



AMERICAN SELECTIVE PORTFOLIO

FIRST HALF REVIEW 2020



Average annualised 3-year dividend growth of 6.41% with an average yield of 2.76%

The American Selective Portfolio declined by 11.20% during the first six months of 2020, whilst US equities fell by 3.09%. Since launch in 2015, the portfolio has delivered an annualised return of 8.65%, which is marginally behind the 9.94% return for US equities. However, this is without the tech influence which has continued to dominate the top decile of market caps.

The impact of Covid-19 has been felt the world over, and the lessons learnt from these recent events will result in changes across all elements of society. These changes will come in many forms and occur over varying degrees of time, but it's ultimately too early to draw conclusions other than to look at the evidence that has already accumulated. Interest rates have been cut and it is estimated that \$12,000bn of bonds worldwide offer a negative return if held to maturity. The combined balance sheets of the Federal Reserve, European Central Bank and Bank of Japan have swelled by a third over three months and are up eightfold since the period prior to the global financial crisis. Quantitative easing has become a lifeline that keeps capitalism afloat, as the Federal Reserve alone embarks on a program to buy \$750bn of investment grade debt. Whilst this is effective at keeping borrowing costs low, which is vital for struggling business, it also causes asset price inflation and allows otherwise defunct companies to survive, thus adding to the inefficiencies within the global economy. Enhanced unemployment benefits and government funded furloughing schemes may provide a temporary respite, but unless people can find jobs the social consequences could be grave, especially if politics gyrate to extremes. Meanwhile, the pressures to address climate change remain and the threat of a trade war with China, and everything that goes along with it, continues to escalate. This is increasingly becoming a stock pickers market, but until some of the variables diminish it's too early to consider significant change. We have a proven investment strategy of seeking niche dividend growers, but have temporarily put on hold our policy of selling those that fall short of this requirement given the exceptional conditions. This is not because we have lost faith in our approach, but simply because it was never designed to be pandemic proof. As the shock waves recede, the focus will move on to the economic aftershocks, which should then present us with new opportunities as behaviours start to change.

We entered this crisis with financially strong companies and to date only Exxon Mobil has failed to increase its dividend through this crisis, after maintaining its annual distribution for the first time in decades. Under normal circumstances we would consider selling but despite the shares appreciating by 20.10% over the quarter they remain depressed by historic standards. We are also mindful that given the reduced expenditure on upstream operations, it may only take a modest global recovery to have a disproportionate impact on the price of oil, regardless of any tactical moves by OPEC. The rally in oil stocks sums up the second quarter with those stocks that experienced the most significant pain in March rallying the most. Emerson Electric and Stanley Black & Decker have appreciated by 31.40% and 40.15% in Q2, whilst the likes of Wal-Mart are just 5.89% higher.

We continue to monitor events closely and, as mentioned in the last report, we will act when deemed necessary. It is now time to broaden the portfolio as the coronavirus does appear to have acted as a catalyst for longer term change. This brings us back to the tech sector, which has continued to have a disproportionate influence on stock market performance. Whilst we've generally believed that their position at the top could continue indefinitely, a view reinforced by their often hefty valuations, it's clear that their dominance has been further entrenched as vast swath of the world have been forced to rely on these technologies more than ever before. This means that certain industry trends, such as the adoption of cloud based infrastructure or the increasing dependence on the availability of contactless payments, have been accelerated by the global pandemic. We will therefore be adding both Visa and Microsoft, two leading beneficiaries of these trends, but will avoid selling anything until there is an element of clarity about the future. Diversification is often the best form of defence. For those of you who wish to provide additional funds to have a more sizable position in the two new holdings, then payment details will be provided on request.

