SKERRYVORE GLOBAL EMERGING MARKETS EQUITY STRATEGIES

Research Review

2023

Skerryvore

bennbridge

Contents

Front cover: Nanaodao, Shantou, Guangdong, China

For professional investors only

Stock examples
The information provided in this document relating to specific stock examples should not be considered a recommendation to buy or sell any particular security.

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Foreword

Our strategy has always had low levels of turnover, so portfolio activity alone does not provide a full picture of the team's wide-ranging research effort. This research review aims to give a greater insight into how we assess businesses and decide which to add to our emerging market watchlist and strategies.

Some of the research activity discussed here has led to portfolio change; other areas may require further work, which can sometimes lead to a decision not to invest in a particular company or sector. However, it is important that we continuously challenge ourselves to understand and assess new opportunities across all of the regions and sectors making up our investment universe and avoid falling in love with companies we already own.

Maintaining an open mind helps ensure that the portfolios we manage can meet the challenge of the future and increases the likelihood of them meeting our long-term absolute return aspirations.

What's in this Review?

We are privileged as investors to have the breadth and depth of the investment opportunity afforded to us within the emerging world. This review offers evidence that our universe contains to our mind some of the best businesses anywhere in the world, in a wide variety of sectors and industries, that are either established and with significant runways for long-term growth or being established and at the vanguard of helping broader society meet its future challenges.

In **A Convenient Source of Returns** we look at how a retail model established in the early 20th century can adapt to changing tastes and technologies to produce inflation-beating long-term growth with strong returns. At the other end of the technological spectrum, we highlight in **To the Moon** how this year India became the first country to land a space craft on the south side of the moon. This technological achievement is indicative of the country's ambition to grow its domestic research and manufacturing economy to meet the demands of a buoyant infrastructure programme and to develop a world-leading export capability. Significantly, this piece also highlights the importance of patience and the value of our watchlist as a place that harbours great businesses, but whose share prices we believe currently preclude generating an acceptable risk-adjusted return. It also demonstrates how, although we aren't able to predict events that lead to market pullbacks, we are prepared to take advantage of them when the opportunity arises.

A particularly volatile industry that is predominantly located within the emerging and frontier markets is the metals and mining industry. In **Thinking Like Jordan** we look at how businesses that own royalties or enter into streaming agreements can take advantage of the opportunity afforded by the long-term demand for those metals and minerals that are key to the global energy transition but in a way that provides an acceptable level of both risk and reward for investors.

We hope these articles are useful in giving some insight into what we have been doing over the past year and we would welcome any comments or questions you might have.

A Convenient Source of Returns

Local shops are handy for investors as well as communities.
We explain how their ability to adapt to change aligns with Skerryvore's portfolios.

> "Give the customers what they want, when and where they want it.[1]"
>
> **— Joe C. Thompson Jr**
> 7-Eleven founder

Convenience store chains are now ubiquitous on street corners. We can trace their roots back to early 20th century Texas. Southland was a moderately successful block ice retailer at a time when ice companies were regarded as important local utilities. They provided the only real source of refrigeration for perishable items in warm climates before the mechanical refrigerator, which didn't emerge until the late 1920s.

In 1927, Southland began selling a limited array of staples such as milk, bread and eggs as a small side operation, which was particularly useful for consumers because most grocers were closed on a Sunday[2]. Although the original business was melting away much like the ice they sold, the convenience store format survived and was later renamed **7-Eleven**, emphasising the commitment to long operating hours to serve customers better. The template has since been copied by many operators, but 7-Eleven remains the largest, with a global network of over 84,000 outlets, more than the combined total of McDonald's and Starbucks[3]. Over 80% of its outlets are in Asia[4], where the compact retail footprint does particularly well in densely populated towns and cities.

Why We Like Convenience Retail

The convenience store format appeals to us as investors for several reasons. First, these shops sell small-ticket, repeat-purchase items such as snacks and beverages, which are typically consumed soon after they are bought. These purchase patterns tend to come with predictable cash flow characteristics – for example, **FEMSA's** Oxxo chain serves close to 10% of the Mexican population every day[5].

Second, a limited selection of fast-moving goods means less of the company's cash is tied up in inventory. Also, convenience stores do not usually offer credit to customers which, combined with high inventory turnover, means a low cash conversion cycle (CCC; a measure of capital efficiency). The best operators we can find, like **President Chain Store (PCS)**, which is the 7-Eleven master franchise holder in Taiwan, sustain a negative CCC, meaning that inventory is sold weeks before the company has to pay its suppliers for it, effectively funding their own growth[6]. A large private-label business helps in this respect, too, forging closer ties with suppliers.

1 7-Eleven. About. https://corp.7-eleven.com/corp/about

2 Texas State Historical Association (2017). Southland Corporation. www.tshaonline.org/handbook/entries/southland-corporation

3 7-Eleven. Who we are. https://corp.7-eleven.com/corp/our-brand-story; McDonald's. Where we operate. https://corporate.mcdonalds.com/corpmcd/our-company/where-we-operate.html; Starbucks. About us. www.starbucks.co.uk/about-us

4 7-Eleven Annual Report 2022. www.7-eleven.com.ph/annual-reports/

5 Latinometrics on LinkedIn (May 2023). www.linkedin.com/posts/latinometrics_oxxos-fintech-success-story-spin-reached-activity-7061346797608165376--gJ3

6 President Chain Store Annual Report 2022. www.7-11.com.tw/company/ir_en/annual.html

Fast turnover of inventory and the consumer's focus on convenience and availability, rather than price alone, also lead to an ability to reprice items quickly to reflect changing input costs, making well-run convenience store chains adept at passing on inflation. This is one of the key attributes we look for in any investment.

