Dundas Global Investors

Heriot Global Fund Q2 2021

HERIOT GLOBAL FUND

Firm summary

Dundas Global Investors is a partnership based in Edinburgh, Scotland. We manage investments for institutional and professional clients across the UK, USA, Australia, and New Zealand.

Founded in 2010, we have a single strategy of investing in global equities for long-term dividend growth. We work as one team, focused on one goal. Our philosophy remains unchanged since inception.

Our guiding principles of alignment and independence manifest in our structure. By co-investing in the strategy, the team is aligned with the firm's philosophy and the objectives of our clients.

Assets*:

- Firm: £1.4bn
- Heriot Global Fund: £201m

*as at 30th June 2021.

Philosophy

Aligned with the biggest factors driving long term total return

Dividend growth + dividend yield > 80% of long run equity return*

Dividend growth comes from high quality companies with good capital allocation

Sustainable businesses growing their revenues, profits & dividends.

Dividend growth portfolios play defence well

High profitability, consistent re-investment, positive free cash flow, low debt levels and prudent governance are strong allies in tough times.

Dividend discipline = risk control

Good capital allocation decisions require robust corporate governance.

*Source: MSCI 2016 study of long-term return on behalf of the Norwegian Ministry of Finance.

Performance

Cumulative	3 Months	1 Year	3 Years	5 Years	7 Years	Since launch*
Heriot Fund A Acc	9.3%	22.4%	56.2%	118.5%	148.6%	167.5%
MSCI ACWI	7.3%	24.6%	43.7%	91.4%	137.4%	157.7%
IA Global	6.9%	25.9%	42.6%	92.5%	122.6%	142.0%
Quartile	1	3	1	1	2	2

Annualised	1 Year	3 Years (p.a.)	5 Years (p.a.)	7 Years (p.a.)	Since launch* (p.a.)
Heriot Fund A Acc	22.4%	16.0%	16.9%	13.9%	12.6%
MSCI ACWI	24.6%	12.9%	13.9%	13.1%	12.1%
IA Global	25.9%	12.6%	14.0%	12.1%	11.3%
Quartile	3	1	1	2	2

Sources: FE Analytics. All data shown is percentage net of fees in GBP to 30th June 2021. *The Heriot Global Fund was launched on 20th March 2013. Performance is shown Bid to Bid in GBP on a total return basis (with net dividends reinvested). The MSCI ACWI and IA Global Sector are for comparison. Quartile Rank is a measure of how the Fund has performed in the context of the IA Global Sector. Past performance is not an indicator of future results. The value of your investment and the income derived from it can go down as well as up and you may not get back the money you invested.

Tracking Philosophy

Shown below are the core tenets of our philosophy and progress to date:

1

Aligned with dividend growth, the largest factor driving long term growth.

Since inception, dividend growth and average dividend yield account for 93% of the total return. The equivalent number for the index was 47%.

2

Dividend growth comes from high quality companies with good capital allocation.

Consistently higher return on equity combined with higher re-investment rates have been good predictors of dividend growth. Currently this model has implied growth looking forward of 8.0% for the Dundas Global Equity Growth strategy and 4.5% for the index.

Measured as a percentage of revenue, the strategy and index spend around the same on capital expenditure – 7% for the strategy, 6% for the index.

R&D as a percentage of sales for the strategy was 7% whereas the index was only 2%. We believe this is crucial in delivering future growth.

3

Dividend growth plays defence well.

Downside ratio for the Fund since inception has been 94%, 85% for five years and 83% for three years. Included in these number was the drop in February and March 2020.

4

Dividend discipline requires strong governance.

High ESG scores from Morningstar and MSCI support our belief.
Significantly lower carbon metrics versus the MSCI ACWI index according to MSCI ESG research.

Performance Review

Total return for the Heriot Global Fund during the quarter was 9.3% whilst the MSCI ACWI benchmark returned 7.3%.

Sectors

Stock selection was the primary driver of the portfolio's positive relative returns during the quarter. The portfolio's Health Care holdings were the biggest contributor, followed by Industrials. Consumer Discretionary, Consumer Staples and Materials stocks also held up better than the benchmark's. However, stock selection in Financials and I.T. detracted, and a lack of exposure to the Energy sector cost the portfolio, as the Energy sector was one of the top performers during Q2.