Total Return since inception

31st December 2014 to 30th June 2020



Portfolio Performance

(Total Return ex. Charges)

	American Selective	US Equities
6 Months	-11.20%	-3.09%
1 year	-3.11%	7.49%
3 years*	7.56%	10.71%
5 years*	10.53%	10.71%
Inception	57.77%	68.43%
*Annualised	8.65%	9.94%

Avg. Yield 2.76%

Stock Performance (Total Return)

31st December 2019 to 30th June 2020

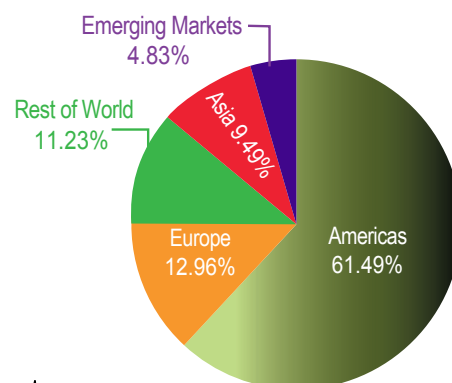
Top three

Hormel Foods Corp	8.09%
Air Products & Chemicals	4.02%
Wal-Mart Stores Inc	1.70%

Bottom three

Consolidated Edison	-18.99%
Exxon Mobil Corp	-33.70%
Sysco Corp	-35.06%

Geographic spread (Revenues)



3M Founded 1902 - Market Cap (Billions) \$90.33 - Dividend payments - Mar, Jun, Sep and Dec

First quarter sales increased by 2.7% to \$8.1bn, reflecting organic local-currency growth of 0.3%. • Healthcare continues to drive performance, with Q1 sales growth of 21%. • Geographically, the Americas contributed the most with Q1 sales growth of 10.1% • Demand for protective face masks and respirators, for which the company is the world's leading manufacturer, boosted in response to Covid-19 pandemic and a global shortage in PPE equipment. • Continued restructuring announced, with 1,500 job losses to follow the 2,000 job cut made in April 2019. • Streamlining company across geographies to improve and simplify management structure.

AIR PRODUCTS Founded 1940 - Market Cap (Billions) \$54.64 - Dividend payments - Feb, May, Aug and Nov

Second quarter earnings per share increased by 13.16% to \$2.15, with Covid-19 impacting earnings to the tune of about 6-8 cents per share. Revenue increased by 1.4% to \$2.22bn. • Plant operations have been successfully maintained over the crisis and the company has "mobilised to meet urgent needs for medical oxygen" made necessary in the face of the pandemic. • Volume growth driven by strong hydrogen refinery demand in the US Gulf Coast and Canada. Q2 operating profit increased by 5% to £268m, with the operating margin expanding by 250bps to 28.7%. • Healthy balance sheet, with net debt to EBITDA of 0.31x, whilst the dividend reinforced with a 60% payout ratio and CEO's commitment that "our dividend remains a top priority".

ADP Founded 1949 - Market Cap (Billions) \$64.70 - Dividend payments - Jan, Apr, Jul and Oct

Third quarter revenues increased by 6% to \$4bn, with net earnings growth of 9% to \$821m. Earnings per share increased by 10% to \$1.90. • Q3 Employer Services sales grew by 3%, with new business bookings down 9%. PEO Services sales increased by 11%, with the average number of worksite employees paid by PEO Services increasing by 7%. • Announced \$1,000 payment to each associate of the company and its subsidiaries, excluding corporate officers, to an approximate total cost of \$51m. • Wage inflation and employment growth are big drivers of the business. It delivers the payroll to 1 in 6 employed people in the US, amounting to 25m, so results will be impacted by increased unemployment.

BD Founded 1897 - Market Cap (Billions) \$71.00 - Dividend payments - Mar, Jun, Sep and Nov

Second quarter revenues increased by 2.4% to \$4.25bn, whilst earnings per share declined by 1.5% to \$2.55. • Medical (50.5% of revenues) sales fell by 0.3% to \$2.15bn, with strong results in pharma and diabetes offsetting declines in Medication Management Solutions and Medication Delivery Solutions. • Life Sciences (26%) sales increased by 7.3% to \$1.113bn, driven by solid performance from Peripheral Intervention and Urology, offsetting reduced demand for elective procedures as a result of Covid-19. • Whilst delayed elective procedures have impacted performance, demand has not disappeared, so revenues should recover in the near to medium term. • US revenues (56% of total) fell by 3.2%, whilst International revenue grew by 1.5%.

CHUBB Founded 1882 - Market Cap (Billions) \$56.68 - Dividend payments - Jan, Apr, Jul and Oct

Full year net income per share increased by 14.4% to \$9.71, whilst the value of gross premiums written increased by 5.5% to \$32.3bn. The full year combined ratio was 90.6%, consistent with the prior year. • The world's largest property and casualty insurer based on a market capitalisation of \$50.4bn, with over 40% of the company business transacted from outside the United States. • Expects Covid-19 to have a meaningful impact on revenue in Q2 and potential future quarters, due to a likely increase in insurance claims resulting from the pandemic and consequent recessionary economic conditions.

