



21 Knightsbridge, London SW1X 7LY

Telephone: (020) 7201 7200 Facsimile: (020) 7201 7400 www.giml.co.uk

Genesis Principles on Socially Responsible Investment

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 a 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 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.
- (2) **Labour Practices:** Ideally, countries in which we invest for our clients would have ratified the conventions of the International Labor 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).

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 international institutional investors such as Genesis.



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.

Companies are regularly assessed for compliance with current best practice corporate governance requirements, and we vote on behalf of clients at Annual or Extraordinary General Meetings. Advice is taken on voting from outside sources including Institutional Shareholder Services (ISS) and all voting intentions are confirmed by an investment team member. Without being an 'activist' investor, we are active in promoting the mutual benefits of stronger corporate governance to the many companies with whom we come into contact, and where companies in client portfolios start behaving in a manner detrimental to minority shareholders' interests we are prepared to engage in a constructive dialogue to help bring about positive change.

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 aim 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.

Genesis Investment Management, LLP
February 2010