Growth, particularly in emerging markets, follows urbanisation and formalisation of the economy, using a repeatable store blueprint to roll out in new locales. The small footprint of a convenience store makes it relatively less expensive and thus less risky to expand the network, and some chains use franchise agreements with the store operators to further spread risk.

The density of the store network also makes it more cost-effective to supply, which increases the attractiveness of the returns on offer. **Philippine Seven**, PCS's separately listed subsidiary, is an interesting company in this regard because it expects to grow from about 3,500 stores to 5,000 stores by 2026, while also expanding its fresh food offering, taking the learnings from Taiwan and the wider group and tailoring them for the Filipino consumer[7].

Finally, a more recent driver of profits has been finding ancillary services that benefit from the centralised location of these networks. For example, PCS's ecommerce package platform provides a convenient bridge between offline and online for the consumer, providing insulation from the disruption that many retailers have experienced from the internet. This, together with basic financial services such as bill pay and remittance offerings, account for 7% of sales and probably a higher percentage of profits given the minimal incremental costs of providing these services[8]. Another good example is the rapid uptake of Oxxo's digital wallet app, Spin, which allows customers to deposit and withdraw cash at its stores and helps promote financial inclusion. Indeed, there are more Oxxo outlets in Mexico today than bank branches[9]. All of these ancillary services help drive visits to the stores.

Convenience in Action

We can illustrate these advantages with real-world evidence. Figure 1 shows that FEMSA's Oxxo chain captures what we are looking for in a well-run retailer. It has successfully passed on the effects of inflation over the past 10 years, with real revenue growth driven by successfully expanding the store base, and profits growing even faster due to the positive effect of operating leverage on its fixed asset base.

FEMSA, which also enjoys the predictable cash flow from its Coca-Cola bottling operations, and together with PCS, both remain core holdings for the strategy, with valuations today at attractive levels for what we deem to be low risk compounders, far from the melting ice cubes of their distant relation.

Oxxo: Inflation-Beating Growth

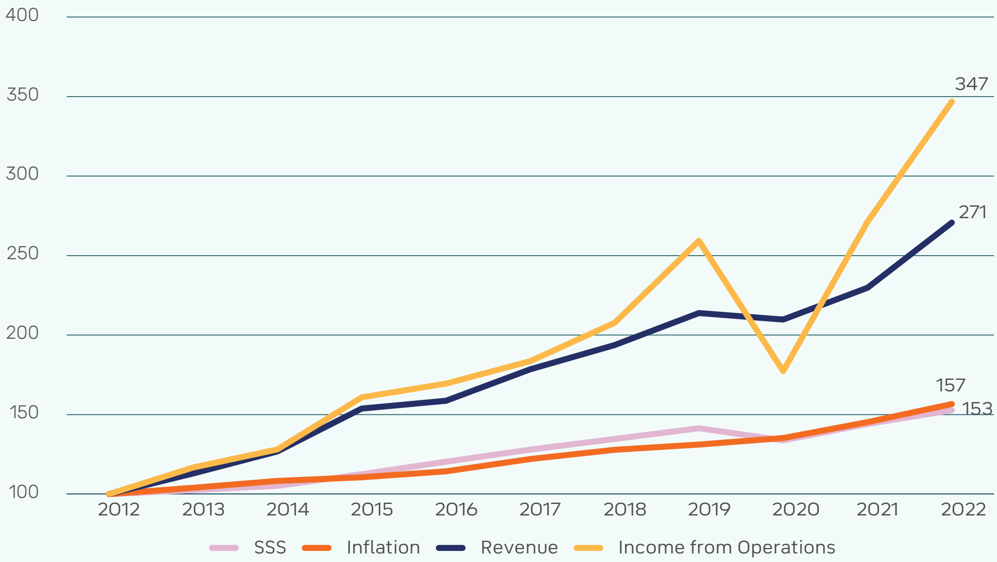


Figure 1. Oxxo: Inflation-beating growth (2012–2022).

Source: Company reports. Information for Proximity Retail Division (Oxxo). Same store sales (SSS), revenue and income from operations as reported in Mexican pesos. Inflation figure is annual average Mexican inflation per company reports.

Note: All figures rebased to 100 in 2012.

7 Philippine Seven 3rd Quarter Report 2023, part 1, page ii. www.7-eleven.com.ph/quarterly-reports/

8 President Chain Store Annual Report 2022. www.7-11.com.tw/company/ir en/annual.html

9 *Financial Times* (20 March 2023). 'LatAm retail group Femsa aims to crack Mexico's unbanked "puzzle".' www.ft.com/content/f01af955-38bd-46dd-937e-0ce9e7307202

To the Moon

We've written before about the opportunities India presents for investors. Here, we look at the country's ambitions to build a global manufacturing hub and the considerations that go into assessing potential for the Skerryvore portfolio.

On 23 August 2023, the Chandrayaan-3 became the first spacecraft to successfully land on the south side of the Moon[1]. Some were surprised that the race wasn't won by the United States, China or Russia, or by a megalomaniacal billionaire – the usual players in the space race. Instead, the winner was a less well-known and more tightly funded space agency, the Indian Space Research Organisation (ISRO). The success of the Indian space programme could be a sign of things to come.

