the owners but rather how much of the company to add to our portfolio while it's available at a more attractive price, as we have been doing recently with FEMSA.

Conflating morals, values or business agendas with the act of investment is dangerous territory when thinking about returns. We favour management teams who recognise that their intangible value represents the ultimately fragile reputation of the business for integrity and treating all stakeholders in a fair manner. For those companies that take the time and care to build it, a good reputation can serve as an enduring competitive advantage as long as the owners and culture support it. As investors and owners of a business, we love to invest in these kinds of companies because we believe that they are capable of generating great returns over the long run.

## SOURCES


1 Accounting Information (no date). *Goodwill in Accounting: A History of the Issues and Problems*. www.account-ingin.com/accounting-historians-journal/volume-10-number-1/goodwill-in-accounting-a-history-of-the-issues-and-problems/#:~:text=The%20first%20accounting%20article%20on%20goodwill%20seems%20to,it%20at%20the%20turn%20of%20the%2020th%20century.

2 Henry Ford (1922). *My Life and Work*.

3 Changing Markets (2015). *Bad medicine – How the pharmaceutical industry is contributing to the global rise of antibiotic-resistant superbugs*. https://changingmarkets.org/report/bad-medicine-how-the-pharmaceutical-industry-is-contributing-to-the-global-rise-of-antibiotic-resistant-superbugs.

# Investment Results

## PERFORMANCE OBJECTIVE

The strategy's objective is to seek to achieve long-term capital growth by outperforming the benchmark by 2-3% per annum net of fees annualised over rolling five-year periods.

## GEM ALL-CAP EQUITY - COMPOSITE PERFORMANCE (AUD)

| | Strategy (Gross) (%) | Strategy (Net) (%) | Benchmark (%) |
|---|---|---|---|
| Quarter | 1.66 | 1.51 | 3.08 |
| 1 Year | 10.25 | 9.62 | 18.48 |
| 3 Year (% p.a) | 6.60 | 6.27 | 3.47 |
| Since Inception (% p.a) (15/12/20) | 7.52 | 7.25 | 3.70 |

## PERFORMANCE COMMENTARY

Global emerging market equities rose in Australian dollar terms during the period. The strategy rose in value and underperformed the MSCI emerging markets index. Following a period of strong performance over the past three years, 2024 was a difficult year for the All-Cap strategy with acceptable absolute returns but trailing behind a very strong benchmark performance. There were three causes for this. Firstly, it is taking consumers time to digest the higher inflation experienced over the last few years which has slowed growth in our companies exposed to consumer staples such as beer. Secondly, on a relative basis we were not big beneficiaries of the huge stimulus unleashed by China in the second half of the year and finally our Latin American holdings suffered on the basis of political changes. We believe most of these effects are temporary and that the moves in price do not represent changes in the longer-term value of our companies.

## STOCK LEVEL ATTRIBUTION

### TOP CONTRIBUTORS TO RETURN

| **Name** | **Contribution (%)** |
|---|---|
| TSMC | 1.08 |
| HDFC Bank Limited | 0.65 |
| Qualitas Controladora | 0.46 |
| Advantech | 0.41 |
| Uni-President China Holdings | 0.38 |

## HOLDING LEVEL COMMENTARY & ANALYSIS

The largest contributor to returns during the period was from the holding in the semiconductor foundry **TSMC**. The business has maintained its leading position through consistent expenditure in research and development and is the most advanced chipmaker in the world, given its ability to manufacture leading-edge semiconductors. The company has been helped by the strong demand for AI chips, particularly from Nvidia, which has resulted in the business announcing revenue growth of 38% from the previous year. With the shares up over 80% from a year ago we have continued to reduce the holding size in TSMC. This is purely on valuation grounds as there's no doubt that TSMC is a clear beneficiary of the emergence of artificial intelligence and more generally the incorporation of more microchips into more things.