EDISON Founded 1823 - Market Cap (Billions) \$24.66 - Dividend payments - Mar, Jun, Sep and Dec

Full year adjusted EPS increased by 1.15% to \$4.38, with Q1 adjusted EPS declining by 2.8% to \$1.35. • In March, began suspending utility service disconnections, final bill collection agency activity and other fees for all customers, after New York State Governor Cuomo declared a State disaster. • Expects to make capital investments of \$3,944m in 2020, with further plans to make aggregate investments of \$7,729m over the following two years. • Revised down its full year earnings guidance to \$4.15-4.35 per share, from \$4.30-4.50 per share previously, reflecting the impact of warmer than normal weather on steam revenues and the potential impact of Covid-19. • The company is the 2nd largest solar power producer in North American and 7th largest in the world, and has reduced its carbon footprint by 51% since 2005 – equal to taking more than 500,000 vehicles off the road.

DOVER CORPORATION Founded 1925 - Market Cap (Billions) \$14.02 - Dividend payments - Mar, Jun, Sep and Dec

Full year revenue increased by 2% to \$7.1bn and EPS increased by 19% to \$4.61, with healthy sales growth across most of the portfolio. • First quarter revenue declined by 4% as facilities faced a temporary shutdown due to Covid-19. • Despite flat Q1 bookings growth, the increased backlog provides support for a more difficult period to follow. • Curtailing operations and production capacity in Q2, despite a healthy backlog, resulting from coronavirus related operating restrictions in certain geographies and weakened demand in certain end markets. • The company has a flexible capital structure and, to reinforce liquidity, has drawn \$500m from its revolving credit facility, whilst no debt is due to mature until 2025.

EMERSON Founded 1890 - Market Cap (Billions) \$36.83 - Dividend payments - Mar, Jun, Sep and Dec

Revenue declined by 9% to \$4.2bn in the second quarter as demand fell significantly in March due to Covid-19, whilst operating cash flow increased by 10% to \$588m. • Adjusted EPS of \$0.89 beat management expectations, as operational declines due to Covid-19 were more than offset by non-operating tailwinds and benefits of the previously announced restructuring actions. • Automation Solution experienced a 10% decline in net sales. Commercial & Residential Solutions experience a 7% decline in net sales. The US was impacted by a broad based drop in demand, whilst AMEA weakness was driven by sharp declines in China. • Expects further demand deterioration, and demand remaining negative through the first half of 2021.

ExxonMobil Founded 1999 - Market Cap (Billions) \$186.38 - Dividend payments - Mar, Jun, Sep and Dec

Experienced a Q1 loss of \$610m, driven by a \$2.9bn noncash charge from market-related write-downs. • Reducing 2020 capital and operating spend to manage unprecedented market challenges, with the price of oil experiencing significant declines in the face of fallen demand and a Saudi Arabia led price war. • Completed previously announced sale of non-operated upstream assets in Norway for \$4.5bn as part of its plans to divest approximately \$15bn in non-strategic assets by 2021. • Announced joint venture with Tencent et al. to establish a car care network in China, and create a digital automotive maintenance ecosystem that integrates suppliers and customers of Mobil-branded lubricants. • Progressing development of lower emissions tech. Announced two-year joint development with FuelCell Energy, Inc. for the purpose of capturing carbon dioxide from industrial facilities.



Hormel Founded 1891 - Market Cap (Billions) \$25.91 - Dividend payments - Feb, May, Aug and Nov

Second quarter delivered record net sales, increasing by 3% to \$2.4bn. • Refrigerated Foods: Q2 sales down 1%, profit down 17%. Grocery Products: Sales up 8%, profit up 22%. Jenny-O Turkey Store sales up 12%, profit up 54%. • Could see margin improvement from more expensive “health” food option in the future, but the primary product offering continues to be pork and turkey. • Sales of packaged foods improved, with much of the company’s produce being in particular demand through the pandemic; such as canned meats and other foods. • A fall in demand from closed restaurants, schools and colleges has contributed to declining pork prices. This has helped reduce input costs for the likes of SPAM, bacon, and a variety of other products the company sells.

