

## News Release

### LESSON FROM THE ROYAL COMMISSION: COMPANIES WITH GOOD CULTURE DON'T RIP OFF THEIR CUSTOMERS AND OUTPERFORM THE MARKET

**08 February 2018:** The findings of the Royal Commission have provided investors with a lot to consider with regard to corporate culture which, according to a leading global equities firm, is one of the most important factors to consider when picking stocks.

WCM Investment Management, a California-based global equities firm that manages over AUD42bn, believes one of the most important contributors to the long-term performance of any organisation is an appropriate corporate culture.

WCM's investment process is based on the belief that culture is the biggest influence on a company's ability to grow its competitive advantage or 'moat'. This process has resulted in WCM's Quality Global Growth strategy outperforming the MSCI World Index by an annualised 5.3% per annum over more than a decade.

"Great companies tend to have great cultures," says Kurt Winrich, Portfolio Manager at WCM Investment Management.

"An organisation could have the greatest products, a robust brand and reputation, effective policies and processes and a long history of trading, but if the culture is poor it's much less likely to succeed when compared to a business with a healthy culture."

"When a company culture is poor, this can lead to issues such as slow delivery, poor service or rude employees, all of which can affect the customer experience and the company's long-term financial performance.

"In contrast, companies with great service and employees that go the extra mile rarely have complaints made against them. And if they're not making complaints, customers will return to the better businesses, leading of course to better business results. It's that simple."

Mr Winrich believes many investors underestimate the importance of culture.

He says: "Corporate culture is a much more important factor than most realise. Intuitively, this makes sense. If your employees hate working at your organisation, they are not going to give their best efforts or ideas, and that will make it nearly impossible to have a good company (or investment). In contrast, if people enjoy working at their organisation, they're going to do more for it and their colleagues—and for the customers."

"Even when you have nearly identical businesses in the same industry there can still be big differences in business performance. For example, consider how Costco is so much more successful than Sam's Club (a division of Walmart)," he says.

"Costco and Sam's Club are two retail warehouse chains with identical business models and very similar physical stores, but when you look at the financial metrics of the two businesses they couldn't be more different. Costco dwarfs Sam's Club in terms of profitability and margins, and their sales per square foot are roughly double that of Sam's Club. We've concluded that corporate culture is generally the explanation."

WCM's techniques to assess culture include face-to-face meetings with management and employees (both past and present), turnover rates, online reviews and more. Industry surveys and net promoter scores reveal hard-to-quantify appraisals of cultural reputations, or overall customer satisfaction. The latter, for businesses with a significant proportion of customer-facing staff, is often reflective of culture. "As the saying goes, happy employees make happy customers, which make happy shareholders." He suggested: "The magic combination is a corporate culture which encourages the behaviours that enhance the company's competitive advantage. This can keep a business ahead of its competitors for years and years."

Contango Asset Management distributes WCM's Quality Global Growth Strategy in Australia via the WCM Quality Global Growth ETMF (ASX:WCMQ) and the WCM Global Growth Limited LIC (ASX:WQG).

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WCM Investment Management will be touring Australia from the 25th of February until the 1st of March.

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**About WCM**

WCM is a California-based investment management firm specialising in active global and emerging market equities. Founded in 1976, the firm is 100% employee owned and manages over AUD42bn of assets on behalf of institutional and retail investors around the world including Australia. WCM is the investment adviser of WCM Global Growth Limited (ASX:WQG) and the WCM Quality Global Growth Fund (Quoted Managed Fund) (ASX:WCMQ).

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