

SKERRYVORE GLOBAL EMERGING MARKETS EQUITY STRATEGIES

# Skerryvore Review

2025



**Skerryvore**  
ASSET MANAGEMENT



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**Front cover:** Barra Lighthouse (Farol de Santo Antônio), Bay of All Saints, Salvador de Bahia, Brazil

## **For professional investors only**

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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 and engagement efforts. This Annual Review aims to give greater insight into some of the holdings within the portfolio and to demonstrate how we assess and engage with these and other businesses on a wide array of financial and non-financial measures.*

Some of the activity discussed here has led to portfolio change; other areas may require further work and engagement, 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 the portfolios we manage can meet the challenge of the future and increases the likelihood of them meeting our long-term absolute return aspirations.

## Two Sides of the Same Coin

In previous years we have produced both a *Research Review* and a separate *Sustainability Review* to highlight our bottom-up-driven work in these areas. We have made a change this year and combined them in a single *Annual Review*. This is driven by a recognition that producing two separate documents risks communicating a belief that investment research and sustainability analysis are two separate spheres of work. Nothing could be further from the truth in our eyes – we see these issues as being 'two sides of the same coin'.

At Skerryvore we have long believed that for a company to deliver valuable returns for our clients over the long term, it has to behave sustainably. The long-term cash flows that businesses produce must sustain them and the role of our investment research and engagement is to consider both the financial and the non-financial risks inherent in a business model. We always question whether any business we are considering for investment is doing anything that could threaten its long-term existence, and therefore the quantum of future growth and returns. To our minds this is just sensible long-term investing, with sustainability and environmental, social and governance (ESG) considerations just a subset of the overall investment process.

## What's in this Review?

We start by sharing our perspective on a group of businesses we believe present resilient and compelling long-term investment opportunities in emerging markets. In **Think Local, Act Local: The Power of The Coca-Cola Company's Partnerships in Emerging Markets** we dig into the creation of aligned businesses with strong pricing power. Water usage is one of a number of important sustainability risks that must be considered as part of the overall long-term investment case for both the companies in which we have holdings



and the broader industry at large, and we share more insight on this in **Water Stewardship in the Coca-Cola System: Addressing Long-Term Sustainability Risks**. This underpins why we believe that assessing sustainability factors is key when considering the long-term financial health of a business. If left unattended, over time sustainability risks inevitably become financial or reputational risks.

We also share the conclusions of a project we started in 2022 to better assess and understand how our portfolio companies are addressing their carbon footprints. This body of work is designed to supplement, from an in-house and bottom-up perspective, data and analysis that is provided to the investment team and clients by the likes of ISS and S&P CapIQ. Three years on, we have been encouraged by our most recent review of this work, which showed that the vast majority of our holdings either have achieved or are on track to meet their targets. However, a small minority of our companies have struggled to meet their own timelines and in **Tracking Progress on Carbon Emissions: Why Some Companies Are Falling Behind** we consider the common features of those businesses that are not necessarily where either they or we would wish them to be.

Lastly, in addition to providing a snapshot of the carbon emissions profile for our strategies, we have also included a more in-depth look at our engagement and stewardship activity over the past 12 months on issues other than emissions. In **Hindustan Unilever: India's Plastic Packaging Challenge** we provide an example of our engagement with this company on what we believe is a material long-term business risk. Although Skerryvore is not an activist investor, we do seek to keep the spotlight firmly on the most relevant issues as we see them and encourage behaviour that contributes to the long-term maximisation of shareholder value.

We hope you will find this document interesting and useful. Should you have any follow-up questions or thoughts, please do feel free to get in touch.

# Think Local, Act Local:

## The power of The Coca-Cola Company's partnerships in emerging markets



*We share our perspective on a group of businesses we believe present resilient and compelling long-term investment opportunities in emerging markets.*

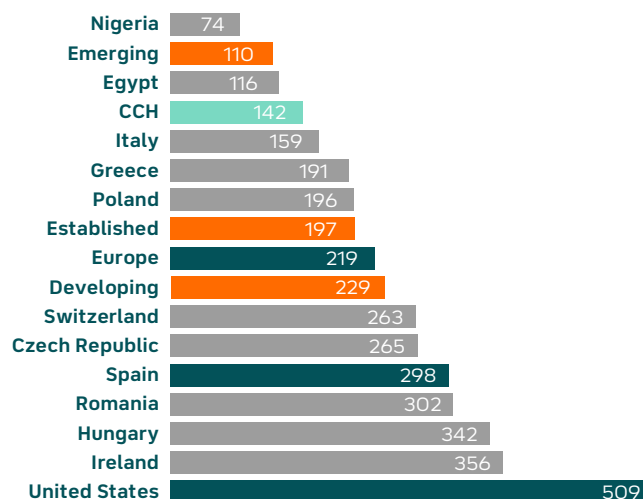
The business of bottling and distributing beverages in emerging markets has created some high-quality family-owned franchises, with significant pricing power and long runways for growth. They present a possibly underestimated investment opportunity, which is why we currently have around 7% of our clients' capital invested in publicly listed emerging-market Coca-Cola bottlers – **Coca-Cola FEMSA**, **Coca-Cola HBC (CCH)**, **Arca Continental** and **Embotelladora Andina**. These companies exhibit attributes that we value: family ownership, high levels of alignment, pricing power and resilient growth. At the same time, we believe, their current share prices underestimate their long-term pricing power and ability to compound over time.

### Diversified Growth

Today, emerging and developing economies account for 80% of the world's population, yet people in these regions currently buy only about two out of every 10 drinks they consume, compared with seven or eight out of 10 in developed markets<sup>1</sup>. This indicates a vast, largely untapped market for Coca-Cola and its peers, with substantial room for volume growth as purchasing power and consumption habits evolve. For example, the average Indian consumes just nine eight-ounce (c. 250ml) bottles of Coke annually, compared with a global average of 92<sup>2</sup>. This low base offers substantial headroom for growth as consumers become wealthier and market penetration increases – a dynamic that can be seen in CCH's diverse geographic footprint (figure 1).

The long-term growth opportunity for CCH is a significant one. Per capita consumption of soft drinks in Nigeria remains the lowest out of its 28 territories<sup>3</sup> despite it being the founding territory of the group, with the Leventis family establishing the Nigerian Bottling

Figure 1. CCH sparkling servings per capita, 2023



Source: CCH Factsheet (November 2024)

Company in 1951. As incomes rise and modern retail expands, the core product of Coca-Cola should grow for many years. Part of the advantage of these businesses, however, is their partnership with The Coca-Cola Company (TCCC), which develops sophisticated insights into consumers around the world, meaning these emerging-market franchises are not solely dependent on the growth of sparkling beverage consumption, but on a much broader portfolio of drinks that compete not just with sparkling colas but with everything a consumer chooses to drink on any occasion. TCCC has been actively expanding its product portfolio in emerging markets, including the introduction of low- and no-sugar beverages, energy drinks and ready-to-drink juices and teas. This diversification helps the company appeal to a broader range of consumer preferences and adapt to changing health trends, further supporting and de-risking long-term growth.

**Figure 2. Benefits of the franchise model to Coca-Cola and its bottlers**

Benefit Area	The Coca-Cola Company	Bottlers
<b>Cost &amp; Risk</b>	Asset-light – avoids manufacturing costs	Focus on capex efficiencies instead of brand and marketing
<b>Market Reach</b>	Rapid global expansion and local adaptation	Exclusive territory, allows long-term investment
<b>Brand &amp; Marketing</b>	Maintains global brand consistency	Benefits from global halo effect
<b>Operational Focus</b>	Focuses on concentrate and brand building	Focuses on local production and distribution
<b>Support</b>	Delegates production and distribution	Receives technical, marketing and management aid

Source: Skerryvore

It is not just product but also geographic diversification that supports these business models and allows them to offset the volatility in any single market. For example, CCH’s exposure to the political and economic vicissitudes of Nigeria is balanced by more stable cash flows from Central and Eastern Europe. Collectively, our holdings across Coca-Cola bottlers represent cash flows from more than 35 different countries, making these quite diversified investments.

