GENESIS
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Genesis: Environmental, Social and Governance Policy

It is our strong view that exploitation and repression are incompatible with economic prosperity. Repressive regimes are unlikely to provide the type of open and competitive economy that fosters economic development and leads to corporate growth opportunities suitable for international investment.

On a corporate level, Genesis meaningfully incorporates social responsibility factors into its investment process because we believe that irresponsible behaviour by companies is incompatible with sustainable business success. In a world where investors and consumers demand to see companies demonstrating appropriate environmental stewardship as part of their activities, those who fail to meet these standards are unlikely to be sound long-term investments.

Our experience suggests that a crucial element of a successful long-term investment is an enlightened management team, which understands that a company's development requires a coalition between management, shareholders and workforce, and that no single one of these parties may derive excess benefit from the venture at the expense of the others. If management mistreats its workforce, it is also unlikely to understand the relationship of trust and responsibility that should exist between it and its minority shareholders, and such a company would not be attractive to Genesis.

We are signatories to the Principles for Responsible Investment (PRI) initiative, an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. The PRI aims to help investors integrate consideration of environmental, social and governance (ESG) issues into investment decision-making and ownership practices, and thereby improve long-term returns to beneficiaries. We believe that ESG issues affect long-term investment returns and also recognise that applying these Principles help align investors with broader social objectives.

We believe there are three broad aspects of corporate responsibility that should be focused on, and assessed, at a company level. These are:

1. ***Property and Shareholder Rights:*** Markets where shareholder rights are undefined (or are defined but not enforced), and business practice towards the treatment of shareholders is uncertain, can often be avoided completely for investment purposes.

   There may be less clear-cut situations where strong rules do not exist but certain companies have had a history of respecting minority shareholder rights. In these situations potential investments may exist – but with a need to apply an appropriate amount of caution before investing.

   Where companies in client portfolios start behaving in a manner detrimental to minority shareholders' interests, it is often possible to enter into a constructive dialogue with them to bring about positive change. An example of this would be the frequent discussions Genesis has held with a number of Korean companies. Equally, where appropriate, Genesis has been prepared to make its views known in public.

2. ***Labour Practices:*** Ideally, countries in which we invest for our clients would have ratified the conventions of the International Labour Organization Declaration on Fundamental Principles and Rights at Work. (This Declaration allows workers the right to associate, strike, and bargain collectively, prohibits forced labour and provides standards for acceptable working pay and conditions.) That said, the absence of formal ratification of the convention does not preclude that local practice may meet the standard intended by the convention. For example, a vigorous and effective trade union movement exists in South Korea, even though the country has not ratified the conventions on freedom of association and collective bargaining.

   Child labour undeniably occurs in a number of developing economies, but in the majority of countries legal protections exist and these are more or less enforced depending on the country.

   However distinction then needs to be drawn between practices in the overall economy and the practice at the individual company level. To the extent that illegal child labour and other labour abuses take place, experience indicates to us that it does so in small-scale, labour-intensive enterprises, such as the textile industry. These companies are not of interest to Genesis nor its institutional clients. Apart from the obvious social objections, they do not feature any manufacturing economies of scale and have no discernible competitive advantage other than cheap labour.

3. ***Corporate Social Responsibility:*** We emphasised above the need for management to see any company as a meeting point of a coalition of interests. One of these interests is the firm's role in its immediate society and the need to take into account the long-term effect that its business decisions may have.

How our Investment Process Identifies these Companies

A focus on company-level analysis and management visits: We are a bottom-up investor, which is to say that a portfolio is assembled on a stock-by-stock basis, and its weighting in a particular country depends on the number of attractive ideas we can find there. Accordingly, because we are making decisions about individual securities, the Genesis investment approach lends itself naturally to the assessment of socially responsible factors at each particular company.

The distinctive feature of our research process is its independence: views are formed by visiting countries and meeting companies. As an integral part of its bottom-up investment approach, Genesis does not make an investment without interviewing a company's management (often several times).

Given the extensive travel programme undertaken by our analysts a great many of these interviews take place at the company's own offices and Genesis is usually insistent (sometimes aggressively so) that such an interview involves a full plant visit – that is, not just the modern 'showcase' part of the facility: the manoeuvring necessary to get a revealing plant inspection may be neither easy nor friendly, but is often of significant importance for assessing the true quality and social credentials of the company.

As an aside, we would note that of course companies operate within the economic, political and social context of their country, and in order to properly quantify the opportunities and risks facing a company, an investor must be able to evaluate that context too. Social and ethical issues at a country level might include government transparency, a free press, political stability, democratic institutions and principles, and a strong and impartial legal system – all of which are normally difficult things for individual companies to influence. Consequently, where these problems are extreme we would simply avoid the countries in question: North Korea and Burma are two obvious current examples.

Multiple sources of information: In addition, when forming internal assessments, we use multiple information sources to complement what we ourselves see and hear (in emerging economies, information that is complete, objective, current and accurate is often difficult to obtain, and one is therefore more likely to come across matters of concern through the use of a variety of sources rather than exclusively using a single monitoring service). Among these are local and international publications, external directors, external consultants, and Genesis' legal and professional relationships. From a 'labour practices' standpoint, the most authoritative sources of information are the publications of the International Labour Organization (ILO) based in Geneva, and the Country Reports on Human Rights prepared by the US Department of State in accordance with the US Foreign Assistance Act.

Genesis Investment Management
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