Monday, 06 July 2020

Our funds rebounded strongly in Q2, gaining 27.0% (Global), 22.9% (Asia) and 22.6% (Latam) respectively. The Asia Fund is now up 3.9% year-to-date and Global is back level at 0.8%. Latam is still down 22.0% for the year – held back principally by the weakness of the Brazilian Real which has depreciated 26.4% as of the end of June. Our new impact strategy, the Arisaig Next Generation Fund, went live in Q2. The pooled vehicle is still working its way through the Irish Central Bank's approval process but should be out of the blocks by early Q3.

The Great Disconnect I: Stocks and Economic Activity

We share some of the widespread bafflement at the speed of the market rebound following the March lows amid decidedly mixed news globally on the spread of the virus. It is tempting to conclude that the market simply readjusted its time horizon to write off the significance of 2020 earnings (but that presumably this will revert to mean once the economy has normalised). The scale and speed of stimulus has also clearly helped. Should emerging market Central Banks truly discover an appetite for quantitative easing, this could have quite profound impacts on short-term valuations, though for now it's likely that the tone set by the Fed is more significant than local monetary policy in most EM geographies. Most curiously, it appears that the American 'Robinhood bros' (retail investors picking up their trading activity while bored in lockdown) have spawned international counterparts, at the very least in larger stock markets such as China, India and Brazil.

Perhaps most significant, in our view, is the argument that much of the recent market uplift has emanated from the ease of identifying and isolating those sectors hit hardest by the crisis. The travel industry, for example, or commercial property. With very few exceptions, and for reasons wholly unrelated to coronavirus, our portfolios tend to be comprised of companies which have been relatively unaffected by social distancing. Many of our stalwarts, such as Britannia and Nestlé India, have proved short-term beneficiaries as informal competitors struggle and an increasing premium is placed on packaged, trustworthy food brands. Our digital consumer names such as MercadoLibre, SEA and Jubilant Foodworks may well emerge as beneficiaries in a more structural sense, thanks to the accelerated offline to online shift and related expansion in the installed base of users (i.e. mobile app downloads occupying scarce 'screen real estate'). Fortuitously, we were never much interested in turnaround stories, these often being comprised of businesses that were financially frail going into the crisis and hence were trading at superficially enticing valuation multiples.

Our own activity during the early part of the year was in line with our pre-existing objectives of improving the resilience and growth of our portfolios in a structural sense. This included adaptation to some of the changes to long-term consumer behaviour which are likely to emerge from this crisis. Thankfully, as of the March lows, this left us with an even more distilled exposure to companies which meet one of the following two criteria: branded, packaged essentials which are as popular in lockdown as in happier times; or digital consumer platforms experiencing accelerating uptake as offline alternatives suffer.

It is still early days in terms of assessing the impact of the most acute period of the crisis on the operations for our companies. We have had early warning as the second half of March, the moment when much of the world went into lockdown, fed into first quarter results. Business activity in April seems to have carried on from where March left off. Management are telling us they expect Q3 to be better based on the gradual improvement observed from May to June. Indeed, while the infection rates continue to rise worldwide, it appears that most governments have made the judgement call that complete lockdown is too expensive, and that indeed none are capable of effectively implementing the level of control and contact tracing demonstrated by South Korea and Taiwan. For what it's worth, taking the Global Fund as a proxy for our EM universe, we expect our portfolio to achieve weighted average sales growth of 11% in 2020. Some of our digital names will do much better than this; while a few companies (e.g. in fast food) will be in negative territory for the full year.

The Great Disconnect II: China and the US

Alongside the occasional COVID-related reality check, the other main source of interruption to the buoyant market movements in Q2 has been the resurgence of tensions between China and the US. Most pressingly, the threat of US regulatory action has emerged against New York-listed Chinese stocks. We don't believe there is a significant threat to the VIE structure of many of these listings (whereby a Cayman entity enters into contractual relationships with the Chinese business, and the Cayman vehicle is the one publicly listed in order to evade Chinese foreign ownership restrictions). VIEs have helped numerous Chinese companies achieve international leadership by providing them access to foreign capital. Disrupting this arrangement would clearly run contrary to Chinese economic interests.