### Successful Partnerships

These business models – and the uniquely symbiotic relationships built over many years between TCCC and its bottlers – embed the principles and benefits of alignment that are central to our investment philosophy. Simply put, TCCC – headquartered in Atlanta – provides the brands and syrup concentrate, while the bottlers produce and deliver the product to the end consumer. This clear and simple division of responsibilities brings benefits to both parties, as can be seen in figure 2.

This franchise model importantly sets the stage for strong competitive moats at the local level that are allied to more than 30 brands provided by TCCC, which each generate over a billion dollars in revenue globally. Such is the strength of the brand that the term ‘Coca-Cola’ is the world’s second most recognised phrase after ‘OK’<sup>4</sup>.

The bottlers benefit from this brand strength through consistent pricing power and pervasive consumption habits. This entrenched brand loyalty makes switching to a competitor difficult, especially given the product’s ubiquity (e.g. vending machines, corner stores, restaurants). Over decades, the bottlers have built

intimate, hard-to-replicate relationships with local retailers, kiosks, restaurants and supermarkets. These relationships are not just about delivering product. They include help with inventory management, ‘free’ equipment (e.g. coolers, dispensers), credit terms and increasingly deep consumer insights. This intimate customer integration acts as a switching cost, both for retailers and for TCCC. It would be extremely costly and risky for any new entrant, or even TCCC, to replicate these capabilities at a local level, which ensures strong alignment between TCCC and its bottlers.

### Aligned Owners

The embedded switching costs within this model also drive another differentiated element of the relationship between TCCC and its bottlers – the ownership of minority stakes, where TCCC sits alongside the founders of the bottling company on the shareholder register. Although this is not a universal rule, TCCC holds minority equity stakes in many of its major bottling partners, typically ranging from about 15% to 27%. For example, it holds stakes in CCH (21%), Coca-Cola Europacific Partners (17%) and Coca-Cola FEMSA (27%)<sup>5</sup>. This ensures TCCC is not incentivised to overcharge its bottlers for concentrate or marketing, but benefits from the scale and exclusivity arrangements it provides to bottlers via its share of the profits.

The local monopoly provided to each bottler is important because it enables them to spread fixed costs (plants, trucks, equipment, systems) over a large volume base, lowering per-unit costs and increasing profitability. A new entrant would need very deep pockets to have any chance of competing and, even then, would be unlikely to achieve the returns that accrue to the Coca-Cola system. Aside from investing,

managing logistics, production scheduling and product complexity across diverse regions is a skillset that is not easily acquired.

We believe that relative to the broader emerging markets universe, this high level of alignment strongly protects minority investors and is an underappreciated source of resilience. For example, in the case of CCH our clients are strongly aligned both with the Leventis family, which owns 23% of the equity through its Kar-Tess Holding company, and with TCCC, which owns a further 21%.

### Pricing Power

The first bottling contract was signed for \$1 in 1899 with Benjamin Thomas and Joseph Whitehead, who saw the opportunity to bottle Coke from soda fountains to sell the product more broadly. This contract specified a fixed price for concentrate *in perpetuity*. Quite remarkably for over 70 years (between 1886 and 1959), the price of a 6.5 US fl oz (190ml) bottle of Coca-Cola remained fixed at one nickel<sup>6</sup>. This approach provided predictability but over time the fixed price couldn't incentivise volume growth or respond to changes in raw material prices.

During the early 2000s under the direction of TCCC CEO Douglas Daft there was a move to empower the bottlers to 'think local, act local' so they could respond more nimbly to competition in each market<sup>7</sup>. This helped move the model from an adversarial basis to one that recognised the power of partnership, creating a mutual win-win – closer co-operation, in which TCCC would price based on local dynamics, invest alongside the bottlers in developing infrastructure and even acquire strong local brands jointly such as *Thumbs Up* in India and *Inca Kola* in Peru.

TCCC's partnership with most of its key bottlers is key to their local pricing power and revenue management tools. This is because TCCC needed the bottlers to invest in more complicated and varied production methods to produce a price pack architecture (PPA) that offers products in a variety of package sizes, formats and price points to target different consumer segments, occasions and channels. For Coca-Cola bottlers, this means a broad portfolio ranging from mini-cans to large bottles, each with its own pricing logic. The resulting pricing variability per millilitre was identified by a UK consumer watchdog magazine in 2022 and can be clearly seen in figure 3.

**Figure 3. Price pack architecture drives differentiated revenue per millilitre**

Retailer Product Name	Price	Price per 100ml
1.5 litre bottle	£1.68	£0.11
1.75 litre bottle	£1.97	£0.11
1.25 litre bottle	£1.50	£0.12
2 x 1.5 litre bottle	£4.30	£0.14
24 x 330ml cans	£11.67	£0.15
1 litre bottle	£1.50	£0.15
10 x 330ml cans	£5.00	£0.15
20 x 330ml cans	£10.08	£0.15
8 x 330ml cans	£4.49	£0.17
6 x 330ml cans	£4.00	£0.20
1 x 330ml can	£0.70	£0.21
4 x 330ml cans	£3.18	£0.24
12 x 150ml mini cans	£5.50	£0.31
1 x 500ml bottle	£1.65	£0.33
1 x 150ml mini can	£0.50	£0.33
1 x 250ml can	£0.90	£0.36
4 x 250ml glass bottles	£5.00	£0.50

Source: Which? Consumer Reports, 2022<sup>8</sup>

This makes it difficult for consumers to compare prices directly across formats or with competitors, potentially reducing pricing transparency. The result is a low level of pricing visibility compared with, say, the price of a pint of beer that has enabled Coca-Cola bottlers to more nimbly navigate inflation than some other types of beverage businesses we look at.

The high levels of local knowledge and data held by the bottlers allow them to tailor their PPA to specific channels (e.g. convenience stores, supermarkets, restaurants) and consumption occasions, leading to different prices for similar volumes depending on where and how the product is purchased. Using detailed customer relationship management (CRM) databases bottlers can even segment prices and offerings within a city, with larger bottles and lower prices being offered in less wealthy areas, and smaller, more expensive cans and bottles being offered in wealthier areas.

## Not Without Risk

Of course, no investment is risk-free. Bottlers are exposed to risks ranging from changing consumer preferences, volatile commodity input costs and regulatory demands and changes, most notably through sugar taxes and packaging mandates. Growing consumer demand for healthier lifestyles also requires reformulation of products with low or no sugar.

There are also important sustainability risks that must be considered, most notably around water usage, plastic packaging, waste collection and recycling. This is why we believe that assessing sustainability factors is key when considering the long-term financial health of a business. If they are left unattended, over time sustainability risks inevitably become financial or reputational risks.

The Coca-Cola system, however, has proved resilient by diversifying into a broader range of products, reducing water and plastic consumption and investing for the long term in areas such as recycling. All of this is helped by the fact that no competitor can easily replicate Coca-Cola's scale, brand equity and local distribution networks. Even large global beverage brands face enormous friction trying to copy what the best bottlers have spent decades building, which helps explain why some bottlers are starting to distribute for other FMCG (fast-moving consumer goods) companies, adding low-unit but high-margin revenue.

## Global Leading Governance, Global Leading Brands

**Coca-Cola HBC** and **Coca-Cola FEMSA** are exemplary models of high-quality listed businesses in emerging markets. Through strategic market penetration, operational excellence and a keen understanding of local dynamics, they have established themselves as leaders in the beverage industry.

Although we have yet to find an Asian Coca-Cola franchise we would like to own, we note that TCCC has recently announced a new partnership with a family business in India, where its bottling operations are currently unlisted. Perhaps in the future we will see interesting Asian and African bottling franchises coming to the market.

Coca-Cola bottlers offer a potentially rewarding investment opportunity: steady cash flow, defensible returns on capital and exposure to long-term emerging-market growth, from both increasing population and rising wealth. These are the kinds of businesses we believe are worth holding through cycles – quiet compounders that win through strong alignment and a long-term investment horizon that benefits both customers and shareholders.

