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GENERATION INVESTMENT MANAGEMENT LLP

PILLAR 3 DISCLOSURE

YEAR-ENDED 31 DECEMBER 2018

PILLAR 3 DISCLOSURE

BACKGROUND

Following the implementation of the Alternative Investment Fund Managers Directive ("AIFMD"), Generation is designated as a Collective Portfolio Management Investment ("CPMI") Firm. The designation applies because, in addition to carrying out collective portfolio management of Alternative Investment Funds ("AIFs"), it provides certain additional services to its clients which fall within the European Union's Markets in Financial Instruments Directive ("MiFID").

The practical effect of this is that Generation's regulatory capital is calculated both with regard to the latest version of the Capital Requirements Directive and Regulation ("CRD IV") of the European Union and the AIFMD. In broad terms, Generation must maintain own funds equal to the higher of the capital requirements calculated under the two regimes. As explained more fully below, in practice for the year ended 31 Dec 2018 this is the capital requirement established by CRD IV.

In the United Kingdom, for firms of Generation's type that do not hold client money or safeguard assets, CRD IV has been implemented by the Financial Conduct Authority (FCA) in its regulations through the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

The GENPRU/BIPRU framework consists of three 'Pillars':

- Pillar I sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar II requires the firm to assess whether its Pillar I capital is adequate to meet its risks; and
- Pillar III requires disclosure of specified information about the underlying risk management controls, capital position and remuneration arrangements.

Generation Investment Management LLP ("Generation") is an investment manager, authorised and regulated by the Financial Conduct Authority. Generation is categorised as a Full Scope UK CPMI Firm. It acts primarily as a discretionary investment manager, and does not hold client money or client assets. Although, Generation is an AIFM and falls under the AIFMD Regime, it is also subject to CRD IV and the FCA's BIPRU Pillar I, Pillar II and Pillar III requirements outlined above by virtue of the additional MiFID activities it undertakes in managing portfolios for separate account clients. In practice this means that in addition to meeting its minimum Pillar I capital adequacy requirements, Generation is further required:

- To assess the adequacy of its capital to cover all of the risks to which it is or may be exposed. The results of this analysis is included in the Firm's Internal Capital Adequacy Assessment ("ICAAP"), which is undertaken on at least an annual basis (Pillar II); and
- To publish certain details of its risks, capital and risk management process on an annual basis (Pillar III).

Disclosure of our regulatory capital position and our risk management arrangements under Pillar III will be issued on an annual basis unless circumstances warrant a more frequent update.

RISK APPETITE

Generation's key operating objectives are to provide sustainable, long term revenue streams. The firm has established a conservative risk attitude throughout the organisation. Led from the top and through the staff hired, we have designed a business organisation, investment philosophy and strategy, and attracted the client base with a time horizon enabling the firm to pursue its long term mission.

To date the firm's propensity for risk has been assessed both at the level of risk we are willing to tolerate per risk event identified on the risk register by each business unit and at the total aggregate level of risk appetite we are willing to bear to meet our business objectives.

This measured approach to risk management continues to be reviewed within our risk governance framework, so to ensure we remain focused on our long term strategy in what is needed to deliver superior returns[1], and that we seek to ensure we have the relevant resources available to achieve it.

RISK MANAGEMENT FRAMEWORK - OVERVIEW

Generation's risk management arrangements comprise: (i) the maintenance of a strong control and compliance culture with accountability to the firm's governance groups and committees and subject to independent review and (ii) close and effective day-to-day management by the partners. The Management Committee has instructed the Risk Oversight Group (ROG) to provide focused support, oversight and governance on risk matters. The ROG is the senior governance body specifically referenced by the Management Committee with the responsibility for ensuring there are suitable and adequate internal financial controls and risk management systems in place (including those required by AIFMD) and ensuring that Generation performs an assessment and evaluation of the risks facing the firm and the control procedures to manage these risks.

On a quarterly basis the ROG receives formal reports from the Chief Operating Officer on any risk events that have occurred or may occur; a report from the General Counsel and Chief Compliance Officer, detailing among other things any regulatory or client guideline breaches; a report from US Compliance Officer outlining operational risks and regulatory updates for the US business; a report from the Chief Finance Officer detailing the current financial position of the firm; a presentation of the most recent Risk Metrics report from the Head of the Control Team, and a technology and cyber security report from the Chief Technology Officer.