Growth in the business has narrowed and we worry that others have become overly optimistic. This as well as many other names in the AI supply chain which in our view, look stretched from a valuation perspective and would be vulnerable to any disappointment.

1. Net return
2. Benchmark MSCI EM Net Total Return (AUD)

Source: Bennelong Funds Mgmt Gross & Net Performance Summary and Landy Tech data as at 31 December 2024

**Past performance does not predict future returns**

# Investment Results

## HOLDING LEVEL COMMENTARY & ANALYSIS

The second largest positive contributors to the strategy were was from the holding in the Indian bank **HDFC.** The stock has been weak during the early part of the year, and we are starting to see the share price recover. Merging the wholesale funded parent with the deposit-gathering bank was always likely to cause some short-term indigestion. We are pleased to see that the bank continues to maintain its leading position in deposit gathering, has undergrown the potentially frothy post-covid retail loan market and continues to show the highest asset quality. We believe the long-term earnings power of this franchise is undiminished and the shares remain attractively valued.

### TOP DETRACTORS TO RETURN

| Name | Contribution (%) |
|---|---|
| Raia Drogasil | -0.49 |
| Nexon Co Ltd | -0.38 |
| Heineken Holding | -0.34 |
| Bajaj Auto | -0.32 |
| Hindustan Unilever Ltd | -0.28 |

The largest negative contributor to returns during the period was from the holding in Brazilian pharmaceutical retailer **Raia Drogasil**. There has been no specific company news to explain this weakness, as we believe it is the weakness of the underlying Brazilian currency that is impacting the share price. The business model which, with a lag, generates strong profit-growth during inflationary periods created by weaker currencies and to that end we believe this is a cyclical rather than a structural issue which the business and share price should recover from. We have added to the position in FEMSA during this period of share price weakness as the shares look very attractively valued relative to the long-term growth opportunity.

The second largest negative contributor to returns during the period was from the holding in Korean based gaming business **Nexon**. Recent results were strong with revenues +13% (YoY) and operating profits +11% (YoY) driven by robust game sales with a successful launch of The First Descendant and strong performance of MapleStory's localized versions. These results were below the markets' elevated expectations and caused a sharp sell-off in the share price We continue to believe that the shares are very attractively valued for this leading Asian video games producer and distributor.

Source: Bennelong Funds Mgmt Gross & Net Performance Summary and Landy Tech data as at 31 December 2024

**Past performance does not predict future returns**

# Sustainability

We are long-term investors, with a fiduciary duty to be responsible stewards of our clients' capital.
A consequence of this is that the businesses we invest in must be sustainable. We do not however have a sustainability objective, and we do not put sustainability above investment returns. We consider ESG factors to be a subset of a more holistic definition of a sustainable business and these are taken into account but only to the extent that they financially affect the investment. In this context, we believe that sustainable investing is indivisible from investing in good quality companies, the core tenet of our philosophy. The Skerryvore GEM All-Cap Fund is not a sustainability fund as defined by the Australian Prudential Regulation Authority.

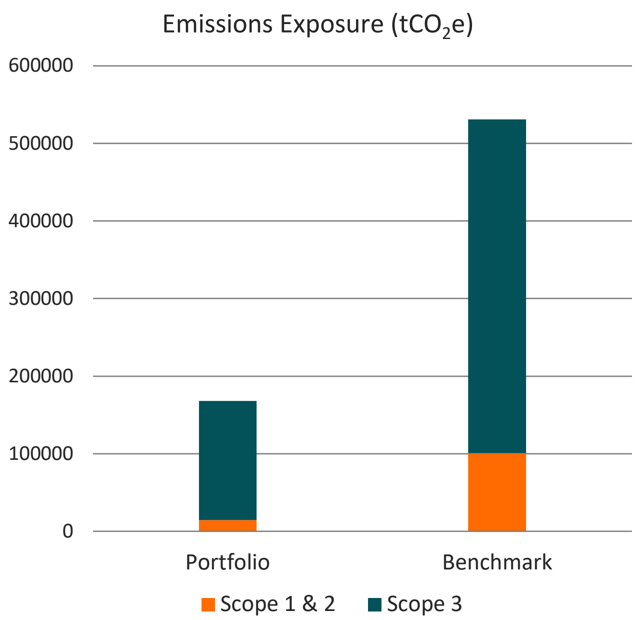
## PORTFOLIO ACTIVITY

There were no significant portfolio actions related to sustainability issues during the period.