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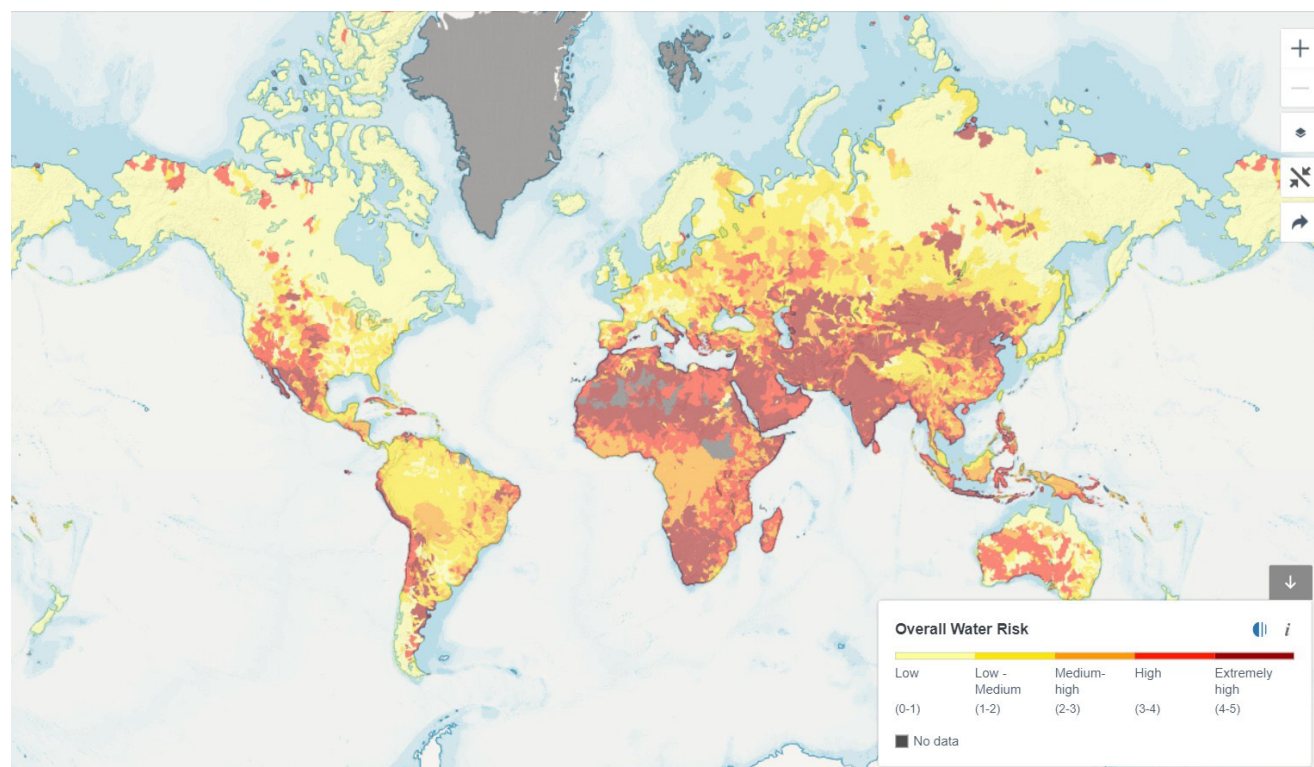
# Water Stewardship in the Coca-Cola System: Addressing Long-Term Sustainability Risks

*Water consumption is a material topic in the context of our strategies, given a sizeable exposure to consumer sector companies. In particular, because water is central to Coca-Cola's operations and those of its bottlers, sustainability efforts in this area are critical, especially in the face of climate change and increasing global water stress.*

## Water Scarcity – A Growing Issue

'Water stress' describes a situation where the demand for water is greater than the available supply in a particular area, whether because of insufficient quantity or poor quality. According to the World Resources Institute, nearly a quarter of the global population face extreme water stress each year and roughly half the global population face water stress for at least one month per year<sup>1</sup>. As figure 4 shows, the majority of these countries are emerging markets, making this issue even more important to our investment universe. Water demand is expected to grow by 20-25% globally by 2050 and the number of regions facing water stress is also set to expand. Large economies with young populations – such as India, Mexico and Egypt – face some of the biggest issues.

**Figure 4. World Resources Institute, Aqueduct Water Risk Atlas (as of 16 August 2023)<sup>2</sup>**



Coca-Cola and its bottling partners recognise the risks associated with water scarcity and are taking steps to mitigate them. This includes investing in innovation and infrastructure solutions, enabling legislation and collaboration with others including industry peers, local governments and civil society.

### Coca-Cola's 2035 Water Stewardship Goals

Coca-Cola has set two key objectives to improve water resilience by 2035<sup>3</sup>:

- 1. Aim to return more than 100% of the water used in finished products globally, on an aggregate level, to nature and communities.**
- 2. Seek to return 100% of the total water used in each of the more than 200 high-risk locations across the Coca-Cola system.**

Water is essential to people and ecosystems and because it is sourced locally, replenishment or return goals and investment, particularly in areas of high risk or water stress, are crucial. High-risk locations, determined through extensive analysis in 2024, represent almost a third of the Coca-Cola system's locations globally<sup>3</sup>.

A key metric in this strategy is the water use ratio (WUR), which tracks the number of litres used per litre of beverage produced. Although this is useful for driving best practice and efficiency comparisons (as in table 1 below), it should be noted that WUR does not account for water-intensive packaging production.

**Table 1. Water use efficiency comparison within the Coca-Cola system**

Water/Unit of Product (in Litres)										
Company	Geography	2018	2019	2020	2021	2022	2023	2024	Chg % Last 3yrs*	Chg % Last 5yrs*
Coca-Cola FEMSA	LatAm	1.58	1.52	1.49	1.47	1.46	1.42	1.38	-6	-9
China Foods	China	1.47	1.49	1.51	1.49	1.50	1.51	1.47	-2	-1
Arca Continental	LatAm & US	1.66	1.61	1.55	1.51	1.52	1.52	1.52	1	-5
Coca-Cola Icecek	Turkey, CIS, Asia	1.55	1.71	1.69	1.65	1.66	1.64	1.64	-1	-4
Embotelladora Andina	LatAm	2.01	1.96	1.86	1.77	1.71	1.72	1.64	-7	-16
Coca-Cola Europacific	EU, AU, Indonesia	1.60	1.61	1.57	1.60	1.61	1.74	1.76	10	10
The Coca-Cola Company	Global	1.89	1.85	1.84	1.94	1.79	1.78	n/a	-3	-6
Coca-Cola HBC	EMEA	1.79	1.74	1.82	1.80	1.82	1.83	1.84	2	6
Coca-Cola Japan	Japan	3.34	3.26	3.23	3.24	3.25	3.20	3.09	-5	-5

Source: company and Bloomberg reports. \*Using calendar year end data available as of 30 June 2025

## Bottler-Led Initiatives

Many Coca-Cola bottlers are leading sustainability projects tailored to local needs – for example:

- **Arca Continental:** rainwater recovery from school roofs and a wetland project in Baja California<sup>4</sup>.
- **Andina:** watershed restoration at Lake Ypacaraí and agricultural water tracking via satellites<sup>5</sup>.
- **Coca-Cola HBC:** ionised air rinsing technology to save millions of litres<sup>6</sup>.
- **FEMSA:** achieved Alliance for Water Stewardship certification at nine plants. Some Mexican plants now operate at a WUR of 1.20 l/l or better, while Colombia's Tocancipá plant leads at 1.17 l/l<sup>7</sup>.

Additionally, the Coca-Cola bottlers are focusing on agriculture, which accounts for over 70% of global freshwater use<sup>8</sup>. Partnerships with KILIMO and regional farming programmes aim to optimise irrigation and reduce consumption<sup>8</sup>.

## Bottled Water – An Additional Challenge in Latin America

Latin America – particularly Mexico – consumes a large amount of bottled water. Given concerns over rising water stress, this has created regulatory and reputational risks for bottling companies<sup>9</sup>. Water extraction rights have historically been stable, but events such as the Nuevo León drought in 2022 underscore emerging challenges<sup>10</sup>. With bulk water sales in particular facing increasing scrutiny, diversifying into functional beverages, energy drinks and coffee could reduce reliance on bottled water over time.

Nestlé's 2021 sale of its North American water business highlights another potential strategy for Coca-Cola and its bottlers<sup>11</sup>. Whether through divestment, innovation or operational shifts, long-term resilience will be key to ensuring sustainable growth in an era of rising water scarcity.



## Conclusion

In our valuation work we try to differentiate the severity of this longer-term risk for various bottlers that have more or less exposure to high-water-stress areas. We do this by assessing both the appropriate long-term growth and discount rate applied to future cashflow growth as well as their own volume mix by category.