For the purposes of its ICAAP and as required by the CRD, Generation confines its risk assessment to the risks to which it is or believes reasonably that it might be exposed. However, Generation, in accordance with the requirements of the AIFMD, also has additional risk management arrangements in place designed to allow it to identify, assess and mitigate risks to the Alternative Investment Funds that it manages.

[1] Although Generation seeks to provide superior investment performance, this is an aspiration and there is no guarantee that this goal will be achieved. Similarly, while we naturally hope to provide "outstanding" results, this outcome is not guaranteed and loss of capital may occur.

RESPONSIBILITY AND RISK MANAGEMENT FRAMEWORK

Generation has invested significant capital and resources in building its team, formalising the investment process, establishing the operational environment (including selecting outsourced services providers and negotiating service level agreements), implementing systems solutions and establishing control procedures. A fundamental part of identifying and understanding the key business risks was the development of the risk matrix.

The key sponsor in establishing the governance and control environment is the Senior Partner, who in conjunction with the Management Committee represents the Firm's senior personnel. The senior personnel are supported by an executive committee structure, comprising – ROG, Valuation Oversight Group, and Remuneration Committee and the Operating Committee.

The Risk Team comprising of the Chief Risk Officer and the Risk Manager, are responsible for delivering the oversight of the firm's risk framework.

This is not an exhaustive list – please refer to the Risk statement for details of ROG duties

The Risk Manager is responsible for maintaining the risk matrix and ensuring the inventory incorporates the ICAAP framework, such as mapping the internal risk types to the GENPRU classifications and ensuring the appropriate Pillar II calculations reflect the internal risk scores, whilst it is the responsibility of the respective business units to identify the risks that they are subject to, and ensure represented within this risk matrix.

Procedures and controls have been put in place to manage these risks, and continue to be enhanced to improve efficiency and effectiveness; the Key Control Objectives and control procedures are set out in the firm's annual report on Internal Controls and are regularly reviewed for effectiveness

CORE RISKS
Generation's risk assessment has identified the following as its key primary risk areas, covering Operational Risk, Business Risk, Market Risk and Liquidity Risk. The firm also recognise the effect that these risks can have on its reputation and recognises Reputational Risk as a category on the Risk Register.

Reputational Risk

Generation is sensitive to the implications of actions that could negatively impact its reputation and business franchise. We believe, that as the firm has become more successful coupled with a broader global awareness of its brand, over time this has increased the risk of adverse publicity. Generation has implemented press monitoring procedures to help identify adverse press coverage and employs a PR firm to help manage communications with the media. All staff are made aware of the need to act with probity at all times and to be mindful of how their actions may be perceived by others. Generation has implemented a formal induction process for all new joiners, a key part of which focuses on culture, compliance and reputational risk. Generation’s size, the governance structures and the quality of staff all help mitigate these risks.

Generation staff can be exposed to situations where they receive information in the course of their analysis that could make them an insider. Failure to understand the law and what action to take in those circumstances could have serious consequences. Generation has established training to help staff understand how to recognise and deal with such situations. In addition, Generation staff are expected to submit any investment transactions to compliance for pre-approval as well as confirming their annual personal holdings.

Generation has identified key controls and has put in place procedures designed to prevent the opportunity to perpetrate fraud/theft. As part of the Fund Managers Liability Insurance Policy (FMLI), Generation maintains the relevant insurance coverage for Directors and Officers liability, Professional liability and Fraud/Crime liability to mitigate claims due to these risks.

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational failures can have significant impacts to the firm’s reputation and cause subsequent financial losses.

Generation’s principal responsibilities are the oversight of the discretionary portfolio management of funds and segregated accounts. The senior management at Generation recognizes the importance of building well controlled efficient administration and operational systems. The role the ROG plays, in, amongst other things, ensuring the identification and monitoring of Generation’s operational risk, demonstrates this importance.