## PORTFOLIO CARBON EMISSION REPORTING

Independent analysis of the GEM All-Cap Strategy conducted by the ISS Climate Change model highlights that the strategy has a significantly lower emissions exposure than an emerging markets benchmark.

## PORTFOLIO EMISSIONS EXPOSURE vs BENCHMARK [1]

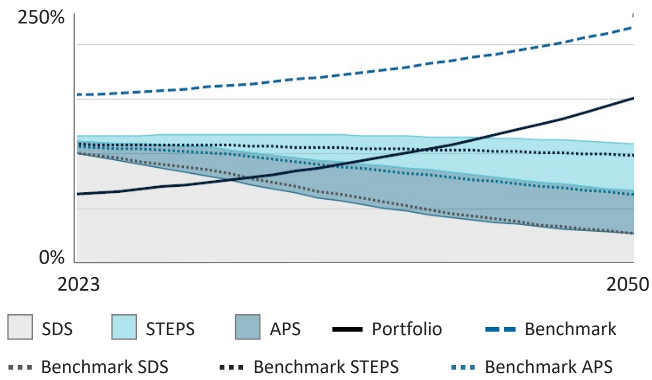



By seeking and providing this information it is consistent with our desire to understand the intended risks in a portfolio and avoid unintended risks. We wish to reiterate that the portfolio's carbon emission profile is an output rather than an input into our bottom-up investment process.

## CLIMATE SCENARIO ANALYSIS

The scenario analysis that is conducted for the Skerryvore Global Emerging Markets All-Cap Equity Strategy compares current and future portfolio greenhouse gas emissions with the carbon budgets for a below 2 degrees Celsius scenario as well as warming scenarios of 4 degrees Celsius and 6 degrees Celsius until 2050. The Skerryvore Global Emerging Markets All-Cap Equity Strategy in its current state is aligned with a 2 degrees scenario up until 2031.

## PORTFOLIO EMISSIONS PATHWAY vs CLIMATE SCENARIOS PORTFOLIO




The above ISS analysis comes with a 'health warning'. We have philosophical and practical doubts as to the accuracy and weight that one should attach to models attempting to predict the future. Many small uncertainties multiplied together yield significant aggregate uncertainties. Our preference is to heed the aphorism that "all models are wrong - but some are useful". To plan for a future beyond our forecasting horizon we must plan for uncertainty. It is why we look for management teams and businesses that have demonstrated adaptability and resilience in the past, and an open-minded attitude to the future. We believe this approach is risk-averse and should serve clients well over the long-term.

Source: [1] ISS Climate Impact Report & MSCI EM benchmark as at 31 December 2024

# Engagement

Part of the responsibility that comes with being a long-term investor is to engage with companies on matters that may affect long-term returns. It also requires us to actively listen, rather than simply instruct. Understanding why a course of action has been followed creates the foundation on which meaningful engagement can occur. We are looking for corporate owners and management teams who practise what they preach. It is why we look beyond the glossy sustainability report and discuss with the leaders of a business how they view their specific sustainability challenges.

Good management teams should be continually assessing the threats facing their businesses – be they competitive, industry, societal or environmental. Doing so leads to a different style of interaction with management. It also helps us to build long-term relationships because the management teams we engage with understand that our interests are broader than simply trading in their paper.