There is very little visibility on exactly how the challenges of water stress will play out over time, which is an issue not only for us but also for the management team at Coca-Cola and those within the Coca-Cola system. We do, however, seek to identify management teams who are far-sighted and fair-minded in their approach to the analysis and mitigation of such risks and continue to engage actively with the management teams of our holdings on this front. In this case we believe Coca-Cola and its bottlers are looking after the long term by investing in resilience.

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# Tracking Progress on Carbon Emissions: Why Some Companies are Falling Behind

*In 2022 we began a project to better understand how our portfolio companies address their carbon footprints. This involved understanding what was being measured and the specific targets each company had set itself. We could then use this to judge progress and as a basis to help prioritise our stewardship activity and assess progress against our own climate-related commitments<sup>1</sup>.*

Three years on, we have been encouraged by our most recent review of this work, which showed that the vast majority of our holdings either have achieved or are on track to meet their targets. However, a small minority have struggled to meet their own timelines. The reasons broadly fall into two categories, the first being **a focus on unsuitable metrics**.

Although we encourage companies to focus on absolute emissions reduction, particularly as we look to align our strategies to carbon neutrality in the longer term, some still prefer to target relative measures, focusing perhaps on a reduction in emissions per dollar of sales or unit produced. For companies at an earlier stage of maturity, where production facilities are still being established, this is more understandable. Conversely, in more mature businesses, companies can fail to meet these relative targets even if absolute emissions figures are falling, which is the case for **Universal Robina** and **VTech**. This raises the question of whether they are prioritising the right metrics. Both would be better suited to simply targeting an absolute fall in emissions.

The second reason we see companies falling behind targets is largely down to the **limitations of the local electricity grid**, which is worthy of a deeper discussion.

## Overcoming Regional Grid Limitations for Carbon Neutrality

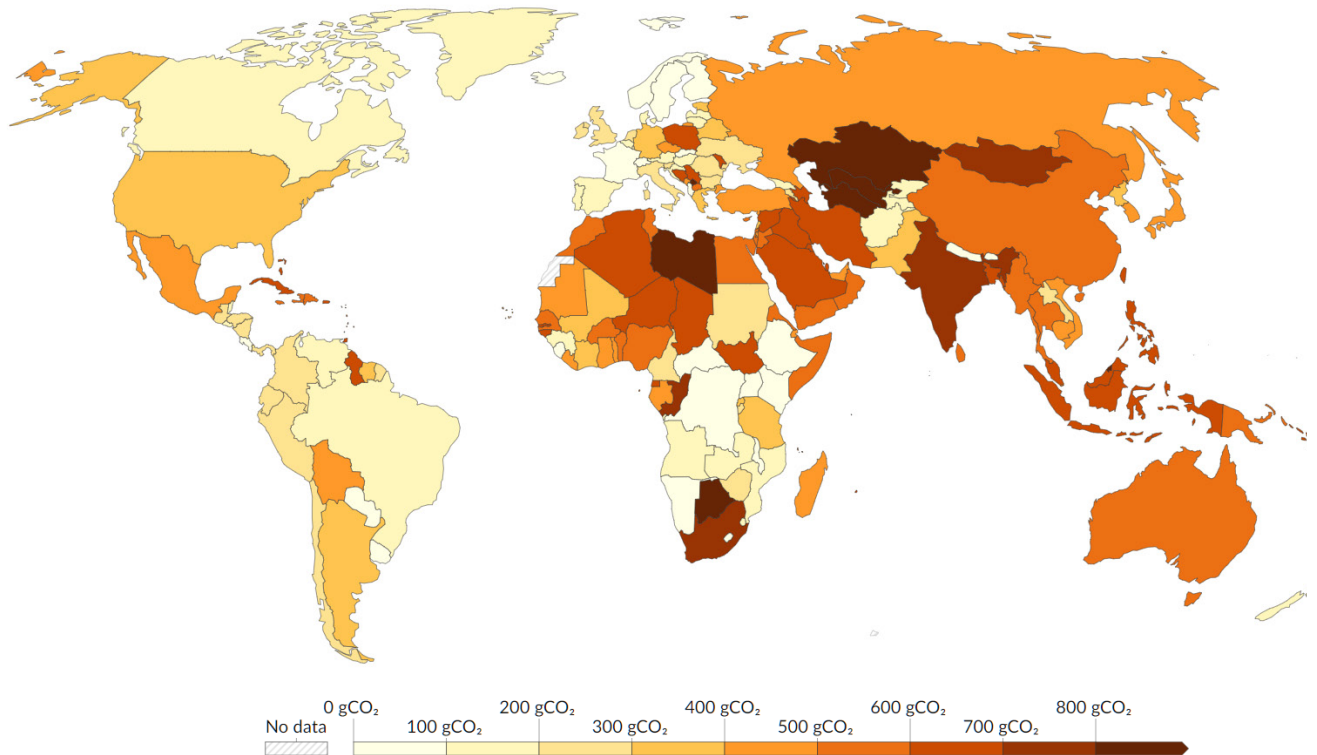
The transition to renewable energy is essential for companies aiming to reduce Scope 2 emissions (those from buying and using energy)<sup>2</sup> and meet net-zero<sup>3</sup> targets. However, local grid limitations, political challenges and infrastructure shortcomings can make it difficult to achieve these goals. While some emerging market economies have made significant progress, others remain reliant on fossil fuels due to vested interests and stalled government initiatives<sup>4</sup>.

Countries such as Indonesia and South Africa pose significant hurdles for corporations, regardless of their sustainability commitments. **Bank Central Asia (BCA)**, Indonesia's largest privately owned bank, is unlikely to meet its near-term renewable energy target because of the country's heavy reliance on fossil fuels. However, we believe that BCA can play a significant role in the solution by financing more renewable energy projects in Indonesia. Another example is the disparity between two pharmacy holdings in the portfolio: **Clicks** in South Africa, which sources only 5% of its energy from renewables<sup>5</sup>, and **Raia Drogasil** in Brazil, which exceeds 70%<sup>6</sup>. This discrepancy reflects the broader challenges in accessing clean energy.

Beyond national constraints, companies with widespread distribution networks face difficulties in securing renewable energy for every location. **HDFC Bank** and **Kotak Mahindra Bank**, with a combined 10,000 branches across India<sup>7</sup>, struggle with outdated grid infrastructure. Even when renewable power is available in different parts of the country, local substations often lack the capacity to deliver it efficiently. In HDFC Bank's case, a recent merger has complicated the company's existing emissions reduction timelines, but absolute emissions were already rising in fiscal years 2022 and 2023<sup>8</sup>, suggesting pre-existing challenges.

Latin America benefits from abundant renewable resources, particularly hydroelectric power<sup>9</sup>. Uruguay, for instance, boasts renewable energy levels comparable to those of advanced European nations despite lacking nuclear capacity<sup>10</sup>. However, overreliance on hydro can lead to spikes in fossil fuel usage during adverse weather events, such as those caused by El Niño. For nations with limited solar and wind capacity, nuclear energy may present a viable solution for reducing reliance on fossil fuels.

Figure 5. Energy Institute, carbon intensity of electricity generation (2024)<sup>11</sup>



NB. Carbon intensity is measured in grammes of carbon dioxide-equivalents emitted per kilowatt-hour of electricity generated.

### Emissions Reduction as a Profit Driver for Financial Institutions

Scope 4 emissions (ones avoided<sup>2</sup>) present a significant opportunity for financial holdings, particularly through investments in renewable power and infrastructure.

**Standard Bank** exemplifies this approach in Africa, where more than 600 million people still lack access to electricity<sup>12</sup>. By setting a renewable-to-non-renewable project ratio of 6:1, and limiting upstream oil and gas exposure, the bank is balancing economic growth with carbon reduction goals<sup>13</sup>. With over \$9 billion in sustainable finance loans issued since 2022, Standard Bank aims to increase this portfolio to \$25 billion by 2028, supporting economic resilience while facilitating the transition away from coal<sup>14</sup>.