To keep costs down, much of the technology for the Chandrayaan-3 is built domestically. Wages at the ISRO are also said to be one fifth of those paid at space agencies globally[2]. India has already built a reputation for using its low-cost labour force to provide outsourced services to the world, most successfully in the IT industry. However, when it comes to manufacturing, the country has so far lived in the shadow of China. Manufacturing as a portion of Indian GDP is half the level of China[3]. Instead, India sits alongside countries such as Brazil and South Africa, which rely on selling natural resources to the rest of the world.

Manufacturing value added, % of GDP

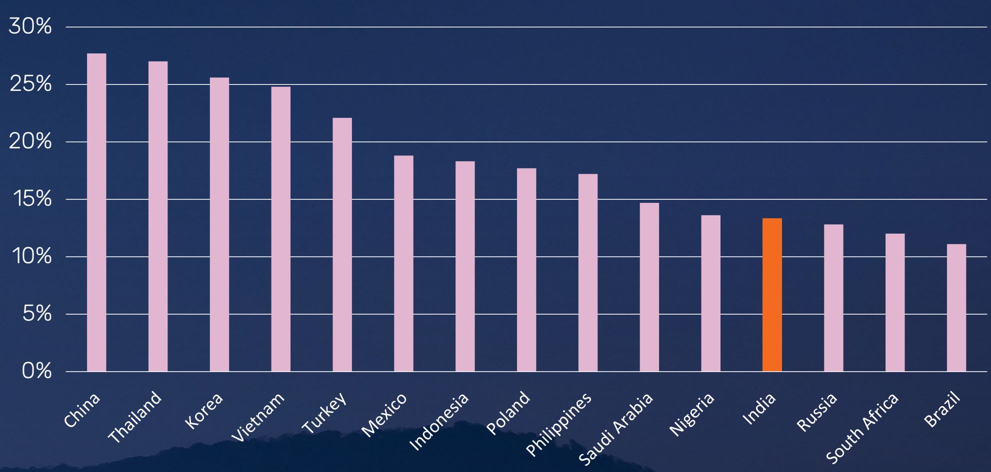


Figure 1. Manufacturing as a percentage of GDP in EM countries (2022).
Source: World Bank

1 BBC News (23 August 2023). *Chandrayaan-3: India makes historic landing near Moon's south pole*. www.bbc.co.uk/news/world-asia-india-66594520

2 *The Economic Times* (24 August 2023). *'Scientists passionate and dedicated to mission; paid hardly one-fifth of what is given globally: Former ISRO chairman.'* https://economictimes.indiatimes.com/news/science/chandrayaan-3-there-are-no-millionaires-among-isro-scientists-says-madhavan-nair/articleshow/103008501.cms; The Guardian (28 August 2023). *'Monday briefing: The story of India's space programme – and why it took off.'* www.theguardian.com/world/2023/aug/28/first-edition-india-moon-landing#:~:text=The%20ISRO%20has%20a%20reputation,it%20spent%20about%2025%25%20less

3 The World Bank. Manufacturing, value added (% of GDP). https://data.worldbank.org/indicator/NV.IND.MANF.ZS

For Narendra Modi, India's president since 2014, the Moon landing underlines his ambition to grow India's manufacturing economy. Shortly after his election win, he launched his 'Make in India' initiative, aimed at facilitating a wave of investment that will turn India into a new hub for global manufacturing[4]. Figure 2 shows that the ambition has thus far exceeded the reality. Industrial production was stop-start in India before Modi came to power, and has not ignited since then.

There is plenty of reason for optimism, though. Reforms to labour laws, the introduction of the goods and services tax (GST)[5] and investments in infrastructure will yield opportunities for manufacturers to improve productivity.

Supply chain bottlenecks during the Covid-19 pandemic and tensions between the United States and China are leading many companies to reassess their global supply chains. Mexico and Vietnam were early beneficiaries of this 'China plus one' strategy[6], but India has another big advantage: domestic demand. With a population of 1.4 billion[7], multinationals are not just looking at India as a cheap alternative to China. They see domestic consumption as a huge long-term growth opportunity. Production-linked incentives from the government are aimed at ensuring this demand is met with local manufacturing[8].

Industrial Production Growth in India

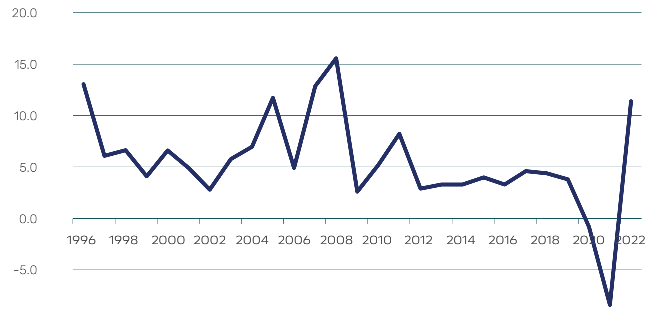


Figure 2. Annual Industrial Production Growth in India (1996-2022). Source: Bloomberg

Anecdotal evidence certainly supports the excitement. In 2022 India overtook Japan to become the world's third-largest car market by volume[9]. Japan's Kubota has bought a majority stake in Indian tractor manufacturer Escorts in order to build a low-cost manufacturing hub for farm equipment[10]. Apple partner Foxconn is assembling the new iPhone 15 in Chennai[11]. Micron Technology has announced a $2.75 billion semiconductor manufacturing facility outside Ahmedabad[12]. 'Make in India' announcements just keep coming.