The COO is responsible for the firm’s risk management arrangements and she is the Chief Risk Officer. As well as reporting directly to the Senior Partner and the Management Committee, the COO is also accountable to the Risk Oversight Group. The COO is independent from the firm’s investment businesses and the portfolio management. The COO is supported by the Control Team, who are responsible for providing and maintaining a controlled environment for the functioning of the investment management oversight process. She is also supported by the Risk Manager in connections to her CRO functions, and works closely with the Firm’s General Counsel and Compliance Officers in the UK and US.

The core systems, controls and procedures required to ensure a sound environment were put in place before third party assets were accepted. Since then, focus has been on improvement and automation of processes and the identification and mitigation of new risks arising from changes in the business environment and new products. All relevant staff are aware of their oversight responsibilities and actively participate in the monitoring of the firm’s control arrangements. Internal arrangements, including the provision of the appropriate level and experience of staff, are the responsibility of the COO and the Senior Partner.

Generation has embedded a Release Advisory Board to oversee core system changes and implementations. The Board consists of the US Compliance Officer, the Risk Manager, the CTO, representatives from the appointed Managed Service Provider and other service providers when required, plus additional business team members as and when required. On a weekly basis this Board meet to formally review submitted change and release requests. The group manages the risk of deploying proposed changes and will approve, reject or defer accordingly. This is achieved by reviewing change requests from a technical and business perspective, ensuring appropriate testing has been completed, ensuring compliance with relevant policies and procedures, and assessing the timing of the planned changes.

Appropriate disaster recovery and business continuity plans are in place, regularly tested and are reviewed by senior management and the ROG. Generation produces an annual report on its internal controls (ICAEW ISAE 3402), which is reviewed by Generation's independent external auditors, PwC. The report identifies the Key Control Objectives, the procedures that have been implemented to achieve these objectives and a review of the effectiveness of those procedures and whether they have been consistently applied. This is undertaken as at 30 June each year and is made available to Generation's clients upon request. Generation's senior management recognises the importance of external independent review to provide additional assurance that controls are adequate and being consistently applied. PwC are also Generation's external auditors and Generation's corporate financial statements are subject to annual review. All historic financial statements have received unqualified reports.

Business Risk

Business risk is any risk to the firm arising from:

changes in the business, including:

(i) the acute risk to earnings posed by falling or volatile income;

(ii) the broader risk of the firm's business model or strategy proving inappropriate due to macro-economic, geopolitical, industry, regulatory or other factors; and

(iii) the risk that the firm may not be able to carry out its business plan and desired strategy; and

Generation considers and assesses Business Risks within a number of sub-categories, including Cyber Risk, Investment Performance Risk, Legal & Regulatory Risk and New Business Risk.

Market Risk

Market Risk is

(1) the risk of loss for a UCITS or AIF resulting from fluctuation in the market value of positions in the fund's portfolio attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's credit worthiness.

(2) the risk that arises from fluctuations in values of, or income from, assets or in interest or exchange rates.

Generation is exposed to market movements affecting the value of funds under management and the consequent impact on management and performance fees and Foreign Exchange risk arising from multi-currency income streams.

Generation continues to consider the impact of a decline in assets under management on its financial soundness and considers options to mitigate this risk.

Liquidity Risk

Liquidity Risk is the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

The compensation ratio is set by the Remuneration Committee and reviewed annually. Should the Firm's revenues suffer a catastrophic decline the compensation ratio may be changed. Generation's non-compensation expenses are largely fixed costs and small relative to revenues, so even with a significant decline in assets under management, in adopting the above policy, the Firm should remain profitable with stable liquidity.

Generation has a policy in place to diversify cash holdings across a number of banking institutions to mitigate the risk of a bank default. Generation monitors the firm's solvency position on a daily basis and, on a quarterly basis, produces management accounts and budgets and reconciles these reports against the regulatory returns submitted to the FCA. A liquidity report is provided to the ROG.

Cash balances are monitored daily. Management information showing the firm's financial performance to date and projections for the full year are prepared and presented to the Management Committee for review and comment.