Similarly, **BCA** has made strides in sustainable finance, with green projects and SME partnerships driving emissions reductions<sup>15</sup>. By 2024, sustainable finance comprised 25% of its total loan portfolio and grew 12.5% year over year - outpacing average loan book growth<sup>16</sup>. BCA's focus on sustainable land and resource management, particularly in palm oil, is yielding emissions reductions of up to 35% compared with non-certified practices<sup>17</sup>.

## Absolute versus Relative Targets

Returning to this issue, we do like industry-specific intensity-based emissions metrics, such as emissions per litre for brewers and bottlers or per square metre for retailers. These often feel more tangible and understandable than simply looking at a large absolute emissions number without any context. Nevertheless, absolute reduction targets remain crucial to achieving our long-term carbon neutrality goal. Our bottom-up analysis indicates that about 40% of our companies do not have any absolute reduction targets for emissions (table 2) – including some companies that have recently abandoned absolute targets, often in favour of relative ones.

For example, **President Chain Store**, which operates 7-Eleven convenience stores in Taiwan, replaced its target to reduce Scope 1 and 2 emissions by 7% from 2020 to 2025 with a target to reduce emissions intensity based on revenue<sup>18</sup>. Similarly, **Walmart de Mexico**, the largest retailer in Mexico, dropped its target to cut absolute emissions by 18% from 2015 to 2025 to instead focus only on renewable energy targets<sup>19</sup>. There are reasons for this. Both companies are growing fast through their significant store rollouts, which is exactly why we like the quality of their franchises. But this inevitably comes with more emissions and makes absolute reduction targets difficult to realise.

We would like to see more companies take the approach of **TSMC**, the world's largest chip manufacturer based in Taiwan, which is aiming to halt emissions growth from 2025 before reverting to 2020 emissions by 2030 and eventually achieving net-zero in 2050<sup>20</sup>. This acknowledges that emissions reduction is not a linear process, and that absolute targets are crucial to achieving carbon neutrality.

## Aligning Management Incentives

Incentive structures play a pivotal role in corporate sustainability efforts. Research suggests that management teams rewarded with equity are less likely to engage in greenwashing compared with those paid in cash<sup>21</sup>. Additionally, external factors – such as the EU's Carbon Border Adjustment Mechanism (CBAM) – can influence managerial behaviour by linking emissions reductions to financial outcomes such as stock price performance<sup>22</sup>. A study of 929 firms further showed that emissions disclosures impact the cost of equity, underscoring the financial importance of sustainability commitments<sup>22</sup>.

## The Scope 3 Challenge

Scope 3 emissions<sup>2,23</sup> (those generated indirectly throughout a company's value chain) are also important in assessing transition risks. According to the Carbon Disclosure Project (CDP), Scope 3 emissions represent 75% of the average corporate value chain, ranging from 16% in cement production to over 99% in financial services<sup>24</sup>. We like companies that are aware of their wider carbon footprint and that engage with their value chain – both upstream and downstream – to measure and reduce emissions.

However, there are significant challenges, which mean we do not yet feel we are in a position to complete a comprehensive benchmarking exercise as we have done for Scope 1 and 2 emissions, let alone hold companies accountable. The main challenge is inconsistency. Companies frequently change the definition, scope and methodology of their Scope 3 emissions. Although we can empathise with the difficulty of accounting for and estimating a huge number of data points, this hinders us from gaining meaningful insights from sustainability reports.



It also means that intercompany comparisons are almost impossible, because there is a lot of discretion in choosing how to report any of the 15 categories that fall under Scope 3<sup>25</sup>. Take, for example, **Clicks** and **Raia Drogasil**, the pharmacy retailers based in South Africa and Brazil that we compared earlier. When considering Scope 3 emissions per store, Raia Drogasil reports a figure six times that of Clicks<sup>26</sup>. This is because Raia Drogasil estimates the downstream impact of the goods and services it provides, which account for 87% of its reported Scope 3 emissions, whereas this is negligible under Clicks' reporting model. While the appropriate calculation of Scope 3 emissions continues to evolve, we still favour discussion with management teams about what they are actually doing to reduce emissions that may fall into this bucket<sup>23</sup>.

## Transparency and Data Access

Data transparency is another growing concern<sup>27</sup>. Historically, company disclosures via the CDP<sup>28</sup> provided valuable emissions data, but much of this information has become locked behind paywalls. In India, new regulations require ESG ratings providers to base their scores exclusively on publicly available information<sup>29</sup>, pushing for greater transparency in sustainability assessments.

## Conclusion

Emissions reduction is no longer just about regulatory compliance – it can also be a strategic driver of financial success. From banks facilitating sustainable investments to corporations setting absolute reduction targets, businesses that integrate carbon risk into their decision-making can create resilient growth while contributing to global decarbonisation efforts. However, challenges remain, including the need for standardisation in Scope 3 reporting and improved transparency in emissions data. Moving forward, engagement and accountability will be key to aligning investment strategies with our long-term return and sustainability goals.

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Table 2. Emissions Analysis Summary – Skerryvore GEM Equity Strategies (Representative Portfolio).

Name	Absolute Scope 1+2 Emissions*			Renewable Energy Use*
	2022	2023	2024	
	tCO <sub>2</sub> e (m)	tCO <sub>2</sub> e (m)	tCO <sub>2</sub> e (m)	
Advantech	34,930	29,867	n/a	5
Airtac International Group	118,490	116,796	n/a	n/a
Arca Continental	444,691	437,899	n/a	43
Banco Bradesco	30,449	30,473	n/a	n/a
Bid Corporation	300,993	306,176	324,603	2
Century Pacific Food	217,631	203,952	n/a	6
Cipla	240,031	225,731	244,636	29
Clicks	114,186	113,969	112,079	5
Coca-Cola FEMSA	606,000	604,000	622,000	84
Coca-Cola HBC	507,763	426,014	454,412	53
Cia Cerveceria Unidas	171,275	108,579	101,618	84
Crisil	4,400	2,300	2,300	67
Dexco	427,300	349,672	364,556	37
Fomento Economico Mexicano	2,411,952	2,236,317	2,263,982	65
Franco Nevada	-13	-16	n/a	n/a
Gr. Sarantis	24,371	22,638	51,700	8
Hangzhou Robham Appliances	36,384	38,015	n/a	n/a
HDFC Bank	310,000	340,000	590,000	0.4
Heineken Holding	1,582,000	1,282,000	1,091,000	84
Hindustan Unilever	238,875	239,815	234,856	96
Infosys	60,682	70,945	63,031	58
Itausa	7	72	n/a	100
Jerónimo Martins	869,337	929,714	782,611	54
Jumbo	19,800	n/a	n/a	n/a
Kotak Mahindra Bank	83,884	92,696	112,800	6
Mega Lifescience	n/a	8,561	8,541	9
MercadoLibre	20,721	26,036	35,978	44

Source: Skerryvore. Using calendar year end data available (in company sustainability reports and disclosures) as of 30 June 2025. \*Using all commercially reasonable efforts. #Includes absolute, relative and renewable energy targets. n/a - indicates information not available at time of analysis.

Company Emissions Target#	Company Net Zero / Carbon Neutral Target	Country Net Zero Target	Sustainability Committee / Board	KPI for Compensation
Yes/No			Yes/No	Yes/No
Yes	2050	Taiwan 2050	Yes	Yes
Yes	2060	Taiwan 2050	No	n/a
Yes	No	Mexico n/a	Yes	Yes
Yes	2060	Brazil 2050	Yes	Yes
Yes	2050	South Africa 2050	n/a	n/a
Yes	No	Philippines n/a	Yes	No
Yes	2025	India 2070	Yes	n/a
Yes	2050	South Africa 2050	Yes	Yes
Yes	n/a	Mexico n/a	n/a	n/a
Yes	2040	n/a	Yes	Yes
Yes	No	Chile 2050	Yes	No
No	n/a	n/a	n/a	n/a
Yes	Net positive	Brazil 2050	Yes	Yes
Yes	No	Mexico n/a	Yes	Yes
Yes	2050	Canada 2050	Yes	Yes
Yes	2050	Greece 2050	Yes	No
No	n/a	China 2060	n/a	n/a
Yes	2032	India 2070	Yes	No
Yes	2040	Netherlands 2050	Yes	Yes
Yes	2039	India 2070	Yes	n/a
Yes	2040	India 2070	Yes	No
No	No	Brazil 2050	Yes	Yes
Yes	n/a	Poland, Portugal 2050	Yes	n/a
No	No	Greece 2050	No	n/a
No	No	India 2070	Yes	No
Yes	No	Thailand 2065	Yes	n/a
No	No	Brazil, Argentina, Uruguay 2050	No	No

Table 2 (continued). Emissions Analysis Summary – Skerryvore GEM Equity Strategies (Representative Portfolio).

