

## **Statement on the Financial Reporting Council's 2012 UK Stewardship Code**

Since its founding more than twenty five years ago, Comgest has focused exclusively on investing in what we believe are quality growth companies around the globe with a long-term “buy and hold” approach. This approach has naturally favoured companies with sound business practices and principles. We believe that extra-financial criteria, notably corporate governance practices and shareholder fairness, are important for quality growth companies and can directly impact on long term investment performance.

The UK Stewardship Code helps to set clear guidelines for institutional investors and those charged with the responsibility of managing their assets in carrying out their stewardship role. In addition, we find it is compatible with the UN PRI principles to which Comgest is currently signatory. Following our statement published in January 2011 on the first version of the Code, this letter serves as our statement on the revised Code published in September 2012.

While no Comgest entity is authorised as an asset manager within the UK and thus is not compelled to formally adopt the Code today, our intention is to respect the seven principles of the UK Stewardship Code. Please find below our remarks on our commitment to the principles.

### **Our remarks on commitment to the principles**

#### **On principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

Comgest has always considered integrity of management and governance standards as paramount in selecting companies for our portfolios. Meeting company management before making an investment and maintaining frequent contact during the investment period allows us to closely monitor changes in the company's business, for better or for worse.

Comgest has published a Responsible Investment policy in three languages, which is available on our website. The policy addresses how we monitor the companies in which we invest on a governance level, our voting practices and other relevant matters.

#### **On principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.**

Our independence, supported by our practice of inviting employees to be shareholders, has the goal of ensuring that our interests remain aligned with those of our clients insofar as we are not beholden to another agenda other than seeking superior risk adjusted returns in our portfolios. This independence is also reflected in a conservative and defensive culture; as shareholders, we look to conservatively manage capital for our clients as well as the company.

We maintain procedures and controls with the objective of avoiding conflicts of interest and providing equal treatment of clients with respect to execution of trades when buying and selling equities in our funds and segregated accounts. These procedures are outlined in our policy documents and procedure manuals.

**On principle 3: Institutional investors should monitor their investee companies.**

The Comgest investment approach involves taking stakes, sometimes significant, with a long-term horizon in quoted equity securities around the world. Consequently, we seek to have strong conviction before purchasing shares of a company and holding them for many years. Establishing this conviction involves frequent and direct contact with company management teams and ongoing due diligence work which includes a judgement on the quality and integrity of management as well as the independence and competence of the board of directors. We continuously monitor all investments to ensure that the companies maintain our 'quality growth' requirements. Where we note that improvements are required in relation to corporate governance, we monitor the company's governance practices to ensure that standards improve over the long term.

**On principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.**

Given our approach as long-term investors, we continuously monitor management's execution of its business plan. In cases where we do not understand a corporate strategy decision (divestiture, acquisition), an operational incident or other material event that makes us question the initial investment thesis, we seek to gain clarity directly from the management of the company.

Should a portfolio manager not obtain the requisite clarity following a dialogue with the company, we may choose to reconsider the position in the portfolio. Our interaction with company management teams is primarily to gather information to allow us to make informed decisions concerning the investment. It is not, per se, used to influence or change their behaviour. Any escalation would likely involve cooperation with other organisations who would lead the initiative. This includes cooperation with other UN PRI signatories as well as other members of the International Corporate Governance Network (ICGN).

**On principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.**

We would welcome the opportunity to combine our support on a particular issue with other like-minded shareholders where we feel the proposed response is presented and pursued in the right manner. We believe the mechanisms available through the ICGN and through the UN PRI Clearinghouse are efficient and effective ways to collaborate with other institutional investors.

**On principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.**

Unless reserved by the client, Comgest exercises the shareholder rights of its clients by participating in AGMs, voting and reserving the right to criticise or even to contest the company's management decisions, which notably implies the right to participate in associations that defend the interests of minority shareholders.

To support our voting activity, Comgest subscribes to the Social Advisory Services of Institutional Shareholder Services, Inc ("ISS", a division of MSCI) which provide SRI (Socially Responsible Investment) guidelines. ISS takes into account best practice and reference policies in social and environmental issues from reputable experts and organisations.

ISS provides its clients with access to a database analysing the resolutions of and providing voting recommendations for over 33,000 listed companies on over 115 stock markets. ISS incorporates the active ownership and investment philosophies of leading globally recognized initiatives such as the United Nations Environment Programme Finance Initiative (UNEP FI), the United Nations Principles for Responsible Investment (UNPRI), the United Nations Global Compact, and environmental and social European Union Directives. On matters of corporate governance, executive compensation, and corporate structure, SRI guidelines are based on a commitment to create and preserve economic value and to advance principles of good corporate governance, consistent with responsibilities to society as a whole.

The ISS analysis enables us to have an informed opinion from an independent authority on governance issues and supports our ability to ensure general governance standards of all companies in which we invest are



monitored. The SRI recommendations are communicated to Comgest professionals who then decide whether to apply the recommendation while exercising the right to vote on behalf of their clients.

When our analysts decide not to vote in line with SRI recommendations, we have a process in place (since mid-2012) to record the reasons of the votes cast against the recommendations.

Comgest does not engage any of its portfolios in stock lending.

**On principle 7: Institutional investors should report periodically on their stewardship and voting activities.**

Both stewardship and voting activities are addressed in our quarterly responsible investment activity report.

Comgest aggregates the results of our voting practices in order to provide an overview of decisions taken on behalf of our clients on governance matters. We provide voting reports to our clients on request.