Johnson & Johnson Founded 1886 - Market Cap (Billions) \$371.40 - Dividend payments - Mar, Jun, Sep and Dec

Full year revenue increased by 0.6% to \$82.1bn, with adjusted EPS increasing by 6.1% to \$8.68. • Performance has been driven primarily by the Pharma (51% of sales) segment and accelerating performance in the Medical Devices (31.7%) business. • Consumer Health sales have improved (+9.2% in Q1) as people have sought to fend off symptoms associated with Covid-19, with OTC products such as Tylenol, Motrin, and Zyrtec, benefitting most. • Secured a \$1bn agreement to supply the US government with a coronavirus vaccine, providing the company with manufacturing capacity for more than 1bn doses. • Medical Devices has been impacted by Covid-19 owing to the consequent delay of elective medical procedures, although the procedures are still required so demand should pick up again in the near term.



PEPSICO Founded 1965 - Market Cap (Billions) \$184.33 - Dividend payments - Mar, Jun, Sep and Dec

Full year revenue increased by 3.9% to \$67.16bn. • First quarter sales increased by 7.9% to \$13.88bn, whilst EPS increased by 10% to \$1.07, benefitting from strong sales growth in all segments. • Announced a new drink called Pepsi Café a combination of cola and coffee. • Agreed to buy Rockstar Energy Beverages for \$3.85bn in a move to expand their presence in the fast-growing energy drink category. • The company has a strong balance sheet, high cash generation and ample liquidity. • Despite uncertainties, the company still anticipates a core effective tax rate of about 21%, and total cash returns to shareholders of approximately \$7.5bn (\$5.5bn in dividends, and \$2bn in share buybacks).



Procter & Gamble Founded 1837 - Market Cap (Billions) \$299.26 - Dividend payments - Feb, May, Aug and Nov

Third quarter revenue increased by 5% to \$17.21bn, whilst EPS increased by 8% to \$1.17. • The company has benefited from coronavirus-related stockpiling of toilet paper and other goods. • Sales in the Fabric and Home Care segment, which includes the Tide and Ariel brands, increased by 10% as consumers appear to have done greater volumes of weekly laundry. • Health Care sales increased by 9% as it benefitted from disproportionate growth in premium products. • The Baby, Feminine and Family Care business (i.e. pampers) experienced 7% sales growth in Q3 despite weaker demand for its baby products in China, the company’s second largest market. • The Grooming segment (i.e. Gillette, Venus) was the only division to experience a sales decline over the quarter as people have evidently been shaving less while confined to their homes.



StanleyBlack&Decker Founded 1843 - Market Cap (Billions) \$21.29 - Dividend payments - Mar, Jun, Sep and Dec

Full year revenue increased by 3% to \$14.4bn, with EPS increasing by 3% to \$8.40. • First quarter revenue delinked by 6% to \$3.1bn, primarily related to the impacts of Covid-19. • Announced the acquisition of the Boeing supplier, Consolidated Aerospace Manufacturing, for up to \$1.5bn. This could boost EPS by around \$0.3-\$0.4 per share by the third year. • Announced a cost saving programme which is expected to deliver \$1bn annually, adjusted its supply chain and manufacturing labour base, substantially reducing indirect spending, staffing and capturing the opportunity afforded by deflation in input cost/raw materials.



Sysco Founded 1969 - Market Cap (Billions) \$27.44 - Dividend payments - Jan, Apr, Jul and Oct

Third quarter revenues declined by 6.5% to \$13.7bn, with gross profit falling by 6.9% to \$2.6bn. • Sales have been heavily impacted by the forced closure of restaurants and catering outlets. • US Foodservice Operations sales declined by 5.1%, whilst International Foodservice Operating experienced a sales decline of 9% after suffering a 1.2% hit from foreign exchange. • Announced plans to donate 2.5m meals to vulnerable and food-insecure citizens across America. • Management has taken aggressive action to reduce variable expenses, and reducing capex to only urgent projects, tightening receivables. • Creating new sources of revenue by helping restaurant customers pivot to a new selling model and using its supply-chain expertise to provide additional services to the retail grocery sector.