4 *The Economic Times* (25 September 2014). 'Modi launches ambitious "Make in India" campaign.' https://economictimes.indiatimes.com/news/politics-and-nation/modi-launches-ambitious-make-in-india-campaign/articleshow/43428962.cms

5 BBC News (30 June 2017). *India GST: Sweeping tax reform introduced*. www.bbc.co.uk/news/world-asia-india-40453774

6 Business Standard (26 July 2022). *What is the China-plus-one strategy?* www.business-standard.com/podcast/international/what-is-the-china-plus-one-strategy-122072600052 1.html

7 Reuters (20 April 2023). *India's population to overtake China by mid-2023, UN estimates*. www.reuters.com/world/india/india-have-29-mln-more-people-than-china-by-mid-2023-un-estimate-shows-2023-04-19/

8 Reuters (20 September 2023). *India plans over $2 billion in incentives for new manufacturing sectors*. www.reuters.com/world/india/india-plans-over-2-bln-incentives-new-manufacturing-sectors-officials-2023-09-20; The World Bank (3 October 2023). *India's Growth to Remain Resilient Despite Global Challenges*. www.worldbank.org/en/news/press-release/2023/10/03/india-s-growth-to-remain-resilient-despite-global-challenges

9 The Times of India (10 January 2023). '*India beats Japan to become world's third-largest vehicle market*.' https://timesofindia.indiatimes.com/auto/news/india-beats-japan-to-become-worlds-third-largest-vehicle-market/articleshow/96874402.cms

10 Business Outlook India (10 September 2022). *How Japanese Kubota's Investment In Escorts Will Boost Investors' Fortunes*. https://business.outlookindia.com/news/how-japanese-kubota-s-investment-in-escorts-will-boost-investors-fortunes--news-222399

11 Business Standards (16 August 2023). *Apple's supplier Foxconn begins iPhone 15 production in Tamil Nadu*. www.business-standard.com/companies/news/apple-s-supplier-foxconn-begins-iphone-15-production-in-tamil-nadu-123081600165 1.html

12 Forbes India (25 September 2023). *US chipmaking giant Micron starts construction of $2.75 billion semiconductor factory in Gujarat*. www.forbesindia.com/article/news/us-chipmaking-giant-micron-starts-construction-of-275-billion-semiconductor-factory-in-gujarat/88497/1

Easy as A-B-B

A natural place to start looking for listed equities in India that are exposed to this investment wave is through the listed subsidiaries of multinational companies (MNCs). **ABB**, a leading Swiss-Swedish industrial, has been trading in India since 1949[13]. In electrical infrastructure **ABB India's** product portfolio covers everything from the power socket to the substation. They also provide electric motors, which are used in all kinds of electronic equipment and robotics to enable factory automation.

Finally, they provide the control equipment used to run complex processes in, for example, cement plants, breweries and power plants[14].

Alignment is a crucial component of our assessment of quality at Skerryvore. Investors in the subsidiary of an MNC need to believe that they will share equally in its successes with the parent company. As such, evaluating royalty and services payments from the subsidiary to the parent are important to show that minority investors are being treated fairly. MNCs that keep profitable parts of the local business outside the listed subsidiary exhibit poor alignment. For example, Siemens India faced a revolt from minority investors in 2009 when it sold its IT unit to the parent below market price[15].

From our research, the listed ABB India represents almost the entirety of ABB's operations in India and pays royalties and service costs that reflect what the division of a large corporate would pay to its parent, were it listed or unlisted.

ABB India's breadth of products makes it a direct beneficiary of domestic investment in electrical infrastructure and new industrial capacity. ABB estimates its Indian total addressable market to be $11–12 billion. Comparison with its current revenue of $1 billion, and ABB's China revenues of $4.7 billion[16], shows there is clearly a long runway for growth.

After assessing quality, the next question we ask ourselves is whether the business is available at a reasonable price. In the case of ABB India and many other Indian companies that are exposed to this theme, it appears that valuations have followed India's space programme to the Moon. ABB India trades at 9.5x sales, compared with its parent on 2.6x sales. It trades on 85.7x earnings against its parent on 21.5x[17]. While it deserves a significant premium for its growth, buying at current levels would not compensate us for the risks – after all, this is a cyclical business and history shows an Indian industrial renaissance is by no means guaranteed.

Opportunity for Investors in India

At Skerryvore we take a patient and disciplined approach to valuation. We know that the ebbs and flows of equity markets, the unpredictable nature of politics and the ups and down of economies will yield opportunities. When Indian industrial valuations come back down to earth, we will be ready.

13 Business Standard: ABB India Ltd. www.business-standard.com/company/a-b-b-242.html

14 ABB India Annual Report (2022). https://new.abb.com/docs/librariesprovider19/default-document-library/abb-india---annual-report-2022.pdf

15 The Economic Times (18 February 2009). *'Siemens faces institutional investors' ire.'* https://economictimes.indiatimes.com/industry/telecom/siemens-faces-institutional-investors-ire/articleshow/4146487.cms

16 ABB Ltd Annual Financial Report (2022), page 34. https://global.abb/group/en/investors/annual-reporting-suite

17 All valuation multiples are based on fiscal year 2023 consensus forecasts from S&P Capital IQ.

Thinking Like Jordan

2023 saw the release of the film *Air*, which looks at how Sonny Vaccaro, a sports marketing executive, signed Michael Jordan to his first-ever shoe contract with Nike. It was an unprecedented deal that would change the face of sports marketing. Neither Jordan nor Nike were the household names they are now, when they signed the deal in 1984. Jordan was a soon-to-be NBA rookie ranked third in the draft, while Nike was a veritable underdog in the world of sports shoes, known more for its running trainers than basketball shoes. Today, Michael Jordan is seen as probably the greatest basketball player of all time and Nike is the world's largest supplier of athletic shoes and apparel, and a major manufacturer of sports equipment, with revenue in excess of US$46 billion in its fiscal year 2022[1].