Please find below the significant engagements that we have conducted during this period.

| Company | Engagement Type | Engagement Detail | Investment Outcome |
|---|---|---|---|
| **Universal Robina** | Environmental | Engaged on the tangible steps that Universal Robina has taken to hit its 2030 commitment on reducing its packaging footprint. | Universal Robina has been trialling innovative solutions in biodegradable plastics on its confectionary products but not deemed a scalable solution. They have also started a new JV with a local partner in the Philippines to help fulfil its obligations on waste plastic collection. We will continue to monitor the company's efforts on this issue. |
| **Infosys** | Governance | Founder and Non-Executive Chair Nandan Nilekani attended only four of six board meetings in FY24 with no explanation provided for absences. | Infosys acknowledged to us in a recent meeting that disclosure around reasons for missed board meetings will be improved upon. In this case, the Chairman did have a valid reason for missing two meetings and this is the exception to his longer term record of good attendance. |

# Proxy Voting

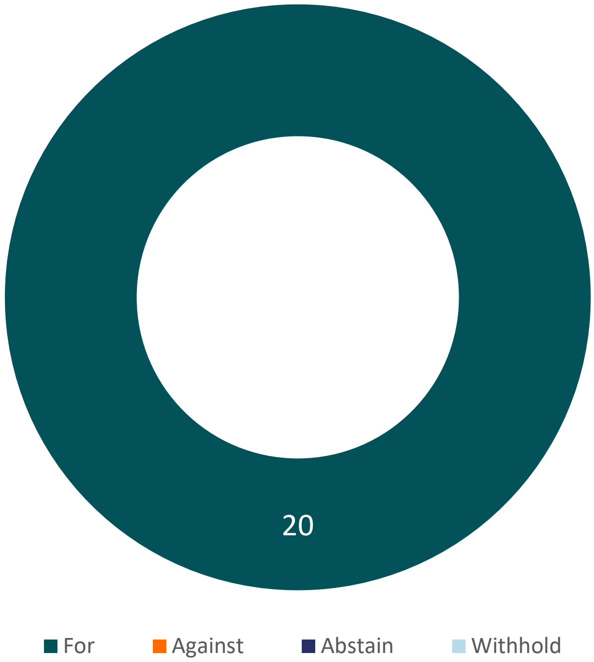
## MEETING OVERVIEW

| | |
|---|---|
| Number of votable meetings | 7 |
| Number of meetings voted | 7 |
| Number of meetings with at least one vote against, withheld, abstained | 0 |

## PROPOSAL OVERVIEW[1]

| Category | Number |
|---|---|
| Number of votable items | 20 |
| Number of items voted | 20 |
| Number of votes FOR | 20 |
| Number of votes AGAINST | 0 |
| Number of votes ABSTAIN | 0 |
| Number of votes WITHOLD | 0 |
| Number of votes With management | 20 |
| Number of votes Against management | 2 |

## VOTING OVERVIEW




There were no significant votes against management during the period.

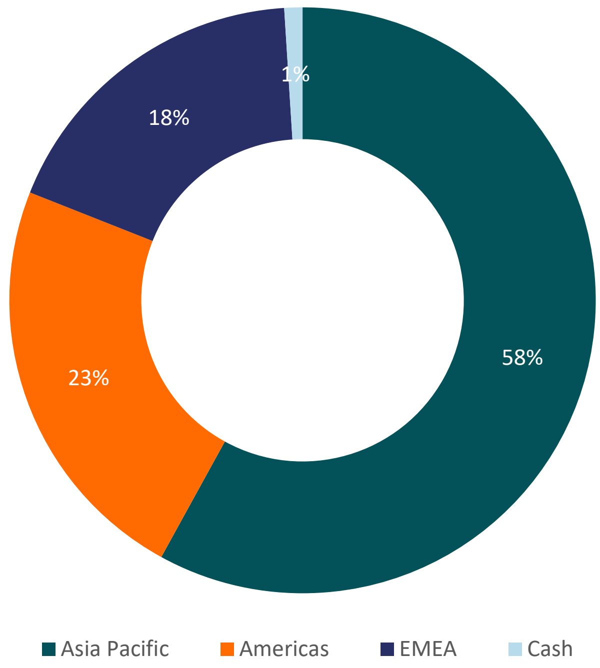
Source: ISS as at 31 December 2024
1. In cases of different votes submitted across ballots for a given meeting, votes cast are distinctly counted by type per proposal where total votes submitted may be higher than unique proposals voted.