Sector	Main factor	Attribution (bps)
Health Care	Stock selection	68
Industrials	Stock selection	57
Consumer Discretionary	Stock selection	48
Financials	Stock selection	(23)

Geography

By region, European stock selection was a positive with Switzerland, Denmark and Germany the biggest contributors, while UK-listed holdings detracted slightly. The portfolio's underweight to the poorest performing region Asia Pacific aided returns. Stock selection in Asia Pacific also contributed, with Japanese stocks returning 7.2% compared to -0.5% for MSCI ACWI. Stock selection in North America was the biggest detractor during the quarter, and the portfolio's underweight to this market also hurt performance.

Country	Main factor	Attribution (bps)
Switzerland	Stock selection	103
Japan	Stock selection	46
Denmark	Stock selection	26
United States	Stock selection	(29)

Sources: Dundas, Morningstar, Bloomberg, MSCI. Stock attribution for the period 31st March 2021 to 30th June 2021 against the MSCI ACWI comparator benchmark. All data is in GBP and gross of fees.

Top Stock Contributors

Name	Attribution (bps)	Comment
Sonova	55	Covid had a big impact on the numbers of clients attending Sonova's hearing centres in the first half of last year but business has improved considerably since, with the company confident of a strong recovery for the new financial year as hearing aid sales catch up. This was underlined by the proposed dividend of CHF 3.20 to be paid soon which is 11% higher than the 2019 payment with 2020 having been omitted.
Lonza	35	Following a ramp up in Capital Expenditure, Lonza is well placed to help the pharma industry get more therapies to market and manufacture those drugs once they are approved. Vaccine maker Moderna has signed a 10 year deal with them. Increasing their focus on these opportunities, Lonza has sold its Specialty Ingredients business for around 8% of its market cap and demonstrated its confidence in the future with a dividend hike of 9% after two years of no change.
PayPal	25	One of the non-dividend payers in the portfolio, PayPal has already seen good growth accelerate further through the pandemic. Total payment volume through their network rose 46% over the prior year to the end of March with 14.5 million new active accounts bringing the total to nearly 400 million. This volume growth is having a very positive impact on margins and profits. We expect dividend to follow in due course.
Novo Nordisk	17	Despite price pressures on its core insulin sales in the USA and some diabetes drugs coming off patent, Novo Nordisk is managing the transition well. Non-USA operations have picked up the baton of growth as have pre-diabetes treatments which are very effective, while also treating other conditions such as obesity and liver problems. The board underscored this improving background with a dividend increase of 9% after 3 years of 3%.
Tomra Systems	16	Best known for their recycling reverse vending machines (put old plastic bottle in receive credit of 10 cents), Tomra are benefitting from the growing number of governments enacting legislation to make these mandatory over the coming years. New orders are good and profitability in this core division is improving too. The dividend rose 9% this year and has been increasing 8.5% per annum over the past 3 years.

Sources: Dundas, Morningstar, Bloomberg, MSCI. Stock attribution for the 3 month period to 30th June 2021 against the MSCI ACWI comparator benchmark. All data is in GBP and gross of fees.

Bottom Stock Contributors

Name	Attribution (bps)	Comment
Sundrug	(25)	Sundrug continues to be very well placed to prosper in Japan's ageing society due to their focus on selling every day staples and pharmaceutical products. That being said, the pandemic has driven lower levels of tourism and footfall through their stores and management are finding growing their retail footprint difficult. Sales should be supported by OTC pharmaceuticals as well as a gradual reopening.
Prudential	(20)	The Prudential continues its global restructure effort divesting M&G and their US operation, Jackson. A small capital raise in the last year should support their ongoing pivot to their substantial, rapidly growing Asian insurance business. After a very strong year, the share price has weakened on profit taking and long duration bond yields peaking for now.
bioMerieux	(18)	bioMerieux's clinical diagnostics intellectual property demonstrated real value during the pandemic as they were able to develop COVID-19 tests to be run on current equipment. Revenue growth soared 17% and net profit rose 48% as a result. While this is not sustainable, a recovery from the pandemic will lead to resumed growth in their non-COVID product portfolio. The shares rose 80% through 2020 and bioMerieux's 2021 dividend growth was +73% on 2019 and +240% on 2020.
Baxter International	(18)	Baxter's business has come under pressure through the Covid-19 pandemic due to a reduction in non-COVID related hospital admissions. Nonetheless, internal asset optimisation, innovation and structural growth in markets such as renal care position Baxter well for the future. Dividend growth announced in December 2020 was +12.7%.
Littelfuse	(17)	Sales at Littelfuse continued to rebound in the first quarter of 2021, a trend established since last summer. It reported an all-time high in quarterly sales driven by its leading position in circuit protection with strong demand across electronics, automotive and industrial end markets.