There does exist the possibility that such companies are banned from listing on the US markets and/or US institutional money is prohibited from investing in them. Fraud cases such as Luckin' Coffee and GSX have helped to add fuel to the geopolitical fires. Frankly, it is hard to disagree with those making the argument that the average US investor is hopelessly unprotected by local regulation against the fact that goings-on in China often seem to differ substantially from what is presented in an SEC filing.

In case of a sudden clampdown, we take some comfort from the fact that the vast majority of our Chinese investments are either A-shares or Hong Kong listings. We had one US-listed Chinese holding, JD.com, which has recently undergone a dual listing in Hong Kong. We have now managed to convert our US ADRs into Hong Kong shares. This is not to say that a Luckin' Coffee incident could never happen to a local listing (even Germany is not immune to multi-billion-dollar blowouts). But shifting to Hong Kong removes the immediate 'technical' threat to our investments. Any regulatory action may also be accompanied by a demand that US investors divest from their HK-listed holdings too, but evidence so far suggests that Chinese domestic demand for shares is more than sufficient to fill such a void, particularly for those shares included on the HK-Shanghai stock connect.

As China uses the cover of COVID to tighten its grip on Hong Kong, it may appear that by converting our ADR we are simply walking out of one geopolitical problem into another. Again, we see little rationale for China to undermine the international financial clout of the city. We trust that the management of Alibaba, JD.com, NetEase, Yum China and all others who are rushing to list in this market, are doing so with tacit approval of the authorities. We are lucky that all the companies we are interested in are eligible for Hong Kong listings (revenues above ~USD1.3bn) – smaller cap ADRs are more likely to be left in the limbo of being banned from the US with no Hong Kong escape route.

More meaningful to us than the short-term administrative burden of ADR conversion, are the long-term implications of apparent decoupling between the world's two largest economies. China's failure to share prompt and accurate data on the spread of coronavirus has come at just the wrong time amid a Cold War-style, global 'pick sides' moment. This potential forced disconnect from the world's largest pockets of demand cannot be good news, but nor does it necessarily dampen our enthusiasm for our very select group of Chinese exposures. The consolidation potential of Foshan Haitian; the rapid online migration of FMCG categories; the continued growth of demand for beloved plant-based beverage brands: these are all long-term trends which will most probably continue regardless of the inter-relationships between the American and Chinese economies.

Portfolio Activity

During the first half of the year, our Asia and Global Funds both added Avenue Supermarts (DMart), Meituan-Dianping, Alibaba (via its HK listing) and Yihai. The largest of these initial allocations was Avenue Supermarts which we will discuss here; please ask if you'd like to see our longer report on this or any of the other names.

The long list of names (by our standards) might make us look busier than usual, but all decisions reflected the culmination of characteristically extensive due diligence processes rather than quickfire reactions to the circumstances of COVID. This degree of activity is unlikely to be replicated in the second half of the year and has mainly taken place in the lower reaches of our portfolios. The only 'new' name among our top 10 positions in either of these funds at the time of writing is SEA, which we first added in February and has climbed up the ranks by virtue of its performance.

Avenue Supermarts (DMart)

Through our studies of the world's most successful grocery retail chains, one common factor has often emerged. Businesses which design their stores and supply chain in a way which maximises SG&A efficiency, and then consistently reinvest these savings in pricing, are highly likely to capture disproportionate market share. Once operational efficiency is coupled with scale advantages, dominant grocery retailers can prove extremely difficult to unseat, particularly when these scale economies are 'shared' with customers in a way which reinforces consistent same store sales growth. This 'virtuous circle' has powered the models of Walmart, Costco, the German discounters Aldi and Lidl, and Turkey's BIM Birlesik, to name but a few. The addressable market of grocery retailers is unparalleled in size: it often enables those businesses who have perfected their self-funded growth to reinvest at rising rates of return (particularly in emerging markets experiencing healthy consumption growth simultaneously), as scale economies grow and distribution capacity is absorbed by new outlets.