# Portfolio Characteristics

## COUNTRY WEIGHTS

| Country | Portfolio (%) | Benchmark[1] (%) |
|---|---|---|
| India | 25.45 | 19.44 |
| Taiwan | 13.17 | 19.76 |
| China | 8.90 | 27.05 |
| Mexico | 8.26 | 1.76 |
| Brazil | 6.86 | 4.05 |
| South Africa | 5.47 | 2.93 |
| Switzerland | 3.56 | 0.00 |
| Canada | 3.28 | 0.00 |
| Greece | 2.96 | 0.47 |
| Chile | 2.94 | 0.41 |
| Thailand | 2.75 | 1.44 |
| Philippines | 2.67 | 0.53 |
| Netherlands | 2.47 | 0.00 |
| Portugal | 2.41 | 0.00 |
| Japan | 2.31 | 0.00 |
| Argentina | 1.56 | 0.00 |
| United Kingdom | 1.46 | 0.00 |
| Indonesia | 1.44 | 1.47 |
| Hong Kong | 0.94 | 0.63 |
| South Korea | 0.41 | 8.99 |
| Cash | 0.74 | 0.00 |

## REGIONAL WEIGHTS




## SECTOR WEIGHTS

| Sector | Portfolio (%) | Benchmark[1] (%) |
|---|---|---|
| Consumer Staples | 42.21 | 4.70 |
| Financials | 17.11 | 23.65 |
| Information Technology | 14.31 | 25.05 |
| Health Care | 9.94 | 3.41 |
| Consumer Discretionary | 5.22 | 12.78 |
| Industrials | 4.45 | 6.39 |
| Materials | 3.72 | 5.74 |
| Communication Services | 2.31 | 9.34 |
| Energy | 0.00 | 4.64 |
| Real Estate | 0.00 | 1.66 |
| Utilities | 0.00 | 2.65 |
| Cash | 0.74 | 0.00 |

1. Benchmark MSCI EM Net Total Return Index (AUD)

Source: Landy Tech as at 31 December 2024
Totals may not sum to 100% due to rounding
**Past performance does not predict future returns**

# GEM All-Cap Equity
# GIPS Composite Performance

## COMPOSITE PERFORMANCE

| | Strategy (Gross) (%) | Strategy (Net) (%) | Benchmark (%) |
|---|---|---|---|
| **AUD** | | | |
| Quarter | 1.70 | 1.45 | 3.08 |
| 1 Year | 9.51 | 8.43 | 18.48 |
| Since Inception (Annualised) | 8.20 | 7.13 | 3.47 |
| **EUR** | | | |
| Quarter | -2.19 | -2.43 | -0.85 |
| 1 Year | 6.02 | 4.97 | 14.68 |
| Since Inception (Annualised) | 6.76 | 5.70 | 2.10 |
| **GBP** | | | |
| Quarter | -2.80 | -3.05 | -1.47 |
| 1 Year | 1.13 | 0.12 | 9.43 |
| Since Inception (Annualised) | 4.66 | 3.62 | 0.09 |
| **USD** | | | |
| Quarter | -9.22 | -9.45 | -8.01 |
| 1 Year | -0.63 | -1.61 | 7.50 |
| Since Inception (Annualised) | 2.40 | 1.39 | -2.08 |

**Source: Landy Tech, Skerryvore as at 31 December 2024**
Composite: Global Emerging Markets Equity. Benchmark: MSCI EM Total Return Index.
Skerryvore has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). Please see Appendix A for the applicable GIPS Report. Reference to the benchmark is for comparative purposes only and is not intended to indicate that the composite will contain the same investments as the benchmark. Investors have the opportunity for losses as well as profits. Past performance is no guarantee of future returns. Index Source: MSCI Copyright MSCI 2024. All Rights Reserved. Unpublished. PROPRIETARY TO MSCI.