Sources: Dundas, Morningstar, Bloomberg, MSCI. Stock attribution for the 3 month period to 30th June 2021 against the MSCI ACWI comparator benchmark. All data is in GBP and gross of fees.

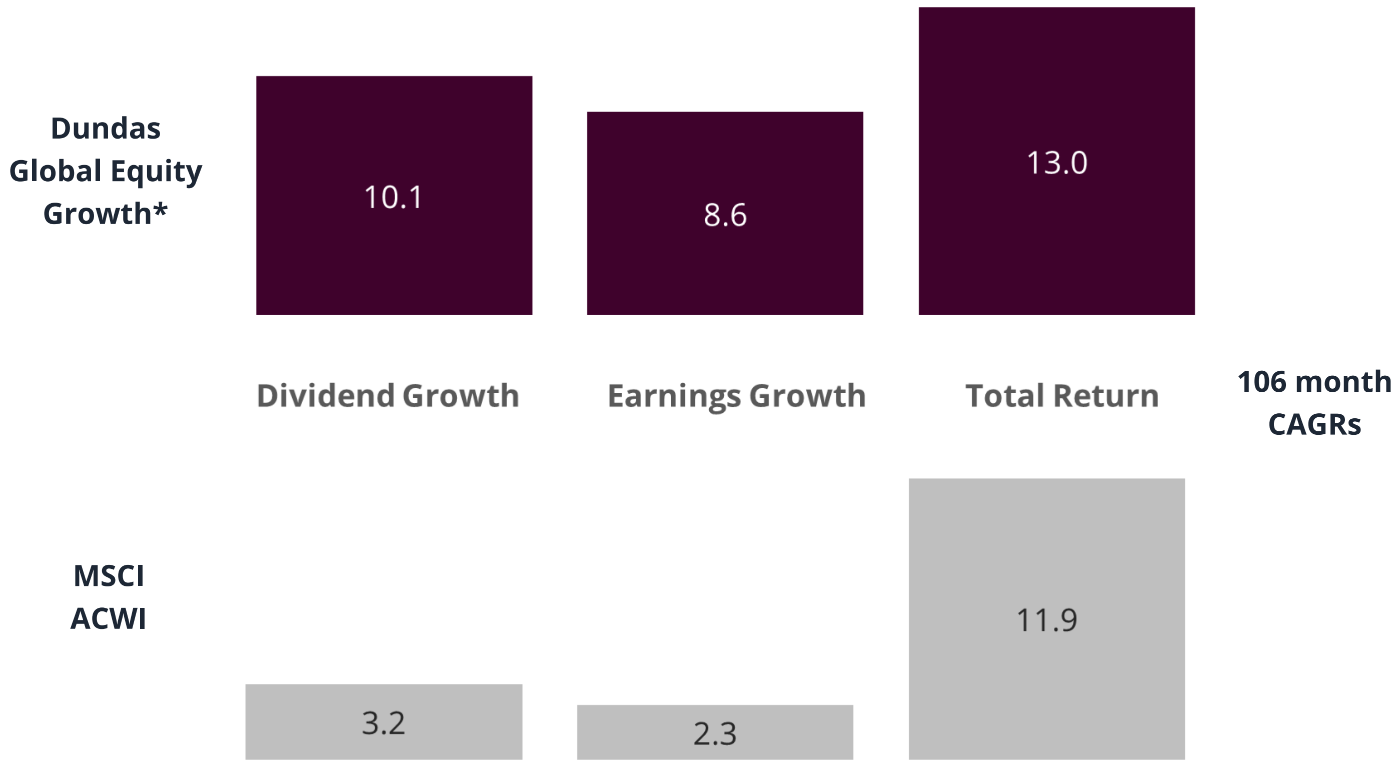
Earnings, Dividends and Returns

Since inception Dundas has been capturing data on both the fundamental performance of the investments made and the traditional total return numbers. This reflects our long term belief, backed by studies, that over periods of five years and more the vast majority of total return can be ascribed to dividend yield and dividend growth. Over shorter periods valuation change, transaction costs and other factors can add or subtract from those long term returns.

Dundas' calculations below of the Dundas Global Equity Growth strategy's underlying dividends and earnings growth, compared to its total return, all expressed in US Dollars and annualised since inception on 31st August 2012. Total returns are shown gross of fees.

All data is expressed as a compound annual growth rate (CAGR) in US Dollars to 30th June 2021. Dundas total return is shown gross of fees.

The MSCI ACWI index is the Strategy's composite benchmark and used for comparison. Past performance is not a reliable indicator of future results.



Sources: Dundas, Bloomberg, MSCI. Data as of 30th June 2021.
*The strategy is represented by the first funded account in the composite.

Portfolio Diversification

Allocation built bottom up, stock by stock.

Market Cap Exposure (USD)	# stocks	Fund (%)
> $500bn	5	8.6
$100 -$500bn	22	31.3
$50 - $100bn	13	17.4
$10 - $50bn	24	29.0
$2 - $10bn	7	7.9

Sector Exposure by Capital (%)	Fund	*Active weight**
Information Technology	29.6	*7.8*
Health Care	19.9	*8.4*
Financials	10.3	*(3.8)*
Consumer Staples	9.5	*2.7*