OTHER RISKS

Further to the primary risks described above, Generation is also exposed to Credit & Counterparty Risk, Group Risk, Concentration Risk and Insurance Risk. Though not considered core, these are all represented on the firm's broader risk matrix. For the purposes of providing information on the firm's view of credit risk and its insurance policy, description around these risks can be found below:

Credit Risk

Credit risk arises from cash and deposits with banks and financial institutions, as well as credit exposure to clients, including outstanding receivables and committed transactions.

The risk arises due to the potential non-payment of receivables and default by the banks or money market funds with which Generation may deposit surplus funds.

Generation conducts due diligence on any potential counterparty before it enters into any formal arrangements. Generation holds cash on deposit with global rated banks and other financial institutions pre-approved by the ROG. Exposures to such institutions are reviewed by the ROG.

Insurance Risk

Generation has taken professional insurance advice and as of 31 December 2018 has cover for Professional Indemnity of up to GBP 50 million, Directors and Officers insurance of GBP 50 million for Generation, general crime insurance of £10 million, Fidelity Bond cover for ERISA clients of USD 500,000 per plan and Public liability cover and Employer liability cover at GBP 10 million. In addition Generation has arranged for Directors and Officers Liability cover of GBP 50million for Generation's own managed Funds.

Appropriateness of cover is reviewed annually when policies are renewed. In discussions with advisors, clients and underwriters, Generation believes the scope and level of insurance cover is suitable and appropriate for the type and scale of business conducted and associated risks.

NON-RELEVANT RISKS

As part of the risk identification process, Generation has reviewed its risk categories against those set out under GENPRU 1.2 and IFPRU 2.2, and has validated that the following risk categories do not apply to Generation:

Risk Category	Risk Description	Generation Conclusion
Residual risk	Residual risk means the risk that credit risk mitigation techniques used by the firm prove less effective than expected.	Generation does not perform credit risk mitigation techniques
Securitisation risk	Securitisation risk includes the risk that the capital resources held by a firm in respect of assets which it has securitised are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved.	Generation does not securitise any assets
Interest rate risk, including interest-rate risk in the non-trading book	Interest-rate risk in the non-trading book means: (a) risks related to the mismatch of re-pricing of assets and liabilities and off balance sheet short- and long-term positions (“re-pricing risk”); (b) risks arising from hedging exposure to one interest rate with exposure to a rate which re-prices under slightly different conditions (“basis risk”); (c) risk related to the uncertainties of occurrence of transactions, for example, when expected future transactions do not equal the actual transactions (“pipeline risk”); and (d) risks arising from consumers redeeming fixed rate products when market rates change (“optionality risk”).	Generation is not materially exposed to any interest rate risks
Risk of excessive leverage	The risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets. Article 4(1)(94) of the EU CRR.	Generation is not leveraged and therefore not subject to this risk
Pension obligation risk	Pension obligation risk is the risk to a firm caused by its contractual or other liabilities to, or with respect to, a pension scheme (whether established for its employees or those of a related company or otherwise). It also means the risk that the firm will make payments or other contribution to, or with respect to, a pension scheme because of a moral obligation or because the firm considers that it needs to do so for some other reason.	Generation does not have any pension obligation exposure

CAPITAL RESOURCES

We are required to disclose certain information regarding our capital resources and our capital resource requirement. As stated earlier the capital resource requirement is the higher of the capital required under CRD IV contained in the FCA's GENPRU/BIPRU and that of the AIFMD included in the FCA's Interim Prudential sourcebook for Investment Businesses ("IPRUINV").

The capital resources of our business comprise Tier 1 capital after required deductions. The capital resources requirement is calculated as the total of Pillar I and Pillar II capital.

Generation's Pillar I CRD IV GENPRU/BIPRU capital requirement is the greatest of:

- a base capital requirement of €50,000;
- the sum of market and credit risk requirements; and
- the Fixed Overhead Requirement (FOR).

It is Generation's experience that its GENPRU/BIPRU capital requirement normally consists of the FOR, although from time to time the sum of its credit and market risk capital components exceeds this. Generation applies a standardised approach to credit risk, applying 8% to Generation's risk weighted exposure amounts, consisting mainly of management fees due but not paid, and bank balances.

Generation's Pillar I AIFMD IPRUINV capital requirement necessitates it to meet both an Own Funds and a Liquid Assets capital requirement.