# GIPS PERFORMANCE REPORT

## Skerryvore Global Emerging Markets Equity Strategy Composite

January 1, 2020 to December 31, 2023

| | | | | | 3 Year Standard Deviation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| YEAR | Composite Gross Return (TWR) (%) | Composite Net Return (TWR) (%) | Benchmark Return (Gross) (%) | Benchmark Return (Net) (%) | Composite (Gross) (%) | Benchmark (Gross) (%) | Number of Portfolios | Internal Dispersion (%) | Composite Assets ($M) | Firm Assets ($M) |
| 2020* | 9.54 | 8.46 | 18.69 | 18.31 | - | - | 1 | - | 135 | 431 |
| 2021 | 4.69 | 3.65 | -2.22 | -2.54 | - | - | 5 | - | 879 | 951 |
| 2022 | -9.39 | -10.29 | -19.74 | -20.09 | 19.10 | 20.26 | 6 | - | 762 | 961 |
| 2023 | 15.02 | 13.88 | 10.27 | 9.83 | 14.02 | 17.14 | 7 | 0.63 | 833 | 1198 |

**Performance Inception: January 1, 2020. This composite was created on December 16, 2019. All figures stated in USD.*

**Disclosures**

Skerryvore Asset Management LLP claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Skerryvore Asset Management LLP has been independently verified for the periods January 1, 2020 through December 31, 2023 by ACA Group. A copy of the verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. Reference to the benchmark is for comparative purposes only and is not intended to indicate that the composite will contain the same investments as the benchmark. Investors have the opportunity for losses as well as profits. Past performance is no guarantee of future results.

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Methodology: Returns are net of estimated foreign withholding taxes on dividends, interest, and capital gains. Skerryvore's methodology to produce a more accurate gross return figure by eliminating modest cash flows, such as securities lending income and custodial fees, which are regarded as independent of the investment management process; the reinvestment of all income and trading expenses continue to be included. Gross returns will be reduced by investment advisory fees and other expenses. Monthly composite results are asset-weighted by beginning-of-month asset values of member portfolios which are geometrically linked to arrive at the annual composite return. Net-of-fee performance is calculated on a monthly basis by deducting a model management fee equal to or higher than the highest annual management fee listed in the standard fee schedule for accounts shown below. The standard fee schedule for accounts managed with this product is 1/12 of 0.60% for Series F Interests, and 1/12 of 0.90% of Series A Interests. Management fees may vary according to the range of services provided, investment performance, and the amount of assets under management. Net-net-of-fees may include incentive fees which, when applicable, are booked on 12/31 of the year in which they are earned. Gross Return = ((1 + Net Return) * (1 + Model Fee)) - 1, where Model Fee = 1% per annum, applied using calendar days.

Dispersion: The 'Dispersion' statistic presented above uses gross of fee returns and is an annual, asset-weighted standard deviation calculation performed only on those portfolios who have been members for the entire calendar year. This will be calculated when 6 or more portfolios are included in the composite for a full year. Thirty-six months are required to calculate the 'Three Year ex-Post Standard Deviation' statistic. These figures are not shown if the requirements necessary to perform the calculations are unavailable.

Composite Description: This composite focuses on investments in emerging equity markets worldwide. A list of composite and limited distribution pooled fund descriptions and a list of broad distribution pooled funds are available upon request.

Benchmark Description: Gross - The benchmark for the composite is the MSCI Emerging Markets Gross Total Return USD Index (MXEF). Gross returns are calculated using monthly index levels. Net - The benchmark for the composite is the MSCI Emerging Markets Net Total Return USD Index (M1EF). Net returns calculated using monthly index levels.