As a former investor and stock market trader, we believe it is highly likely Radhakishan Damani had these guiding principles in mind when he founded DMart in 2000. He spent the next decade painstakingly perfecting the operating model of the DMart concept and improving its supply chain capabilities – it took eight years to reach 10 stores in operation, before a more rapid ramp-up begun, reaching 100 stores by 2016 and roughly 200 today. Damani still owns around 75% of the business, though he has ceded day-to-day management of the company to professionals recruited from the likes of Hindustan Unilever. We find that maintaining an almost maniacal focus on costs, consistency, patience and simplicity is crucial to successful implementation of this sort of model – the culture of DMart seems well established to support this, with a highly capable, unflashy, low-turnover management team.

Like the best 'scale economies shared' retail concepts, DMart has an almost shockingly low gross margin (14%, vs. typical grocery retailers 20%+), which provides an indication of its ability to achieve price leadership. Within the food category this number is even lower (12%) with only slower-moving general merchandise categories breaching the 20% mark. DMart still, however, achieves healthy overall EBITDA margins (9%). Key here is its approach to real estate – given the relatively high cost of rentals in India, DMart has made the decision to buy most of its properties outright (which also partly explains its slow initial expansion rate) to remove unpredictability as well as cost from its P&L.

The other key ingredient sustaining DMart's uniquely favourable metrics is sales productivity. DMart typically achieves at least double the revenues per square foot of its Indian peers. This is visible on store visits – during pandemic-free periods the company's stores are habitually packed. While to an outsider this does raise questions on shopping experience, price remains far more important to the Indian middle class, who are only just beginning to be tempted away from convenient local kirana stores towards newly emerging modern retail formats. And DMart has the potential to take prices even lower – not just through gradual efficiency gains from its growing scale, but also through the eventual introduction of private label products.

It would be difficult to argue that the quality of DMart's business model is underappreciated by the market. The company routinely trades at much higher valuation multiples than its listed Indian peers. Despite its own relative indifference to raising its corporate profile, it enjoys a devoted local following. A 5% share placement earlier in the year, despite bringing almost 10 times the average daily traded volumes into the market, encountered ample excess demand (to our frustration at the time when building the position) and caused barely a ripple in terms of price discount.

We believe the quality of DMart's operations and culture, however, does provide valuable additional certainty that this company will be the primary beneficiary of the vast opportunity on offer for modern retail expansion in India. Many of our readers will be familiar with this sector but the numbers bear repeating. Organised retail constitutes 9% of the overall retail industry in India. In the grocery category this number is just 3%. Price, assortment and shopping experience gradually nudge more and more consumers towards modern retail over time; in India this process received a helpful shove in the form of demonetisation in 2016, which favoured stores able to accept cashless payments.

Given its vast growth potential and its accelerating store growth programme, we believe DMart is capable of achieving over 20% annualised top line growth in the post-pandemic decade. We assume no improvement in operating margins, partly as a result of 'voluntary' sacrifice of gross margin, partly to allow for the potential need to begin leasing stores and/or accommodate rising wages. Given the likely strength of top line growth, we still expect the business to comfortably achieve at least high teens earnings growth over the coming 10 years, potentially over 20%. This is plenty to burn off a seemingly dizzying starting multiple of 74x FY 2021/22 earnings. We estimate that the stock would have to de-rate more than half by 2030 in order to push our anticipated annualised return down into single digits.

What of e-commerce, which so materially disrupted Walmart (until its recent revival) and China's modern grocery retail pioneers? There are several factors here which work in DMart's favour. First are the stubborn natural impediments to this channel shift in India – particularly its poor delivery infrastructure, since rising smartphone penetration ensures internet access is no longer a significant barrier. Second is DMart's chosen category – even in the world's most advanced e-commerce markets, grocery seems to be the hardest nut to crack. Its relative bulk and low gross margins allow very little room to fund the cost of delivery (we sometimes think here of the concept of 'price per kilo' – the ideal e-commerce product is high in value, low in weight). Third, India's regulations have made life very complicated for deep-pocketed multinational competitors by placing a 50% limit on foreign ownership of retailers. However much capital Walmart (through Flipkart) and Amazon throw at the Indian e-commerce space, they will always be somewhat hamstrung by the need to join forces with local partners. Walmart in particular struggles with foreign 'culture clash' at the best of times, let alone in a nation about as different to suburban Arkansas as it is possible to imagine.

