



How we select companies

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We have often been asked how we narrow down a universe of 15,000 Asian and Emerging Markets companies to a portfolio of approximately 50. It's a good question, particularly as now that we invest globally, giving us an investible universe of 65,000 companies, the challenge has become even starker.

We would love to be able to say we have constructed a clever algorithm so that a black box tells us which ten companies to consider each week, but we haven't. In reality, we start with a blank sheet of paper, and instead of whittling down 65,000 to 50; actually we are starting from 0 and building up to 50. One analogy that we have used is the idea of walking along a beach looking for 50 of our favourite shells. We know what we are looking for in our collection, but we won't be looking at every shell on the beach to find them. And we are likely to spot new shells each day we go and will continue to do so for years to come. Such is the task of operating in a universe of 65,000 companies.

What we are looking for is a function of our investment philosophy and process, which is consistent across each of the sustainability funds. We are looking for companies well positioned for long-term sustainable development, which have high quality management teams, franchises, and financials. With such companies we take a disciplined approach to valuation, considering the potential growth of the company over the long-term. We maintain a "quality list" of approximately 300 of our favourite companies which we would own at the right valuation. If a company passes each of our quality hurdles we begin the process of investing, often starting small and building up conviction over several years, as we meet the management team repeatedly, engage where issues arise, visit sites, and build up reference checks from third parties such as suppliers, competitors, directors, industry associations and media.

But the question remains, when we get to the beach, how do we know where to start looking? Our emphasis on long-term sustainability positioning helps in this regard as we have a strong focus on seeking out those companies which support and profit from the ongoing transition to a

genuinely sustainable future. In simple terms this means human development within the ecological limits of our planet. This is where we focus. Companies immediately stand out for providing sustainable goods and services, responsible finance or required infrastructure. But it is not just about applying a sustainability lens.

We travel widely and "kick the tyres" of more than 2,000 companies per year; there is nothing like examining a dingy head office above a store, or a plush marble foyer of a new building. We lean heavily on our long history of investing in Asian and GEM markets. For example, we invested in a Japanese paint company which came to our attention as we were invested in its Indian subsidiary for our GEM funds. We look for referrals at every opportunity, and seek the views of businesses and directors we respect. For instance, we recently visited a quality Taiwanese pharmaceutical company because one of our favourite Asian food companies is also a shareholder there. We also engage with companies to sort fact from fiction. For example, when a prominent palm oil company we consider "uninvestible" recently received poor press about its activities, we contacted them not to engage on changing their practices, but rather to determine which of their buyers had been giving them a hard time. This proved a much more effective way of comparing and contrasting the supply chain practices of large multinational consumer companies than any amount of reading of their sustainability reports could provide. None of these methods can be achieved using a black box. Instead, our approach is simply to remain true to what is a very simple investment philosophy and process in order to patiently maintain and constantly refine our shell collection. Fortunately, there are always new shells out there just waiting to be found!

David Gait

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Investment terms

View our list of [investment terms](#) to help you understand the terminology within this document

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