The Own Funds capital requirement is based upon a combination of the funds under management capital requirement, which represents the higher of:

- its base own funds requirement of EUR 125,000 plus its funds under management requirement of 0.02% of relevant funds under management exceeding EUR 250m; and
- its own funds based upon fixed overhead (Article 97 of the EU Capital Requirements Directive)

plus its professional negligence capital requirement of 0.01% of relevant funds under management.

In practice Generation's own funds capital requirement represents its own funds based upon fixed overhead which significantly exceeds its funds under management requirement.

For its Liquid Assets Capital requirement Generation is required to hold liquid assets which exceed its own funds based upon fixed overhead plus its professional negligence capital requirement of 0.01% of relevant funds under management. Liquid Capital represents assets that are readily convertible to cash within one month and have not been invested in speculative positions.

Pillar II capital is calculated by Generation as representing any additional capital to be maintained against any risks not adequately covered under the requirement in Pillar I as part of its ICAAP.

Having performed the ICAAP it is Generation's opinion that its Pillar I Capital Resource Requirement (which comprises the sum of its Credit and Market Risk capital components) does not provide enough cover in respect of the principal risks to which Generation is subject, or is likely to be subject. Instead additional capital is required under the Pillar II calculation. However the level of partner capital held within the business is considered to amply cover the principal risks that Generation face. This conclusion is based upon a consideration of a number of determining factors: most notably the reduced fixed cost base of the firm as a result of its LLP structure and the relative simplicity of Generation's business model.

As at 31 December 2018 Generation's audited regulatory capital position was:

	Capital Items	£'000
Own Funds Test		
	Total Tier 1 Capital after Deductions	16,224
	Pillar I Sum of Credit and Market Risk capital components	7,908
	Pillar II Requirement	85
	Pillar I and Pillar II Requirement	7,993
	Capital in excess of Requirement	8,231
Liquid Assets Test		
	Liquid assets held	53,463
	Liquid assets Requirement	9,211
	Surplus of Liquid Assets	44,252

There is a surplus of reserves above the capital resource requirement deemed necessary to cover the risks identified.

REMUNERATION ARRANGEMENTS AND POLICY

We are required by the FCA to provide information on our remuneration arrangements. In its application of the rules to its Remuneration Policy, Generation has taken account of the FCA's AIFM remuneration principles proportionality rule. This permits application of the Remuneration Code in a way and to the extent that is appropriate to the Firm's size, internal organisation and the nature, scope and complexity of its activities.

The Committee comprises David Blood (the Senior Partner) as Chairperson, the Non-Executive Officer Douglas Paterson, Mark Ferguson (Co-CIO), Charlotte Worthington (the Chief Financial Officer) and Alina Manolache (Director of Human Resources). The Committee reports to the Management Committee ("MC") and presents recommendations for any action on matters it thinks appropriate in the execution of its duties.

Generation's remuneration arrangements represent a combination of salary, bonuses and long term incentive schemes that are designed to ensure the sustainability of Generation and to align the interest of Generation and its employees and partners with those of its clients. Employee Incentive Benefit Plans have been established that invest solely in Generation Funds, thereby directly aligning the interests of Generation's partners and employees with those of its clients. Remuneration includes a variable discretionary component, based on Generation's profitability, individual performance, and product performance. Individual performance includes a consideration of financial and non-financial measures. Financial measures are generally reviewed over a multi-year time horizon.

Breakdown of Remuneration for the financial year ended 31 Dec 2018:

Breakdown of aggregate remuneration of staff in respect of whom disclosure is required by Business Area (i) and by Senior Management and Other Staff whose actions have a material impact on Generation's risk profile (ii)		
(i) Business Area		***Total Remuneration (£'000)***
Investment Management		£101,221
(ii) Senior Management (£'000)	***(ii) Other Staff (material impact) (£'000)***	***Total (£'000)***
£81,709	£20,123	£101,221

Generation is a limited liability partnership; partners are entitled to a share of distributable profits according to their profit share percentages as set out in the Partnership Agreement and their Individual Terms. For the purposes of this disclosure remuneration for partners excludes these amounts.