DMart has made its own very cautious incursions into the e-commerce opportunity (see the COVID-19 response section). We are glad the company is at least experimenting with the online channel, but take the reluctance of such a prudent team of capital allocators to jump headfirst into online grocery retail as further evidence that grocery e-commerce in India will be extremely difficult to make profitable for some time to come. The core DMart bricks and mortar format, in contrast, we believe is hitting the 'inflection point' from which years of rapidly compounding earnings growth are now in store.

Sells: Vinamilk and Grupo Lala

In both the Asia and Global Funds we took the decision to dispose of the Vietnamese beverage player Vinamilk; in our Global and Latam portfolios we have also exited Grupo Lala.

For decades, Vinamilk had been riding the wave of dairy penetration in Vietnam, helped by government campaigns to increase consumption in schools. In the past couple of years, however, this growth has slowed considerably (to mid-single digits). Observing the dairy consumption trends in China in recent years (a market with close cultural ties), led us to reappraise our long-term growth expectations for the category in Vietnam, suggesting that saturation point is nearer than we originally anticipated.

Though the company has done a good job mitigating the threat of international competitors like Danone, Abbott and Coca-Cola, its innovations have proved insufficient to offset the pronounced slowdown in the core drinking milk and infant formula categories. This has been a solid long-term investment for us – we first bought in at an in-person auction in 2002 before selling down in 2007. After buying it back, it returned roughly 20% annualised (in USD terms) over 11 years for the Asia Fund – but we now see more attractive opportunities elsewhere.

When we first invested in Grupo Lala, we anticipated benefits from the professionalisation of a predominantly family-run business and expected increasing health consciousness (amid an environment of rising taxes on sugary soft drinks) to be reflected in increased dairy consumption. To a certain extent this materialised, though largely in the shape of premium and alternative milks, categories in which Lala was underrepresented. At the same time the company made unwelcome and distracting international incursions (particularly into the USA), raising concerns on capital allocation priorities. We also hold concerns over the long-term viability of the company's main supplier base in a water-stressed region of Mexico, in addition to the broader sustainability concerns surrounding the dairy category, discussed below.

Dairy: The Coal of the Consumer Sector?

At the beginning of this year we conducted additional research into the climate change impacts of the dairy industry (please ask if you'd like to see the report). Given the vast amounts of agricultural inputs which are required to sustain dairy cows (they are highly inefficient 'converters' of crops into calories); their release of methane, an alarmingly potent greenhouse gas; and the high water intensity of this sector, dairy is far and away the most environmentally damaging of the categories we invest in. While it may not be in the same league as the most directly harmful sectors such as coal power, agriculture and land use still represent over 20% of global emissions (more than transport and industry combined); so the most material contributors within this 20% are very much relevant to the global climate change picture. It is estimated that a cut of 50% in global red meat and dairy consumption would be necessary in order to limit warming to 1.5°C. Much like coal, both red meat and dairy have ready, arguably already superior, low-footprint alternatives to choose from, such as plant-based foods.

One can debate the form in which this sort of consumption cutback might take place (if indeed it ever does) – be it consumer backlash, targeted government regulation, or the implementation of an across-the-board carbon price. This matters less than simply the appreciation of enhanced risk to major emissions contributors that some of their considerable external costs may one day be internalised. In order to provide some sort of quantifiable indicator, we applied the mid-point of the Intergovernmental Panel on Climate Change's guidance range for carbon pricing necessary for meeting the goals of the Paris agreement (i.e. keeping temperatures within 2°C of pre-industrial levels), to the financials of a universe of listed EM dairy companies. This scenario results in an average of 50% loss in operating profits.