Consumer Discretionary	6.8	*(5.9)*
Industrials	6.4	*(3.5)*
Materials	6.2	*1.3*
Communication Services	4.7	*(4.7)*
Energy	0.0	*(3.4)*
Real Estate	0.0	*(2.6)*
Utilities	0.0	*(2.6)*

Top 10 by Capital	Weight	Sector	Country
Microsoft	2.5	I.T.	USA
PayPal	2.5	I.T.	USA
ASML	2.3	I.T.	Netherlands
Lonza	1.9	Health Care	Switzerland
Sonova	1.9	Health Care	Switzerland
Alphabet	1.8	Comms Services	USA
Accenture	1.7	I.T.	USA
Home Depot	1.7	Con. Disc.	USA
Analog Devices	1.87	I.T.	USA
LVMH	1.6	Con. Disc.	France
TOTAL	**19.7**		

Region Exposure by Capital (%)	Fund	*Active weight**
North America	48.2	*(12.0)*
Europe	28.0	*13.8*
Asia Pacific	11.9	*(6.1)*
UK	6.2	*2.6*
Other**	0.0	*(4.0)*
Cash	5.8	*5.8*

Sources: Bloomberg, MSCI, T.Bailey Fund Services Limited as of 30th June 2021.
*Active weight relative to the the MSCI ACWI index. **Africa/Middle East, Eastern Europe, South & Central America.

Dundas Global Equity Growth Composite

			Inception date: 01/09/2012			Reporting currency: USD		
Period	Gross of fees return (%)	Net of fees return (%)	MSCI ACWI return (%)	Composite 3yr St Dev (%)	MSCI ACWI 3yr St Dev (%)	Number of portfolios	Total composite assets	Total firm assets
1 January 2021 to 30 June 2021	12.8	12.5	12.3	15.7	18.0	2	1,192,097,826	1,686,792,310
2020	22.5	21.8	16.3	15.8	18.4	2	990,255,774	1,497,997,019
2019	32.6	31.9	26.6	11.0	11.4	2	776,132,022	1,282,999,120
2018	(5.5)	(6.0)	(9.4)	10.7	10.6	2	630,788,152	1,011,209,910
2017	29.2	28.5	24.0	11.4	10.5	2	447,819,604	889,983,897
2016	3.3	2.9	7.9	11.8	11.2	4	683,530,198	947,058,834
2015	(4.6)	(5.0)	(2.4)	11.5	10.9	4	728,485,207	767,187,692
2014	2.8	2.4	4.2	-	-	4	692,540,686	692,540,686
2013	23.9	23.2	22.8	-	-	2	227,515,887	227,515,887
1 September 2012 to 31 December 2012	4.9	4.6	6.1	-	-	1	20,863,750	20,863,750