The film focuses on the complex relationship between the major characters, which led to the successful partnership. However, as investors we think there are real lessons to be learned in the depiction of the royalty deal struck at the time. In the film we see Michael's mother Deloris negotiate not only the largest ever flat fee for her son, but a ground-breaking royalty arrangement. The original annual fee of $500,000 has been more than eclipsed by a royalty fee that earned Jordan $256 million[2] in 2022.

Royalty agreements can be very valuable contracts when they deliver high reward, but also highly volatile future cash-flow streams, which is also typical of the global mining industry. We explain below our approach to assessing the opportunities within the mining sector and how the royalties business model enables us to minimise exposure to volatility and maximise returns.

Mining has existed since the beginning of civilisation. The removal and consumption of earth's natural resources has been a key part of the evolution of the human species and has allowed the development of the world we know today. From flint to gold and now nickel, earth's minerals have been a source of economic activity for millennia.

Emerging and frontier markets cover approximately three-quarters of the world's land mass, which means they control most of the world's mineral resources[3]. An extreme example among the current swathe of emerging market (EM) countries is Chile, where minerals represent more than 17% of direct GDP[4]. Figures are even higher in some frontier markets[5] and reserves in some countries are probably underreported[6].

1 Nike Annual Report 2022. https://investors.nike.com/investors/news-events-and-reports/

2 Front Office Sports (30 January 2023). *Nike, Jordan Score With Jordan Brand's Record Haul*. https://frontofficesports.com/jordan-more-than-doubled-his-nba-career-earnings-in-2022-from-nike-deal

3 World mining data summary for 2021 (data as of 2019). World Mining Congress; Al Jazeera (15 February 2022). Mapping Africa's natural resources. www.aljazeera.com/news/2018/2/20/mapping-africas-natural-resources

4 Mining Contribution Index (MCI), International Council on Mining and Metals (ICMM). www.icmm.com/website/publications/pdfs/social-performance/2022/research_mci-6-ed.pdf?cb=16134

5 Investopedia (22 June 2022). *Frontier Markets: Meaning, History, Examples* www.investopedia.com/terms/f/frontier-market.asp

6 AllianceBernstein (2 May 2023). *Emerging markets' power and potential is lost in equity allocations*. www.alliancebernstein.com/corporate/en/insights/investment-insights/emerging-markets-power-and-potential-is-lost-in-equity-allocations.html#:~:text=Emerging%20and%20frontier%20markets%20cover,for%2046%25%20of%20global%20GDP.

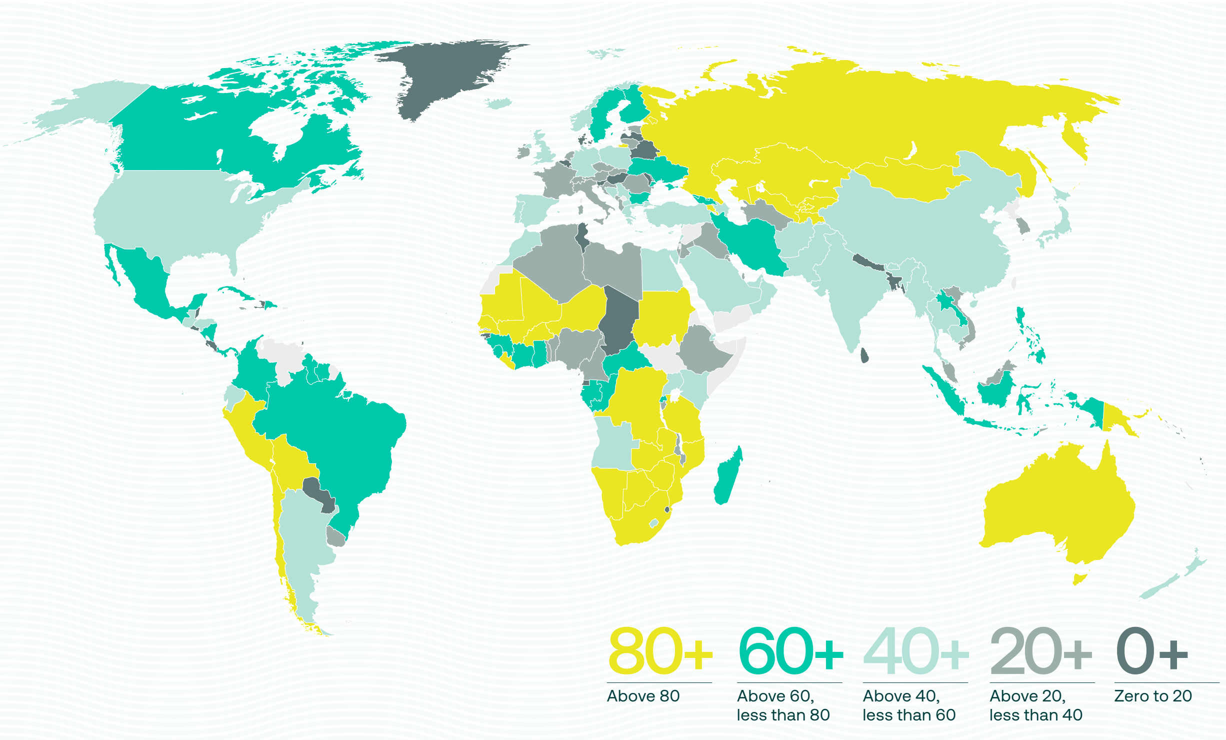


Figure 1. World Mining Contribution Index Map 2022. Source: International Council on Mining and Metals (ICMM).
Note: Two or less data points available.