Carbon 'Earnings at Risk' of Listed EM Dairy Companies

Company Name	Loss in EBIT (%)	Margin Compression (bps)	Current PE (12m Forward)	Climate Transition PE (12m Forward)
Almarai Company	EBIT -ve	-14,558	21.8	-
Bright Dairy & Food Co.	EBIT -ve	-6,986	24.5	-
China Mengniu	EBIT -ve	-6,763	23.4	-
Fan Milk Limited	-71%	-5,402	14.4	50.7
Grupo Lala, S.A.B. de C.V.	-56%	-3,819	12.6	28.4
Inner Mongolia Yili	-83%	-7,610	22.3	133.6
Nestle Foods Nigeria Plc	-22%	-5,478	11.4	14.5
Nestle India Ltd	-28%	-5,686	58.5	80.8
Nestle Malaysia Bhd	-44%	-7,259	44.7	79.8
Nestle Pakistan Ltd	-35%	-4,463	40.9	62.5
Parag Milk Foods Limited	-70%	-5,402	3.8	12.9
Saudia Dairy & Foodstuff Company	-42%	-5,110	13.9	23.8
Vinamilk	-15%	-3,198	15.6	18.3
Yashili	EBIT -ve	-5,184	22.1	-
Average (of profitable companies)	**-47%**	**-6,208**	**23.6**	**50.5**

Source: Trucost, Factset, Arisaig Partners

Again, this is by no means a confident prediction of specific monetary impacts, but does serve as warning of the incompatibility of unconstrained growth from the most carbon-intensive sectors and the maintenance of a habitable planet. Coupled with the stock-specific risks mentioned for Vinamilk and Grupo Lala in the previous section, to our minds this analysis helped push the risk-reward trade-off in favour of selling these positions. The dairy holdings we are keeping, essentially the various Nestlé subsidiaries, are those which already have much more diversified product mixes and for whom we expect most future product launches to come from outside the dairy category.

Stakeholder Capitalism and COVID-19

Globally, the stakeholder model of capitalism is gaining traction. This key tenet of this movement is that organisations that proactively and systematically incorporate stakeholders[1] into decision-making will be more resilient and in turn should deliver shareholders superior returns on investment. This all makes intuitive sense – treat your employees, customers, suppliers and the environment well and everyone will be pulling in the same direction towards what should be mutual rewards. Many corporate governance codes – from the EU to India – have adopted this view and now require Boards of Directors to incorporate stakeholders into decisions.

The pandemic is testing this model in a way that few envisaged. Economic pressures are forcing management teams to make very difficult trade-offs between stakeholders, all without the benefit of a proven playbook. Initially this is focused on social stakeholders (employees, customers, suppliers and shareholders), but the attention may well turn back to the environment as infections die down.

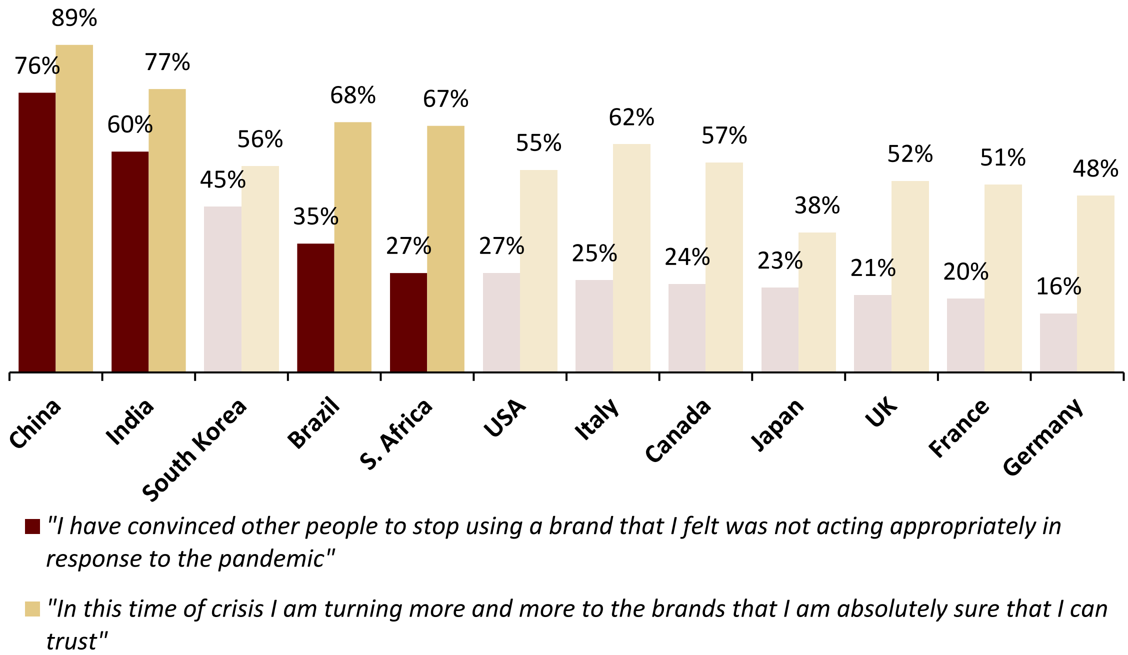
Our view is that the companies that adopt a holistic and genuinely multi-stakeholder approach through this turbulence will outperform on the long-term timescales we are hoping to be investors. There is evidence that the markets are coming around to this view during the crisis. A study by Just Capital – which rates all large US corporates on their 'justness' based on large population surveys – found that the companies that had the best employee and customer policies and practices significantly outperformed in the first quarter of 2020[2].