Walmart Founded 1962 - Market Cap (Billions) \$337.60 - Dividend payments - Jan, Apr, Jun and Sep

Full year revenue increased by 1.9% to \$524.0bn, with Walmart US eCommerce growth of 37%. • Unprecedented demand for products across multiple categories led to strong top-line results during the first quarter, with revenue in Q1 growing by 8.6% to \$134.6bn. • Walmart US eCommerce sales increased by 74% in the first quarter, with strong results for grocery pickup and delivery services. • Walmart US sales increased by 10%, led by strength in food, consumables, health & wellness and some general merchandise categories. Walmart International increased Q1 revenue by 3.4% to \$29.8bn. • Announced partnership with Shopify, an e-commerce shopping platform used by over 1 million people, opening up Walmart’s marketplace to small business sellers.

Price Return - Dividends and Growth

	H1 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	Annualised	Yield
3M Co	(11.58%) \$2.94	(7.41%) \$5.76	(19.05%) \$5.44	31.81% \$4.70	18.54% \$4.44	(8.33%) \$4.10	17.16% \$3.42	51.05% \$2.54	13.61% \$2.36	(5.30%) \$2.20	4.39% \$2.10	7.49%	3.78%
		5.88%	15.74%	5.86%	8.29%	19.88%	34.65%	7.63%	7.27%	4.76%	2.94%	10.94%	
Air Products & Chemicals	2.75% \$2.68	46.82% \$4.58	(2.46%) \$4.25	14.09% \$3.71	19.56% \$3.39	(9.79%) \$3.20	29.03% \$3.02	33.04% \$2.77	(1.37%) \$2.50	(6.33%) \$2.23	12.20% \$1.92	11.50%	2.20%
		7.76%	14.56%	9.44%	5.94%	5.96%	9.03%	10.80%	12.11%	16.15%	7.26%	9.85%	
Automatic Data Processing	(12.67%) \$1.82	30.03% \$3.16	11.89% \$2.64	14.02% \$2.28	21.32% \$2.12	1.62% \$1.96	17.62% \$1.92	41.93% \$1.74	5.41% \$1.58	16.70% \$1.44	8.08% \$1.36	15.50%	2.44%
		19.70%	15.79%	7.55%	8.16%	2.08%	10.34%	10.13%	9.72%	5.88%	3.03%	9.12%	
Becton Dickinson	(12.02%) \$1.58	20.70% \$3.10	5.26% \$3.02	29.30% \$2.94	7.44% \$2.71	10.73% \$2.46	25.95% \$2.24	41.31% \$2.03	4.64% \$1.85	11.59% \$1.68	7.18% \$1.52	12.51%	1.31%
		2.65%	2.72%	8.49%	10.16%	9.82%	10.34%	9.73%	10.12%	10.53%	11.76%	8.59%	
Chubb Ltd	(18.66%) \$0.75	20.50% \$2.96	(11.60%) \$2.88	10.60% \$2.80	13.07% \$2.72	1.71% \$2.64	10.96% \$2.56	29.74% \$2.00	13.80% \$1.92	12.64% \$1.36	23.51% \$1.28	11.34%	2.48%
		2.78%	2.86%	2.94%	3.03%	3.13%	28.00%	4.17%	41.18%	6.25%	11.30%	9.92%	
Consolidated Edison	(20.49%) \$1.53	18.32% \$2.96	(9.99%) \$2.86	15.30% \$2.76	14.64% \$2.68	(2.64%) \$2.60	19.41% \$2.52	(0.47%) \$2.46	(10.46%) \$2.42	25.14% \$2.40	9.11% \$2.38	6.78%	4.19%
		3.50%	3.62%	2.99%	3.08%	3.17%	2.44%	1.65%	0.83%	0.84%	0.85%	2.29%	