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Retail investors should seek independent financial advice before making any investment decisions.

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• Capital is at risk and there is no guarantee the Fund will achieve its objective. Investors should make sure their attitude towards risk is aligned with the risk profile of the Fund.

• Past performance does not predict future returns. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

• The Strategy does not hedge currency exposure. If the currency of the share class is different from the local currency in the country in which you reside, the figures shown in this document may increase or decrease if converted into your local currency.

• Equity prices fluctuate daily, based on many factors including general, economic, industry or company news. In difficult market conditions, the Strategy may not be able to sell a security for full value or at all. This could affect performance and could cause the Fund to defer or suspend redemptions of its shares.

• Investments in Emerging markets can involve a higher degree of risk.

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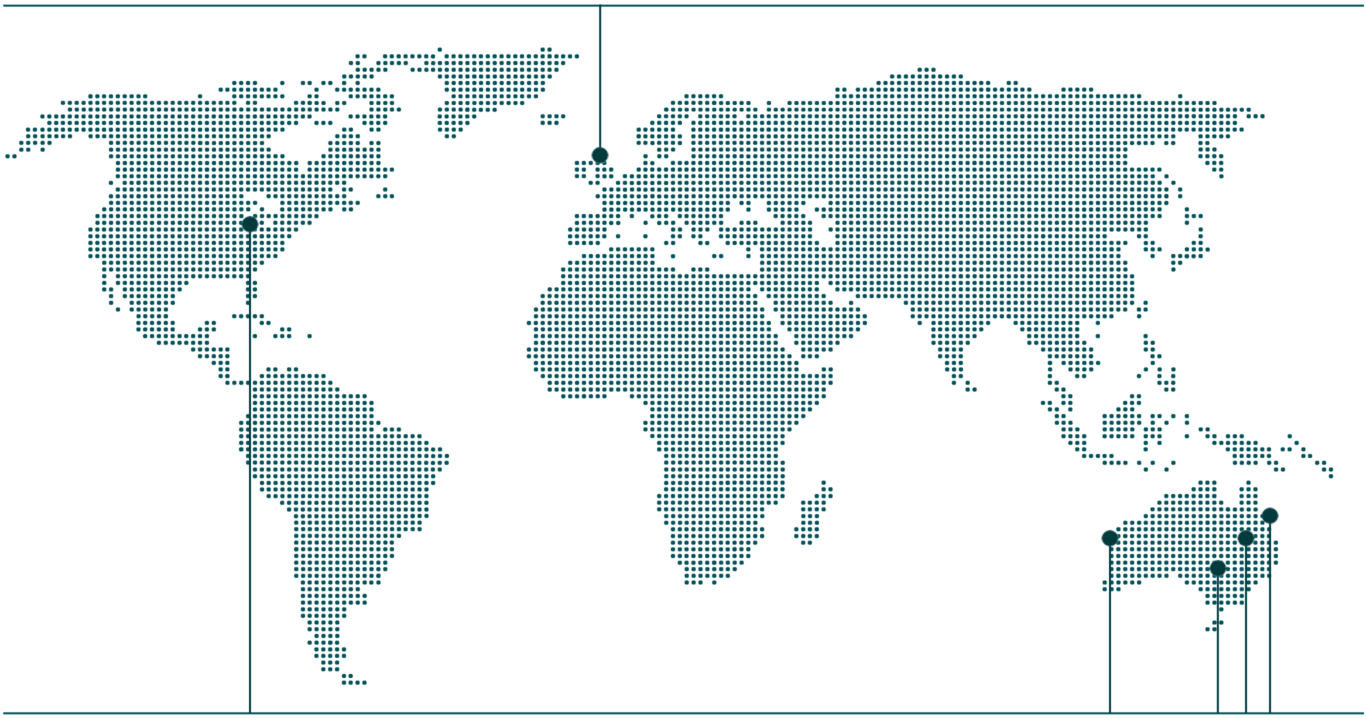

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