Name	Absolute Scope 1+2 Emissions*			Renewable Energy Use*
	2022	2023	2024	
	tCO <sub>2</sub> e (m)	tCO <sub>2</sub> e (m)	tCO <sub>2</sub> e (m)	
Merida Industry	8,085	5,570	n/a	n/a
Nexon	n/a	6,087	6,165	n/a
Philippine Seven	n/a	n/a	325,016	n/a
President Chain Store	534,484	543,968	n/a	0
Bank Central Asia	137,825	141,318	144,506	<1
Quálitás Controladora	14,181	15,378	n/a	n/a
Raia Drogasil	34,071	24,819	n/a	72
Standard Bank	227,841	215,574	218,301	2
Syngene International	22,041	24,768	19,614	82
TSMC	11,558,554	11,780,418	12,776,792	14
Tata Consultancy Services	157,729	138,237	95,671	74
Unilever	870,000	750,000	690,000	59
Uni-President China	647,010	645,119	691,333	n/a
Universal Robina	611,418	474,618	n/a	24
United Breweries	n/a	42,000	29,000	78
Voltronic Power Technology	11,836	11,200	n/a	0
VTech	85,741	73,222	69,519	n/a
Walmart de México	1,333,800	1,521,300	1,694,500	59
WEG	128,631	113,425	n/a	23
Wheaton Precious	32	39	n/a	77
Yifeng Pharmacy Chain	n/a	90,869	n/a	1

Source: Skerryvore. Using calendar year end data available (in company sustainability reports and disclosures) as of 30 June 2025. \*Using all commercially reasonable efforts. #Includes absolute, relative and renewable energy targets. n/a - indicates information not available at time of analysis.

Company Emissions Target#	Company Net Zero / Carbon Neutral Target	Country Net Zero Target	Sustainability Committee / Board	KPI for Compensation
Yes/No			Yes/No	Yes/No
Yes	No	Taiwan 2050	n/a	n/a
No	No	Japan 2050	Yes	No
No	No	Philippines n/a	No	No
Yes	2050	Taiwan 2050	Yes	Yes
Yes	No	Indonesia 2060	No	Yes
No	2050	Mexico n/a	Yes	n/a
Yes	No	Brazil 2050	Yes	Yes
Yes	n/a	South Africa 2050	Yes	Yes
Yes	No	India 2070	Yes	Yes
Yes	2050	Taiwan 2050	Yes	Yes
Yes	2030	India 2070	Yes	Yes
Yes	2039	UK 2050	Yes	Yes
Yes	2050	China 2060	Yes	n/a
Yes	2050	Philippines n/a	Yes	n/a
Yes	2040	India 2070	Yes	Yes
Yes	2035	Taiwan 2050	Yes	Yes
Yes	n/a	Hong Kong 2050	Yes	No
Yes	2040	Mexico n/a	Yes	Yes
Yes	2050	Brazil 2050	Yes	Yes
Yes	2050	Canada 2050	Yes	Yes
No	n/a	China 2060	Yes	n/a

# Considering Carbon Risk

We believe that both scientific and physical evidence suggest our planet’s average surface temperature is rising. For long-term investors this poses considerable structural risks to companies in all industries, from insurance to consumer staples.

Our far-sighted and fair-minded investment philosophy is focused on managing and reducing these risks, and as a result we look for businesses with risk-aware leadership that are committed to reducing their environmental impact on the planet. The risk is that if owners and management teams do not act, then the cost of regulatory direction is likely to be even greater.

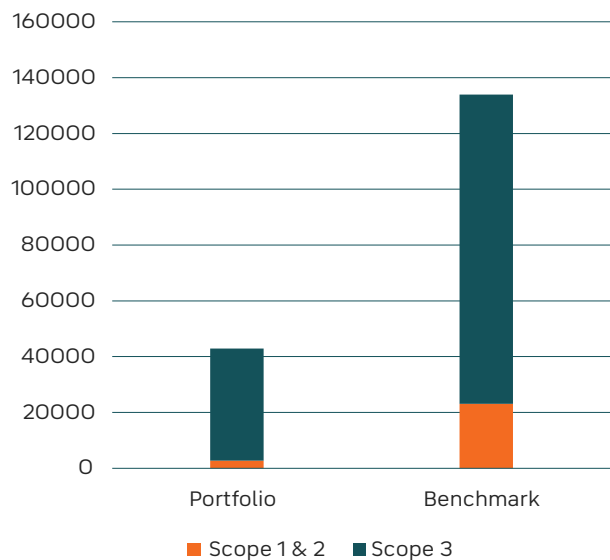
We support the Paris Climate Agreement and the overall objective of limiting temperature rises. In recognition of this support, we are focused on aligning our strategies to a target of carbon-neutrality by 2050.

## Portfolio Emissions Exposure vs Benchmark<sup>1</sup>

Independent analysis of the Skerryvore Global Emerging Markets Equity Strategy conducted by the ISS Climate Change model highlights that the strategy has a significantly lower emissions exposure than an emerging markets benchmark.

Seeking and providing this information 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 broader bottom-up investment process.

Figure 6. Emissions Exposure (tCO<sub>2</sub>e)



<sup>1</sup> Skerryvore GEM Equity Strategy. ISS Climate Impact Report & MSCI EM benchmark as of 30 June 2025.

## Climate Scenario Analysis

The scenario analysis conducted by ISS for the Skerryvore Global Emerging Markets 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 Equity Strategy in its current form is aligned with a 2 degrees scenario up until 2037.

The ISS analysis comes with a 'health warning', though.

We have philosophical and practical doubts about 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 far-sighted management teams and businesses that have demonstrated adaptability and resilience in the past, and a fair-minded attitude to the future. We believe this approach is risk-aware and should serve clients well over the long term.

# Hindustan Unilever: India's Plastic Packaging Challenge



In our research process, we approach the assessment of sustainability risk through a lens of materiality. This has highlighted that water consumption and plastic packaging are of particular concern when looking at our strategies, which have a large exposure to growing consumer companies and operations in water-scarce geographies. Consequently, we do not shy away from engaging on these matters with companies.

## India's Plastics Problem

We recently engaged on the subject of plastic packaging waste with Hindustan Unilever (HUL), a subsidiary of Unilever and the largest fast-moving consumer goods company in India<sup>1</sup>. It supplies personal care, home care and food products to the largest population in the world<sup>2</sup>. Roughly 40% of its revenue comes from rural areas, where HUL provides tiny portions of important products like shampoo and toothpaste at lower, affordable price points in single-use sachets<sup>3</sup>. Unfortunately, these sachets often end up as litter covering streets, clogging waterways and harming wildlife.

Given HUL's contribution to India's growing plastics problem, we met the company's Head of Sustainability to discuss how HUL is tackling this, and where the challenges and opportunities lie.

## The Challenge of Global Targets

One of the reasons we like HUL is the oversight and know-how provided by its parent Unilever, which extends to how they manage sustainability risk within the business. Unilever has been proactive in setting sustainability targets and its subsidiaries are expected to align with these goals<sup>4</sup>. This puts HUL at the forefront of sustainability efforts compared with its Indian peers.

But it also comes with considerable challenges. For example, flexible packaging like sachets makes up 70% of HUL's mix, with rigid packaging such as shampoo bottles only contributing 30%<sup>5</sup>. This is the inverse of Unilever's mix globally and it is precisely these flexible plastics that are the most difficult to recycle.

## A Three-Pronged Approach

Unilever's plastic strategy focuses on using 'less plastic' (reimagining product design and packaging by, for example, optimising the weight and size of bottles), opting for 'better plastic' (using recyclable and recycled plastics) and exploring 'no plastic' (using alternatives like paper, glass and aluminium). The most significant improvements will come from using 'better plastic'.

