

Stock in Focus

SHERWIN WILLIAMS (SHW)

THE LOOMIS SAYLES GLOBAL EQUITY FUND

The Loomis Sayles Global Equity Fund uses a disciplined, bottom-up, unconstrained approach to investing. Based on deep, fundamental research, the Fund features a concentrated portfolio of high-quality companies with the ability to grow their intrinsic value. The Loomis Sayles Global Equity Fund's proven investment strategy features a long-term track record going back to 2004*.

** This refers to the Loomis Sayles Global Equity Composite upon which the strategy of the Loomis Sayles Global Equity Fund is based. The Loomis Sayles Global Equity Fund was launched on 1 November 2018.*

wattyl®
valspar



About Loomis Sayles

Boston based Loomis, Sayles & Company has successfully been managing money for investors since 1926. The firm currently manages over \$250 billion USD on behalf of clients worldwide. With extensive resources across the US, Europe and Asia, Loomis Sayles is well positioned to manage global equities and deliver sound long term performance.

Stock in Focus

Sherwin Williams is the largest coatings company in the world; the company operates three primary segments – The Americas (56% of revenues), Consumer Brands (15%), and Performance Coatings (29%).

In addition to its core Sherwin-Williams paint brand, the company owns the Valspar, Krylon, Dutch Boy, Minwax, Thompsons WaterSeal, Cabot, Pratt & Lambert, HGTV by SHW, Purdy, Wattyl, and Huarun brands.

Investment Thesis

Sherwin Williams is a vertically integrated global leader in the manufacture, development, distribution and sale of paint and coatings to both industrial and do-it-yourself customers.

- The paint industry is highly fragmented and Sherwin William's vertically integrated business model allows it to control the process from start to finish - from manufacturing of the paint all the way through to distribution of the end product.
- Large stable of brands includes the Wattyl brand of deck oil (sold in Bunnings and home improvement stores in Australia) and outdoor coatings (e.g. the iconic green paint job of John Deere machinery).
- The company is a 'dividend aristocrat', with a history of raising its dividend consistently over the past 25 years.
- The company has been very disciplined with capital allocation, returning excess free cash flow through share repurchase plans.
- Continued investment in future growth, e.g. the recent acquisition of a key competitor, Valspar and successfully integrating the business to realise synergies and grow market share.

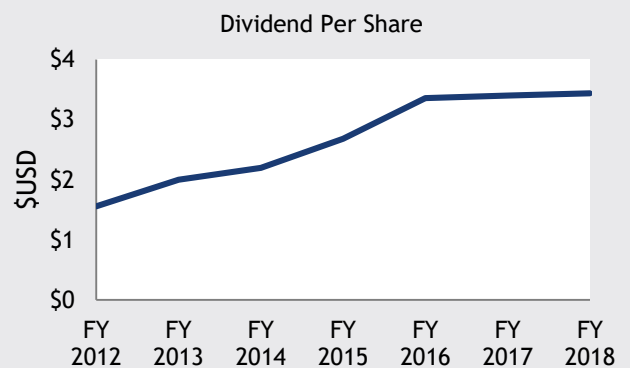
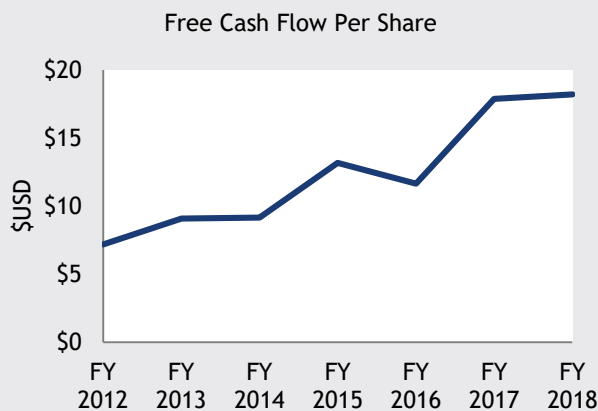
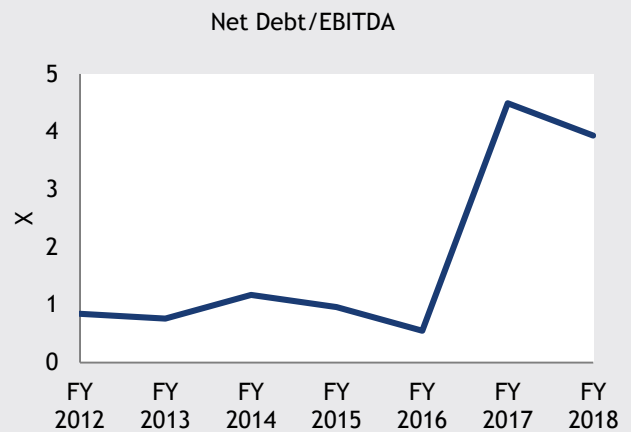
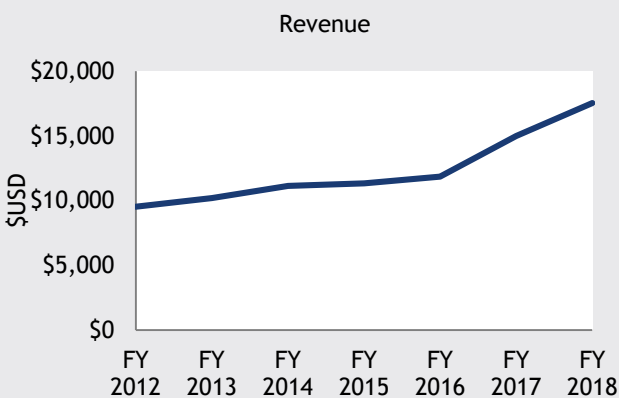
Alpha drivers:

Quality assessment: Analysis of the organisation demonstrated strong characteristics across six of the seven *quality* alpha drivers. Namely, the business model and the attractive market structure (i.e. being vertically integrated within a highly fragmented industry) and very disciplined capital allocation.

Intrinsic Value Growth: The case for the *intrinsic value growth* of the organisation was built on the company’s ability to grow free cash flow over time. For Sherwin Williams this comes via solid revenue growth, margin expansion and the low capital intensity of the business. Together, these aspects provide the ‘duration effect’, the company’s competitive advantage period or adding value over time – an attribute that the Loomis Sayles Global Equity Fund seeks to capture.

Valuation: A complete, robust understanding of valuation requires analysis of three potential scenarios. Using a *Discounted Cash Flow (DCF)* as the primary valuation tool we analyse the best, base and downside scenarios for each security. This process has enabled us to purchase the stock of Sherwin Williams at attractive valuations through time, taking advantage of any mispricing of the stock in the market.

Key Growth & Value Measures:



The investment in Sherwin Williams has been a long-term holding of the Loomis Sayles Global Equity Composite with the position initiated in October 2015. The Fund’s holding in Sherwin reflects the rigorous investment process undertaken by the Loomis Sayles Global Equity team.

Disclaimer

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