Dover Corp	(16.22%) \$0.98	62.45% \$1.94	(12.96%) \$1.90	34.78% \$1.82	22.21% \$1.72	(14.51%) \$1.64	(10.44%) \$1.55	46.92% \$1.45	13.20% \$1.33	(0.68%) \$1.18	40.47% \$1.07	14.48%	2.05%
		2.11%	4.40%	5.81%	4.88%	5.81%	6.90%	9.02%	12.71%	10.28%	4.90%	6.64%	
Emerson Electric Co	(18.66%) \$1.00	27.63% \$1.97	(14.26%) \$1.95	25.00% \$1.93	16.56% \$1.91	(22.52%) \$1.89	(12.04%) \$1.76	32.52% \$1.66	13.67% \$1.61	(18.51%) \$1.44	34.20% \$1.34	5.70%	3.27%
		1.29%	1.04%	1.05%	0.79%	7.39%	6.02%	3.11%	11.81%	7.46%	0.75%	4.01%	
Exxon Mobil Corp	35.91% \$1.74	2.33% \$3.43	(18.47%) \$3.23	(7.33%) \$3.06	15.79% \$2.98	(15.68%) \$2.88	(8.65%) \$2.70	16.93% \$2.46	2.11% \$2.18	15.92% \$1.85	7.23% \$1.74	0.22%	7.96%
		6.19%	5.56%	2.68%	3.47%	6.67%	9.76%	12.84%	17.84%	6.32%	4.82%	7.53%	
Hormel Foods Corp	7.01% \$0.23	5.69% \$0.84	17.28% \$0.75	4.54% \$0.68	(11.96%) \$0.58	51.79% \$0.50	15.34% \$0.40	44.73% \$0.34	6.56% \$0.30	14.28% \$0.26	33.32% \$0.21	15.86%	1.96%
		12.00%	10.29%	17.24%	16.00%	25.00%	17.65%	13.33%	17.65%	21.43%	10.53%	16.03%	
Johnson & Johnson	(3.59%) \$1.96	13.03% \$3.75	(7.64%) \$3.54	21.27% \$3.32	12.16% \$3.15	(1.77%) \$2.95	14.17% \$2.76	30.66% \$2.59	6.89% \$2.40	6.03% \$2.25	(3.97%) \$2.11	8.10%	2.88%
		5.93%	6.63%	5.40%	6.78%	6.88%	6.56%	7.92%	6.67%	6.64%	9.33%	6.87%	
PepsiCo Inc	(3.23%) \$1.91	23.71% \$3.77	(7.87%) \$3.47	14.61% \$3.12	4.71% \$2.91	5.67% \$2.72	14.01% \$2.45	21.20% \$2.21	3.13% \$2.11	1.56% \$1.99	7.45% \$1.86	8.02%	3.09%
		8.66%	11.24%	7.04%	6.99%	11.02%	10.86%	4.74%	6.03%	6.99%	6.29%	7.96%	
Procter & Gamble	(4.27%) \$1.54	35.88% \$2.95	0.04% \$2.84	9.28% \$2.74	5.88% \$2.67	(12.82%) \$2.63	11.89% \$2.53	19.91% \$2.37	1.77% \$2.21	3.70% \$2.06	6.10% \$1.89	7.13%	2.64%
		4.00%	3.76%	2.50%	1.57%	3.95%	6.75%	7.24%	7.28%	8.99%	9.88%	5.56%	
Stanley Black & Decker Inc	(15.90%) \$1.38	38.42% \$2.70	(29.44%) \$2.58	47.96% \$2.42	7.46% \$2.26	11.08% \$2.14	19.07% \$2.04	9.08% \$1.98	9.42% \$1.80	1.09% \$1.64	29.82% \$1.34	11.77%	2.04%
		4.65%	6.61%	7.08%	5.61%	4.90%	3.03%	10.00%	9.76%	22.39%	3.08%	7.58%	
Sysco Corp	(36.10%) \$0.90	36.51% \$1.56	3.18% \$1.44	9.68% \$1.32	35.05% \$1.24	3.30% \$1.20	9.94% \$1.16	14.02% \$1.12	7.94% \$1.08	(0.24%) \$1.04	5.23% \$1.00	11.24%	3.35%
		8.33%	9.09%	6.45%	3.33%	3.45%	3.57%	3.70%	3.85%	4.00%	4.17%	4.97%	
Wal-Mart Stores Inc	0.79% \$1.07	27.58% \$2.11	(5.67%) \$2.07	42.87% \$2.03	12.76% \$1.99	(28.62%) \$1.95	9.14% \$1.91	15.33% \$1.81	14.17% \$1.56	10.81% \$1.40	0.90% \$1.18	7.91%	1.80%
		1.93%	1.97%	2.01%	2.05%	2.09%	5.52%	16.03%	11.43%	18.64%	11.32%	6.64%	