

6 April 2020

## Global Sustainable Update

### Portfolio positioning (as at 31 March 2020)

We have taken action to increase the defensiveness of the Global Sustainable Portfolio. We have been surgical in selling down positions that we feel are more exposed in this environment. Cash levels have also increased from 14% to 16% over the quarter.

To date, our Global Sustainable Portfolio has mildly outperformed difficult markets. At the beginning of the quarter the portfolio was positioned to benefit from an expected improvement in economic growth supported by the conclusion of the Phase 1 trade agreement between the United States and China. A greater amount of outperformance would have been expected but the portfolio positioning included holdings that turned out to be highly correlated in this extraordinary pandemic, such as American Express, Capital One, Booking.com, Anheuser-Busch Inbev and Yum! Brands, amongst others. Following our repositioning, we believe the portfolio has numerous advantages to weather this situation. These include:

- We have about 61% of our portfolio in 15 companies and cash that are likely to prove resilient through the shutdown and during a subsequent economic downturn;
  - Cash is at 16% (majority held in US dollars);
  - We hold meaningful investments in defensive businesses (27% of the portfolio) that are likely to prove resilient in this environment including two European utilities (Terna and Red Electrica), several consumer staples (RB, Unilever, Nestlé, Danone, Wal-mart, Mondelez, PepsiCo and Coca Cola) and a Swiss-based pharmaceutical company (Novartis);
  - Our investments in enterprise software companies (Microsoft and SAP of Germany) and our Chinese platform technology companies (Alibaba and Tencent) are likely to be resilient in this environment. These investments represent 19% of our portfolio;
- We have 13% of the portfolio in two technology investments with more cyclical exposure (Alphabet and Facebook). While economic activity and advertising will decline, we think this downturn could prove an accelerant to their business models. These companies are additionally well positioned to weather the downturn due to their financial strength;
- We have 11% of the portfolio in three quick-service restaurant companies (Yum! Brands, Starbucks and Chipotle). These businesses face a challenging situation during the next two to six months due to the social-distancing measures being implemented around the world. We note that their drive-throughs and delivery remain open in many markets. Post the crisis, we believe these businesses should recover strongly and are likely to prove resilient to an economic downturn;
- We have 9% of the portfolio in the two leading payment platforms (Mastercard and Visa). While demand will be hit by the economic downturn, we consider these companies have strong long-term prospects and are well positioned to weather the downturn due to their financial strength; and
- The remainder of the portfolio (6%) is in a range of businesses (such as brewing and hospitals) and none of the holdings is likely to materially affect the performance of the portfolio.

We are monitoring the strength of the balance sheet of each company in our portfolio and, in particular, the ability of our companies to withstand an extended economic slump. There are three businesses in the portfolio with meaningful financial leverage. These in aggregate represent 9% of the portfolio.

Importantly, our Global Sustainable Portfolio holds few or no investments across industries that are the most vulnerable to this crisis. The portfolio does not hold any banks, energy companies, airlines, travel-related companies or property trusts. The portfolio has no direct exposure to emerging markets, other than China. We estimate our indirect exposure to emerging markets, excluding China, represents 17% of the portfolio.

This is a complex, fast-moving and unprecedented situation and we will continue to manage the portfolio to protect capital of investors. As Warren Buffett has said: "To finish first, you must first finish."

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