

# A CASE STUDY OF KOSÉ

CDP / ENVIRONMENT AGENCY PENSION FUND / COMGEST / KOSÉ

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**CDP** (formerly the Carbon Disclosure Project) runs the global disclosure platform that allows companies to report their environmental impact and management to their investors and customers. CDP's mission is to see a thriving economy that works for people and planet in the long term. Working with its investor signatories, CDP has built the most comprehensive collection of self-reported environmental data in the world covering climate change, deforestation and water security.



In 2017, on behalf of its investor signatories, CDP requested 1,658 of the world's largest companies - where water is deemed material to their operations or impactful to the community - to disclose on their water management and impact. 831 of these companies failed to provide a response.

To increase the level of reporting, CDP runs the Non-Disclosure Campaign, which offers investors the opportunity to proactively target companies that have received the CDP disclosure request, but which have not submitted a response.

In 2018, 19 investors, including Environment Agency Pension Fund (EAPF) targeted 239 companies that failed to respond to the water security disclosure request the previous year. This direct investor engagement worked – more than twice as many of these companies responded to CDP, than those that were not targeted in the campaign.

KOSÉ Corporation, the Japanese cosmetics company, had been asked to disclose on Climate Change since 2009, on deforestation since 2013 and on water security since 2014 but had never responded to any of the information requests. After being engaged by the investment manager Comgest through the Non-Disclosure Campaign KOSÉ submitted all three questionnaires.

KOSÉ had been a high priority company for water disclosure, as water is vital throughout the cosmetics value chain. Cosmetics companies depend on an agricultural supply chain for ingredients like cocoa which requires water for crop irrigation and can be disrupted by droughts. Water is also a direct ingredient in cosmetics and companies need to ensure they have a stable supply, and safely discharge the water used during the manufacturing process so as not to harm the environment. Finally, water is often required for the use of cosmetic products by the customer. Companies have the opportunity to develop more “water-smart” products (e.g. shampoos that use less or no water) and also to engage and educate their customers, particularly in water-stressed regions.

We welcome KOSÉ's decision to start disclosing their management of these issues and are grateful to EAPF and Comgest for their support in allowing us to facilitate this on behalf of the investor community.

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**ENVIRONMENT AGENCY PENSION FUND** (EAPF) is an employer pension fund in the UK.

## Environment Agency Pension Fund

Firstly, EAPF is extremely pleased that KOSÉ are now reporting to CDP and we would like to thank everyone involved.

Water risk is one of the top priorities for our pension fund, as we have considerable exposure to water in respect of policy, availability, quantity and quality. Comparable, high quality disclosure is essential for us to assess the level of potential financial risk to the fund and take appropriate action. In 2017 we first targeted our portfolio companies to ask them to disclose water-related information via CDP with the aim to increase the response rate by listed companies to the CDP Water Program by 20% from the 2015 baseline by 2020.

We join CDP in their Non-Disclosure campaign each year. It was from the 2018 campaign that we learnt that the Japanese company KOSÉ had chosen to report. We wanted to understand what had led to this so that we could be sure that our contribution was adding value.

We hold KOSÉ through one of our investment managers as does Comgest, a manager we work with on other markets. Comgest was able to confirm that KOSÉ had commented that the desire from shareholders for companies to have comparable, high quality disclosure was a factor in their decision to report to CDP.

We appreciate the effort that KOSÉ went to in overcoming an initial hurdle, to understanding the requirements and reporting swiftly and broadly. Thank you for the additional engagement work of Comgest and CDP.

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**COMGEST** is an independent equity manager focused on sustainable quality growth investment.



As part of its company engagement initiatives, Comgest participated in the annual CDP Non-Disclosure Campaign in January 2018. As responsible stewards of our investors' capital, Comgest looks to preserve the long-term interests of our clients by investing in companies where we believe the financial returns are sustainable over the long term. This includes monitoring the social and environmental impact of our investee companies to evaluate whether they support conditions for sustainable growth. Comgest strives for higher industry standards of transparency and encourages its investee companies to communicate on long-term strategy.