The World Bank estimates that growing mineral demand associated with the energy transition will require $1.7 trillion in global mining investment[7,8]. Given the magnitude of the EM share of those resources, it's hard not to anticipate the potential opportunity for EM investors from a top-down perspective. It is, however, our quality-focused bottom-up approach to investing that we believe highlights the challenge to this.

Applying our Philosophy to Commodity Producers in Emerging Markets

We have struggled to identify businesses within this area that meet our required standard of quality, whether this comes as a result of a lack of pricing power or the environmental, social and governance risks inherently associated with participants in the industry[9,10].

Swings in commodity prices, capital intensity and poor capital structures have led to volatile earnings and share price performance by mining companies in general.

During times of commodity price inflation, the higher margins anticipated can often be eroded by government interference, labour and suppliers, all looking to stake their claims to rising profits.

In fact, many of the higher-quality natural resource assets within EM are held by government-controlled companies, which can lead to a lack of alignment between minority shareholders and politicians.

7 The World Bank (6 June 2022). *Mineral-rich developing countries can drive a net-zero future*. www.worldbank.org/en/news/feature/2022/06/06/mineral-rich-developing-countries-can-drive-a-net-zero-future

8 Nature (3 February 2022). *The mining industry as a net beneficiary of a global tax on carbon emissions*. www.nature.com/articles/s43247-022-00346-4

9 EY (11 October 2023). *Top 10 business risks and opportunities for mining and metals in 2024*. www.ey.com/en_uk/mining-metals/risks-opportunities

10 Skerryvore (26 July 2022). *G is for governance, not gambling*. www.skerryvoream.com/uk/insights/long-view/g-governance-not-gambling

The remaining alternatives encompass a list of large, lower-quality players or a long list of smaller, concentrated operators. These miners are particularly subject to erratic commodity prices while constantly having to invest large amounts to sustain production growth and reserve expansion. Such investments can be ill-timed, pressurising free cash flow and causing balance sheet stress, something we aim to steer clear of. In these circumstances, the timing of investment becomes increasingly important, which we don't see as consistently repeatable.

The Value of Royalty & Streaming Businesses

With this in mind, we have taken a more risk-aware approach, focusing our attention on companies that own royalties or enter into streaming agreements. These are exposed to the growth in mining investment and upside in mineral prices while avoiding cost inflation and capital calls. Figure 2 shows how the assets in these arrangements work.

Quality among companies that hold and offer such agreements with mining companies is limited to a small group who have built up diversified portfolios of assets with quality operators.

We favour **Franco-Nevada**, which has more than 113 producing assets, the majority of which are gold mining assets. It also has claims on another 306 assets that are in either advanced development or exploration. This way, it generates nearly $1 billion in operating cash flow per year[11].

How Mining Royalties and Streams Work

Royalties – ongoing interests, often perpetual, in the production or future production of a property in exchange for an up-front payment. Generally stated as a percentage of revenue from a specific mineral. Not subject to future cash payments by the holder. Growth in production benefits the holder when it comes from the property.

— Think Michael Jordan's royalty agreement with Nike

Streams – agreements that allow the holder to purchase minerals from a producer (miner) at a fixed price in exchange for an up-front payment. The price at which the holder purchases the mineral is generally at a large discount to the prevailing market price. Streams do not have title interests on land and require ongoing cash payments to purchase the mineral.

— Think discounted off-take agreements

Figure 2. Definitions and examples of royalties and streams.
Source: Skerryvore

Wheaton Precious Metals is a more concentrated example, with 18 operating assets and 17 development projects[12]. It is more focused on streaming assets generating over $600 million in operating cash flow per year with an attractive growth profile[13].

Both businesses focus on precious metals, exposure to which (and gold in particular) has historically provided a type of portfolio insurance in times of market stress, allowing us to reallocate to quality equities that might have sold off.

The balance sheets of both businesses carry no debt. They employ long-tenured managers with significant skin in the game. As a result, they have generated attractive returns for shareholders over time.

11 Franco Nevada Annual Report (2022). www.franco-nevada.com/investors/financials/quarterly-results/default.aspx

12 Wheaton Precious Metals Corporate Presentation (January 2024). www.wheatonpm.com/Investors/presentations/default.aspx

13 Wheaton Precious Metals Annual Report (2022). www.wheatonpm.com/Investors/financials/default.aspx

Royalty Versus Physical Mining Company Margin Comparison 2022

	EBITDA Margin			Net Margin		
Average	**5yr**	**10yr**	**15yr**	**5yr**	**10yr**	**15yr**
Franco-Nevada	82%	80%	84%	41%	29%	29%
Wheaton Precious Metals	68%	69%	71%	47%	32%	38%
Royalty/Streamer Average	**75%**	**75%**	**78%**	**44%**	**31%**	**33%**
BHP	42%	36%	37%	21%	18%	20%
Vale	52%	46%	46%	25%	11%	16%
Rio Tinto	45%	40%	39%	26%	18%	16%
Newmont	39%	38%	41%	12%	4%	8%
Barrick	50%	47%	48%	12%	-5%	-2%
Miners Average	**46%**	**41%**	**42%**	**19%**	**9%**	**11%**
Miner vs Royalty/Streamer	**0.6x**	**0.6x**	**0.5x**	**0.4x**	**0.3x**	**0.3x**