**Table 3. HUL's packaging progress**

Metric	2018	2019	2020	2021	2022	2023	2024
Plastic packaging footprint (in tonnes)	97,000	96,000	106,000	107,000	118,000	122,000	125,000
% of technically recyclable plastic packaging		60	66	69	73	74	74
% of recycled content		1.0	1.4	2.7	2.9	4.4	6.1
Plastic collected and processed (in tonnes)	20,000	39,000	58,000	117,000	118,000	123,000	181,000

Source: company annual reports

When we did our initial analysis on HUL, Unilever had committed to making 100% of its packaging recyclable, reusable or compostable by 2025. This was revised in 2024, pushing the time horizon back to 2030 for rigids and 2035 for flexibles, recognising that the initial targets were too ambitious given the scale of the problem<sup>4</sup>. Another goal to achieve 'better plastic' is to increase recycled inputs in packaging to 25% by the end of 2025<sup>4</sup>.

### The Infrastructure Problem

As table 3 shows, HUL has made steady progress in increasing the technical recyclability of its products to 74% in 2024. The remaining gap can be explained by sachets that are made up of multiple materials stuck together, which are almost impossible to separate and recycle. Here, the focus is on introducing sachets made of single materials that can be recycled without separation.

Unfortunately, technical recyclability does not mean actual recyclability. For example, although HUL's technical recyclability is similar to Unilever's, this translates to an actual recyclability rate of just 57% (76% for rigids and a mere 13% for flexibles)<sup>5</sup>. This is partly because infrastructure to recycle flexibles remains nascent in India, which also means there is a lack of feedstock for recycled inputs for flexibles<sup>6</sup>. It is therefore unsurprising that HUL is struggling to meet its target of 25% recycled inputs in the next year, which was only 6.1% in 2024 whereas its parent achieved 22%<sup>7</sup>.

That does not mean that HUL has thrown in the towel. It is actively helping to develop the Indian ecosystem through engaging with the government and investments in local partners. For example, HUL recently acquired 14.3% of Lucro Plastecycle, an integrated waste management and recycling company focusing on those difficult-to-recycle sachets<sup>8</sup>.

HUL also continues to go above and beyond with the collection and processing of post-consumer waste from the environment, achieving >100% of its own footprint since 2021. This is far ahead of the 100% Unilever aims to reach in 2025 and India's Extended Producer Responsibility (EPR) requirement of 100% from 2024<sup>9</sup>.

### Conclusion

HUL has made meaningful progress in increasing the recyclability of its plastic packaging, including sachets, which make up nearly 70% of its footprint. Unfortunately, HUL will struggle to meet its parent's goal of recycled inputs for its packaging by the end of this year. Our engagement with the company has helped us to understand that HUL is held back by the nascency of recycling in India, but it is working with the government and partners to help develop the ecosystem.

We continue to believe that HUL is a driving force in tackling India's plastics problem head-on, which comes with significant investments and costs. This is an area that we will continue to monitor and engage on.

1 Statista (4 February 2025). *Leading FMCG companies in India as of February 2025, by market capitalization*. [www.statista.com/statistics/1304082/india-leading-fmcg-companies-by-market-capitalization](https://www.statista.com/statistics/1304082/india-leading-fmcg-companies-by-market-capitalization)

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4 Unilever – Our sustainability goals [www.unilever.com/files/our-sustainability-goals.pdf](https://www.unilever.com/files/our-sustainability-goals.pdf)

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6 WRI India/RMI/CEEW (December 2024). *Unlocking India's Circular Waste Economy Potential for Sustainability – Insights across seven sectors*. [www.ceew.in/sites/default/files/india-circular-economy-potentialwebceew16dec.pdf](https://www.ceew.in/sites/default/files/india-circular-economy-potentialwebceew16dec.pdf)

7 Unilever. Annual Report 2024. [www.unilever.com/files/unilever-annual-report-and-accounts-2024.pdf](https://www.unilever.com/files/unilever-annual-report-and-accounts-2024.pdf)

8 Hindustan Unilever (20 March 2025). *HUL Board approves investment to strengthen flexible plastics circularity*. [www.hul.co.in/news/press-releases/2025/hul-board-approves-investment-to-strengthen-flexible-plastics-circularity/](https://www.hul.co.in/news/press-releases/2025/hul-board-approves-investment-to-strengthen-flexible-plastics-circularity/)

9 Government of India (Ministry of Environment, Forest & Climate Change) (2024). Central Pollution Control Board. Centralized Extended Producers Responsibility Portal for Plastic Packaging. <https://eprplastic.cpcb.gov.in/#/plastic/home>

# Engagement Highlights

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, industrial, 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 some examples of the engagements that we have conducted during the past 12 months.

Company	Engagement Type	Engagement Detail	Investment Outcome
<b>Bank Central Asia</b>	Governance	Board pay appears to be a recurring issue for proxy advisers. Although we trust this management team to continue to act in the best interests of shareholders, we should encourage the company to provide more transparency around board remuneration where they are allowed to.	Indonesian companies report aggregate remuneration for the Board of Commissioners (BOC) and the Board of Directors (BOD), as well as aggregate variable bonuses and share-based compensation. Individual remuneration is not disclosed. We discussed the increase in remuneration for the BOC and BOD in the past two years, which has been greater than net income growth. The company pointed out that there have been changes in the BOC/BOD that have meant temporary periods with a higher number of members, influencing remuneration. Less disclosure on KPIs, which they say are based on the current account and savings account ratio, loan quality/growth and net income, with individual KPIs also set for each director. Ultimately BOC/BOD remuneration is <2% of net income and there is share ownership across senior management, so no concerns. Remains a holding in all strategies.

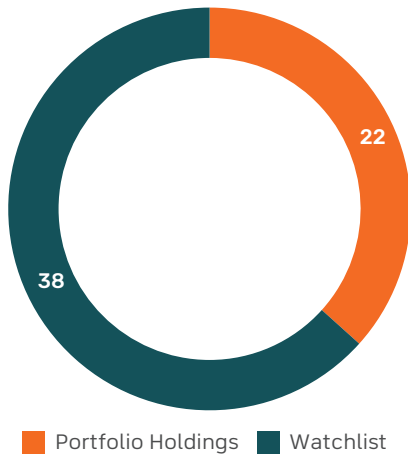
Company	Engagement Type	Engagement Detail	Investment Outcome
Hindustan Unilever	Environmental	Plastic packaging is a material concern given 70% of packaging is in the form of single-use sachets to cater to lower-income households that otherwise would not afford personal and home care products. We sought to understand the challenges faced in achieving the packaging goals set by parent Unilever, which include 100% technically recyclable plastics by 2030 and increasing post-consumer recycled (PCR) inputs to 25% by the end of 2025.	Lengthy discussion understanding the challenges of achieving 100% technical recyclability, especially in sachets, which are often made of multiple different materials. Hindustan Unilever is looking to introduce sachets made of single materials, which can be recycled without separation. The biggest challenge will be increasing PCR inputs from 4.4% in 2023 to 25% in 2025 because India's recycling infrastructure is still in its nascency. We believe Hindustan Unilever remains a frontrunner in addressing the plastics problem in India and we will continue to engage on this matter. Remains a holding in all strategies.
	Social	Engagement in response to an article highlighting modern slavery risks in the sugar supply chain in India.	Discussion to understand the visibility Hindustan Unilever has over its supply chain and the steps it is taking to achieve its goal of 100% sustainable sourcing of key crops by 2030. This involved understanding how Hindustan Unilever assesses the quality of certification bodies that it relies on and its response to the allegations of modern slavery in the sugar supply chain. Together with other consumer companies, Hindustan Unilever is part of a coalition that aims to address systemic human rights risks in India's sugar value chain by setting up migration centres for migrant workers. We will continue to monitor and engage on this matter. Remains a holding in all strategies.

Company	Engagement Type	Engagement Detail	Investment Outcome
<b>Infosys</b>	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 on. 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. Remains a holding in all strategies.
<b>Nexon</b>	Governance	Lack of gender diversity on the board and use of discounted options for both internal and external directors.	We requested follow-up from the company on the lack of gender diversity and use of discounted options for both internal and external directors. They view board diversity based on 'task diversity' as their main focus, not gender diversity. We have discussed these points before with management and remain of the view that they are still in the best interest of shareholders, though will continue to monitor and discuss in subsequent meetings. Remains a holding in all strategies.
<b>Philippine Seven</b>	Social	Discussion with company on its hiring practices and labour standards in its chain of convenience stores.	Better understanding of conditions for employees in both corporate-owned and franchised stores. We will continue to monitor. Remains a holding in eligible accounts/strategies.
<b>Universal Robina</b>	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 these are not deemed scalable. It has also started a new joint venture 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. Remains a holding in eligible accounts/strategies.