In March 2018, Comgest accepted the role of engagement leader for one of its Japanese investee companies, KOSÉ, on behalf of the campaign, to encourage the company to complete the CDP Water questionnaire. Comgest shares the view that it is imperative that investors and stakeholders have access to the monitoring of water, as a vital resource and a key material used by cosmetic companies like KOSÉ. In May 2018, on behalf of 23 institutional investors from around the world, including the UK-based Environment Agency Pension Fund (EAPF), Comgest and CDP sent the engagement letter to KOSÉ, to the attention of Mr. Osamu Okawa, KOSÉ's Investor Relations Manager. KOSÉ subsequently agreed to collaborate. Comgest's locally based investment team in Tokyo led the information exchange with KOSÉ and provided examples of best practise followed by other investee Japanese companies.

In informing and assisting KOSÉ's team with the required diligence and commitment necessitated of the questionnaire throughout the lengthened process, KOSÉ demonstrated its commitment to enhancing dialogue with investors by not only completing the CDP Water questionnaire, but also the CDP Climate Change and CDP Forest questionnaires.

CDP, Comgest, and the broader associated investor community that took part in this initiative highly commend KOSÉ on this excellent result. This engagement has yielded imperative disclosure of ESG information and a substantial contribution to broader sustainable efforts for the global community.

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**KOSÉ's** philosophy and corporate identity – “Wisdom and Beauty for People and the Earth” – is uniformly applied throughout the corporation’s sustainability processes and targets. This message encapsulates the company’s desire to ensure that future generations will continue to live happily in society, and in a beautiful green earth. As a promise to all stakeholders, KOSÉ values its connections to society and the natural environment.



KOSÉ's Global Environment Committee was established as early as 1997. Over time, the company has also formed a CSR Committee, Risk Management Compliance Committee, CSR Promotion Committee, and Environmental Working Groups. The KOSÉ Group has made a concerted effort to increase its overall participation in disclosure, working groups, forums, and has implemented new policies and agreements – including a stringent environmental policy.

Over the course of 2018, with an engagement led by Comgest, the Environment Agency Pension Fund (EAPF), and CDP, KOSÉ was made aware of the importance of increasing disclosure and transparency of its carbon-affiliated activities. The engagement exercise led KOSÉ to realise that not only was this information important to investors (and their underlying beneficiaries), but that a standardised format would allow them to compare our activities with global industry participants. KOSÉ agreed that this was indeed a useful initiative, and KOSÉ took the opportunity to investigate other recommendations made by CDP, which led to amending additional reporting and disclosure practices.

By September 2018, KOSÉ was pleased to participate, for the first time, in all three CDP disclosure questionnaires – Climate Change, Water, and Forest. KOSÉ considers the information that it discloses in all three questionnaires to be useful not only externally, but also, internally: KOSÉ can now measure outcomes of its environmental initiatives in a consistent manner and compare its results with the industry at large. Understanding and applying the CDP framework has begun to newly shape its CSR activities. KOSÉ plans to continue identifying and minimising the environmental impact of the industry's activities, whilst innovating and conducting its business activities within a sustainable model. The company found the engagement to be a formative process. KOSÉ welcomes ongoing collaboration with the investment community to increase transparency and disclosure on sustainability matters.

KOSÉ continually works on strengthening initiatives to collect information on environmental emissions from around the Group's global activities. These figures are now consistently disclosed and reported. Signing the UN Global Compact (UNGC) in July 2017 and carefully aligning its business activities to selected SDGs (the UN Sustainable Development Goals) are all determinants of the Group's commitments.

KOSÉ looks forward to continuing its efforts in safeguarding sustainable models, as well as engaging with the investment community and industry stakeholders. In commending their commitment and determination, KOSÉ thanks Comgest, CDP and the EAPF for such a valuable experience.