Figure 3. Royalty versus physical mining company margin comparison 2022. Source: Bloomberg

Finally, sustainability is a core issue for an industry that contributes between 4 and 7% of global greenhouse gas emissions[14]. Besides emissions, mining is water-intensive and often operates near indigenous communities, whose consent and alignment is critical. As primarily a provider of capital, royalty and streaming companies have an important role in progressing the industry. Royalties are more passive than streaming agreements, but due diligence progress and terms built into agreements allow for influence by the likes of Franco-Nevada and Wheaton Precious Metals in the sustainable operations of various assets.

Mining Returns, Not Just Metals

Not every basketball player is an NBA legend like Michael Jordan, in the same way that not every mining project is a financial home-run. Add erratic commodity prices, cost inflation, the risk of political envy and an ability to renegotiate contractual terms when things finally align in a mine's favour… and generating returns has been harder than producing metal for the industry broadly. As risk-aware investors looking to build resilient exposure to opportunities that present themselves in the developing world, we find the royalty and streaming business model a far safer and more prudent way to invest in such businesses on behalf of our clients.

14 GlobalData: *Total GHG emissions of major metals and mining companies worldwide by revenue in 2021*. www.globaldata.com/data-insights/mining/total-ghg-emissions-of-major-metals-and-mining-companies-worldwide-by-revenue-2090961/#:~:text=%2456%2C921%20million%20respectively-,Total%20GHG%20Emissions%20of%20Major%20Metals%20and%20Mining,by%20Revenue%20(2021%2C%20MtCO2eq)&text=Greenhouse%20gas%20(GHG)%20emissions%20are,of%20worldwide%20greenhouse%20gas%20emissions

About Us

Introduction

The Skerryvore lighthouse marks a treacherous reef of rocks that lies off the west coast of Scotland, built to stand the test of time. Skerryvore Asset Management (Skerryvore) is an independent, employee-controlled investment partnership established in Edinburgh with BennBridge Ltd (BennBridge) in 2019. The partnership was set up to create a business with the independence to pursue its own 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.