1. Dundas Global Investors claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Dundas Global Investors has been independently verified for the period 1 September 2012 to 30 September 2020. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firms policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. Verification does not ensure the accuracy of any specific composite presentation.

2. For the purposes of GIPS® the Firm is defined as an independent investment management firm authorised and regulated in the United Kingdom by the Financial Conduct Authority. Dundas Global Investors manage equity portfolios on behalf of institutional investors, with total assets under management of US$2.0 billion as at 30 June 2021.

3. The Dundas Global Equity Growth Composite includes all fee-paying, fully discretionary accounts which invest in global equities with the goal of delivering long term capital and dividend growth. A typical portfolio will consist of approximately 60 – 100 companies with a market capitalisation greater than $2bn, which demonstrate sustainable cash generation that can fund both business expansion and dividend increases.

4. The benchmark for the composite is the MSCI All Country World Index. The MSCI ACWI captures large and mid-cap representation across 23 Developed Market and 24 Emerging Market countries. With around 3,000 constituents, the index covers approximately 85% of the global investable equity opportunity set.

5. Gross of fee performance is calculated after the deduction of trading expenses, administrative fees and non-reclaimable withholding taxes. Net of fee performance is calculated after the deduction of actual investment management fees.

6. All performance return calculations and market values have been denominated in USD.

7. The representative fee schedule for investment advisory services for portfolios is 0.40% p.a. for accounts up to $250 million, 0.30% for the next $250 million and 0.25% thereafter. The portfolios contained within the composite may include additional fees for fund administration and custody services, the maximum Ongoing Charges for funds within this strategy is 0.65%.

8. The Dundas Global Equity Growth Composite was created on the 1st September 2015.

9. A list of all composite and pooled fund investment strategies offered by the firm, with a description of each strategy, is available upon request. The type of portfolios in which each strategy is available (segregated account, limited distribution pooled fund, or broad distribution pooled fund) is indicated in the description of each strategy.

10. The firm's policies for valuing portfolios, calculating performance and preparing compliance presentations are available upon request.

11. Dundas manages the effect of a significant cash flow by removing the portfolio from the relevant composite for the month of the cash flow. A significant cash flow is defined as the greater of 100% of the market value of the fund immediately prior to the cash flow or $100m.

12. Gross-of-fees returns are used to calculate the three-year annualised standard deviation of the composite, which measures the variability of the composite and the benchmark returns over the preceding 36-month period. The standard deviation is not presented when monthly returns were not available throughout the full 36-month period.

Global Investment Performance Standards

Disclaimer

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The Authorised Corporate Director (ACD) of the Heriot Global Fund is T Bailey Fund Services Limited, which is authorised and regulated by the Financial Conduct Authority.

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Performance shown is historical and is not indicative of future returns. Investment returns and principal value will vary, and shares may be worth more or less at redemption than at original purchase. Performance shown is as of date indicated, and current performance may be lower or higher than the performance data quoted. To obtain performance as of the most recent month end, please contact Dundas Partners LLP or T Bailey Fund Services Limited. The MSCI ACWI and IA Global Sector are comparator benchmarks. Please refer to the Fund prospectus for full description.

The MSCI All Country World Index ("ACWI") is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI® information contained herein: (1) is provided “as is,” (2) is proprietary to MSCI and/or its content providers, (3) may not be used to create any financial instruments or products or any indexes and (4) may not be copied or distributed without MSCI’s express written consent. MSCI disclaims all warranties with respect to the information. Neither MSCI nor its content providers are responsible for any damages or losses arising from any use of this information.

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