# Corporate Engagements

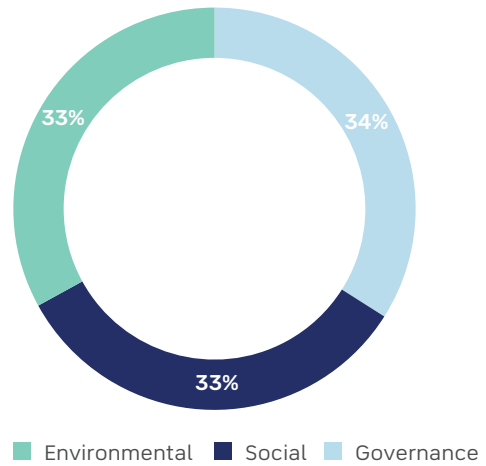
## Company Meetings<sup>1</sup>

12 months to end June 2025



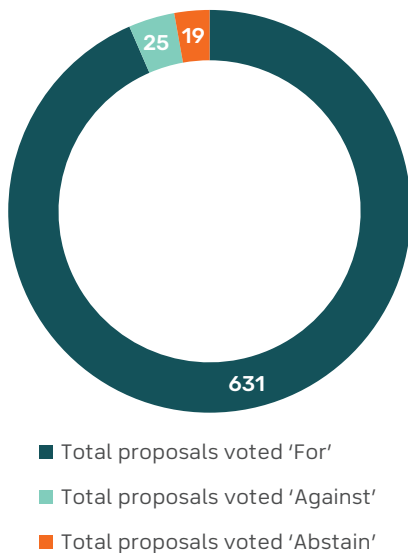
## Sustainability Engagements – Portfolio Holdings<sup>1</sup>

12 months to end June 2025



## Proxy Voting Overview<sup>2</sup>

12 months to end June 2025



## Votes Against Management Rationale<sup>1</sup>

Bundled election of directors	2
Lack of disclosure	4
Potential dilution greater than 10%	4
Remuneration policy and vesting criteria not in best interests of minority shareholders	1
To support election of an independent candidate put forward by minority shareholders	2
Not in best interest of minority shareholders	2
Ad hoc	3
<b>Total</b>	<b>18</b>

<sup>1</sup> Skerryvore GEM Strategies. Skerryvore.

<sup>2</sup> Skerryvore GEM Strategies. ISS ProxyEdge.

# Our Sustainability Principles

## 1. WE WILL SEEK TO OWN BUSINESSES WE BELIEVE TO BE SUSTAINABLE

As with accounting data, sustainability metrics rarely tell the full story. We look at the why and the how behind the published numbers to better understand the behaviour of a company and whether this can be sustained.

## 2. WE WILL SEEK FAR-SIGHTED COMPANIES THAT RECOGNISE SUSTAINABILITY AS AN ADVANTAGE

Consistently we find that the best companies recognise that behaving sustainably gives them a long-term advantage over those that do not. Most often this is to do with the power of a positive reputation and the benefits that confers.

## 3. WE WILL SEEK TO CORRECT MISTAKES THROUGH ENGAGEMENT OR DIVESTMENT

While we try, before making an investment, to avoid companies with sustainability-related issues, as we get to know companies over time we may come to realise that our initial assessment has changed. Where we can engage with the company to promote change we will attempt to do so, but where this is not possible we will choose to sell.

## 4. WE WILL ACTIVELY ENGAGE WITH OUR COMPANIES TO PROMOTE A RANGE OF RECOGNISED GLOBAL STANDARDS

For a long time standards in companies have been relative – meeting the local laws or adhering to the country of domicile's social norms. Successful firms tend to grow outside the country in which they started and to do so must judge themselves against the best companies globally. International investors are increasingly applying global standards to the firms they look at, so this can have a material effect on share price.

## 5. WE WILL ENCOURAGE BETTER TRANSPARENCY AND SEEK TO WORK WITH THOSE WHO PROMOTE IT

In general the direction of travel in terms of better disclosure is positive – but not all disclosure is useful. We will encourage the companies in which we invest to improve their disclosure so that it is comparable with global best practice and encourage facing up to and being open about the material challenges that operating sustainably presents.

## 6. WE CANNOT ASK COMPANIES TO BEHAVE SUSTAINABLY IF WE DO NOT OURSELVES

It is important that we live up to the standards that we encourage others to develop by looking closely at our own business and improving our impact. We are a small firm but this cannot be an excuse when we seek to influence others.

# 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. 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.

Skerryvore Asset Management was established in 2019 as an investment partnership to create a business with the independence to pursue and protect its long-term investment philosophy.

## 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. All portfolio managers have co-invested in strategies run by Skerryvore. Consistent with our investment philosophy and process, this underpins an absolute rather than a relative return mindset that clients can expect from us.



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

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

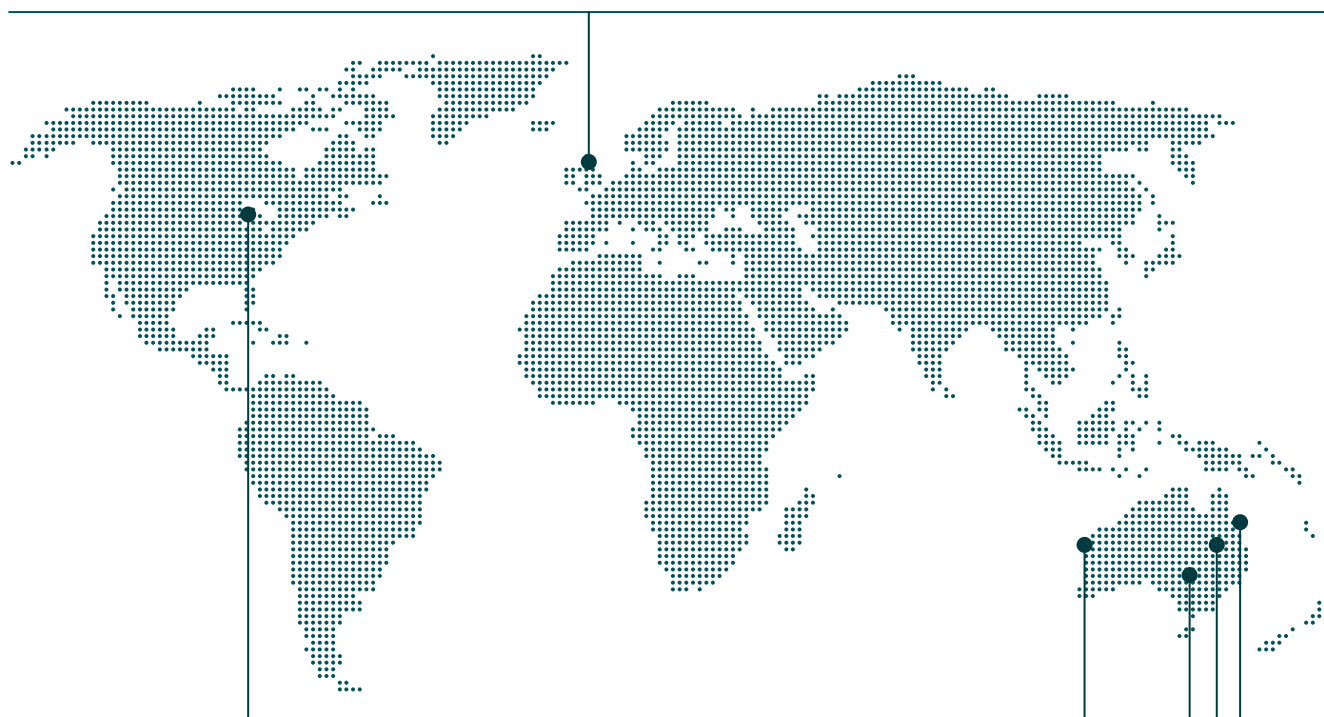
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# Notes

# Notes



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