Detailed analysis on public expectations of corporates' COVID response is not yet readily available in emerging markets. However, we suspect that the situation is not all that different. A large-scale consumer survey by marketing consultancy Edelman during the throes of the global lockdown found that emerging market consumers were in fact more likely to react to a company's COVID activities than their developed market peers. They were more willing to convince others to stop using a brand that was not acting appropriately in response to the pandemic and were turning increasingly to brands that they could 'absolutely trust'.

[1] The original definition of stakeholders - as stated by the Stanford Research Institute in 1963 – is "groups without whom the organisation would cease to exist". These employees, customers and suppliers are all equally critical to the going concern of any business.

[2] https://justcapital.com/news/just-chart-of-the-week-companies-prioritizing-workers-and-customers-in-coronavirus-crisis-are-outperforming-peers/

Consumer Responses to Brands During COVID



Source: Edelman Brand Trust Barometer: Brands and Coronavirus

Although it is too early to tell whether this stated shift in sentiment will result in permanent behavioural change, for the most part we have been impressed by our companies' responses to this shock. Below we provide some examples from across our portfolios. These are grouped into three buckets to differentiate them in terms of the financial impact of the pandemic on their operations:

1) *The Consolidators:*

These are companies that are set to benefit (i.e. increase in intrinsic value) as a consequence of the pandemic. These businesses will face a lot of scrutiny on their 'licence to scale' during and after the crisis, and hence need to take a proactive stance to look after stakeholders. Companies in this group are typically found within the digital and healthcare spaces.

Latin America's leading ecommerce platform (and top five holding for both the Global and Latin America Funds), **MercadoLibre,** should stand to benefit from the fast-tracked transition to online retail. Being aware of this, the company launched a series of initiatives to carry its stakeholders along. On the consumer side, it launched a new public health awareness campaign urging people to stay at home and providing health advice under the 'elbow to elbow' campaign (see logo change from left to right). In order to ensure discovery and delivery of necessity products, a new interface was developed, and commissions were removed on 1,000 essential SKUs. New merchants were also given lower listing fees to facilitate the transition to online retail. On the payments side of the business, a 30-day grace period on loans was granted for 2 million consumers and penalties eliminated for 150k merchants. In addition, all non-logistics employees were moved to home-working practices in mid-March (well before government guidance).

Russia's leading search engine and consumer services ecosystem, **Yandex**, is another company that stands to benefit from the digitalisation wave being expedited by the pandemic. The company launched the "Helping Hand" project to support medical and social services by organising transport for doctors and deliveries of medicine, testing kits and other essential goods. In addition, c. USD25m was committed to a fund to support taxi drivers and couriers, as well as advertising credits for SMEs. Finally, alongside the Centre for Pedagogical Excellence in Moscow, it created a free online education platform, Yandex.School, to help students, teachers, and parents follow the school curriculum online at home. All of these initiatives will have short term financial costs, though have the potential to unlock significant long-term value (for example, it has given Yandex the opportunity to elbow its way into the USD26bn education sector in Russia).