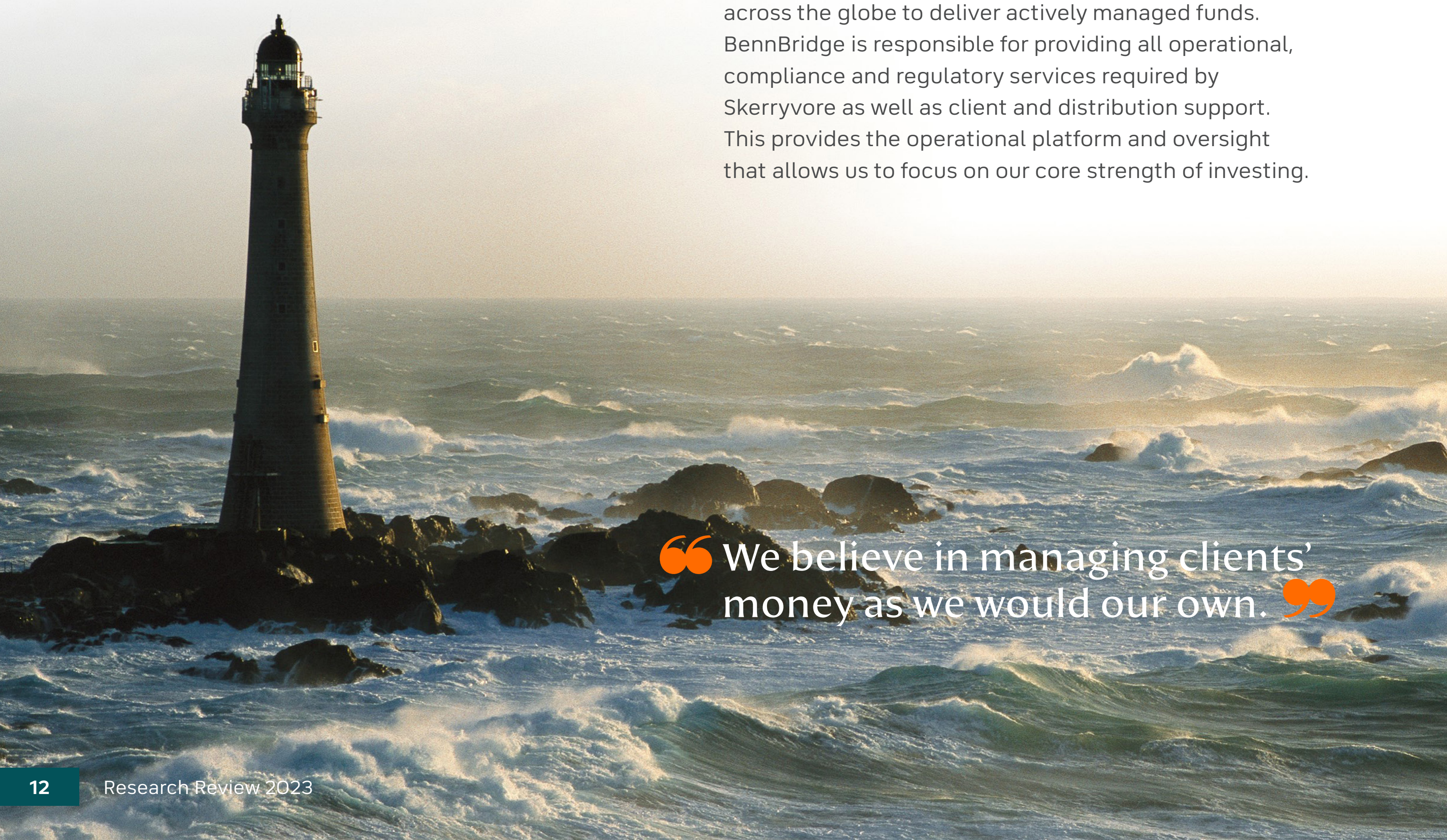
Alignment

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 mindset that clients can expect from us.

Partnership with BennBridge

BennBridge is a strategic partner, minority owner and the appointed investment manager for Skerryvore Asset Management. It is part of the Bennelong Funds Management Group, a privately owned Australian investment company that partners with boutiques across the globe to deliver actively managed funds. BennBridge is responsible for providing all operational, compliance and regulatory services required by Skerryvore as well as client and distribution support. This provides the operational platform and oversight that allows us to focus on our core strength of investing.



"We believe in managing clients' money as we would our own."

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For investors residing in Australia or New Zealand

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Skerryvore is a boutique asset management team. The company is majority owned by team members, and minority owned by BennBridge. Skerryvore's personnel are assigned to BennBridge in order to provide portfolio management and trading activities.

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Risk Factors

- Capital is at risk and there is no guarantee the investment or Fund will achieve its objective. Investors should make sure their attitude towards risk is aligned with the risk profile of their investment, however made.
- 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.
- Equity prices fluctuate daily, based on many factors including general, economic, industry or company news. In difficult market conditions, BennBridge may not be able to sell a security for full value or at all. This could affect performance of the investment and with regards to investment via a fund, 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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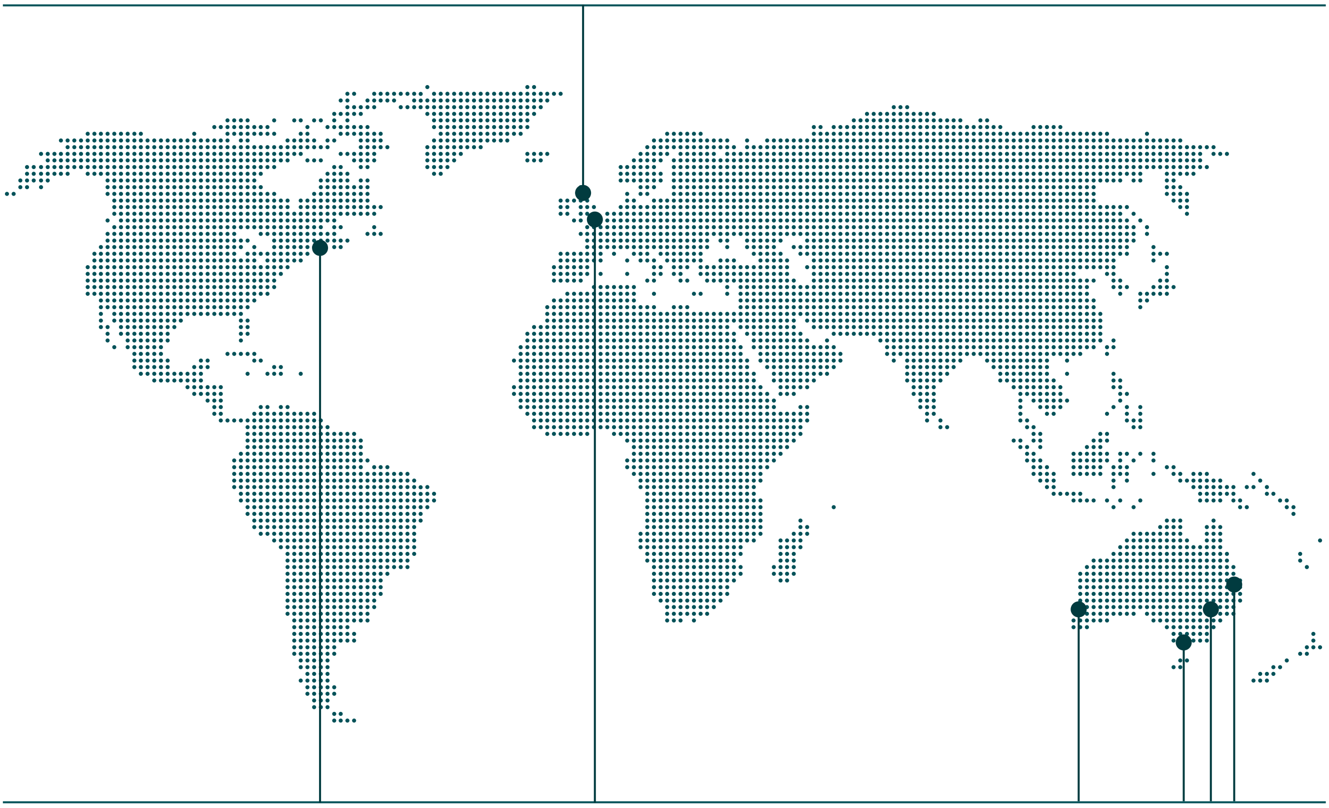

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