2) *The Entrenchers*

These are companies weathering the storm by flexing their competitive strengths. Although short-term financial strain is expected, the long-term outlook remains solid. In order to secure the social license and the value chain capacity to capitalise on this, these companies understand the importance of supporting their stakeholders through the short-term turbulence. This is where the majority of our holdings selling everyday essentials sit.

Although only coming at the end of the company's fourth quarter, the nationwide lockdown took a heavy toll on the financials of India's leading paints company, **Asian Paints**. The core decorative paints business saw a double-digit growth rate through January-February drop to a low-single digit decline for the quarter. This translated into a drop in operating profits, with the outlook for the April-June quarter looking even more challenging as consumers were kept away from paint shops and households baulked at allowing handymen into their homes.

Despite this pressure, the company has been remarkably proactive in solidifying its position as one of the country's most admired brands. It has maintained its annual salary increases for employees to boost morale, whilst supporting its channel partners with a USD6m cash injection and hospitalisation insurance. It also rapidly responded to the national need for more sterilisation materials with the launch of its Viroprotek range of hand sanitizers and surface disinfectants, using its existing production capabilities (developed for anti-bacterial and anti-asthma paint). These early, bold moves helped the company win strong media support during the crisis.

"We have to set an example of true leadership and an organisation that takes care of all its stakeholders. […] I see this as a big opportunity to step in and interact with every single employee and assuage their concerns in an uncertain marketplace. We are not in the hire and fire business and as a mature brand have reassured employees that we all are all together in this."

- Amit Syngle, CEO Asian Paints

Asian Paints 'Viroprotek' Sanitizers and Disinfectants

Others within this group include **Godrej Consumer**, which held off pre-planned price increases on its soap products (where raw material prices had shot up) in order to protect consumers and rolled out medical insurance to over 4,000 direct and indirect employees.

3) The Survivors

This group of companies have been hit hard by the pandemic and have been forced to mothball large parts of their business. The residual financial capacity here is strained leading to complicated trade-offs. The emphasis for this group is on protecting stakeholders as best they can, such that they can survive this ordeal and subsequently call on their stakeholders to help drive their recovery. Examples here include travel companies and those associated with bricks-and-mortar retail.

For **Avenue Supermarts**, a nationwide lockdown of consumers (and forced shutdown of 50% of its stores) was unsurprisingly not within the company's business plans. Nevertheless, it provided paid leave to employees suffering even mild symptoms and paid an additional hardship allowance to those who turned up to work. To improve access to consumers, it rolled out an online channel via its DMart Ready app, launched initiatives such as group buying and 'DMart on wheels' to bring stores to large housing complexes (potentially valuable initiatives for accelerating market share growth in the years to come).

Elsewhere, **Despegar**, the leading Latin American online travel agency has seen its revenues drop to almost zero. Nevertheless, it has prioritised the welfare of its employees and has put them to work in fighting for the best cancellation terms for its customers (often persuading suppliers to refund non-refundable tickets).

Down the road, **Stone**, a leading SME payment provider in Brazil, was forced to lay off 20% of its workforce due to the sudden evaporation of revenues (most of its customers were offline merchants). Nevertheless, it offered all those made redundant continued healthcare assistance, ownership of their corporate laptops and mobiles, access to LinkedIn Premium, and a cash payoff. This was an important move for a firm which prides itself on the strength of its corporate culture.

Within this last group of companies, we also got a glimpse of the repercussions of being perceived to have wronged your stakeholders. **Haidilao**, the leading hotpot restaurant chain in China, experienced a widespread consumer backlash for raising its prices after re-opening its stores. It subsequently backpedalled and offered discount vouchers to consumers to win back trust.

These are just some of the (mostly) positive examples we have witnessed in recent months that have reassured us as long-term owners of these businesses. Looking ahead, it seems increasingly clear that there will be significant consolidation opportunities created on the back of this crisis as weaker players succumb to competitive pressures. Indeed, the conversations we have had with management teams across the emerging world tend to support this view. However, we believe only those companies that have supported their stakeholders through the crisis will have both the social licence and the value chain capacity to capitalise on the opportunities that may emerge in its wake.

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