Generation Investment
Management LLP
20 Air Street
London W1B 5AN
United Kingdom

Tel: +44 (0)207 534 4700

generationim.com

GENERATION IM GLOBAL EQUITY QUARTERLY INVESTOR LETTER

April 2021

DEAR FELLOW INVESTOR

March marked the anniversary of the first COVID lockdown in many countries, giving us a chance to reflect on the extraordinary events of the past year. This has been a journey for us all – as individuals and as a team. We are grateful for the great work of colleagues across our firm, who kept our laptops and processes running smoothly but, just as importantly, helped us to stay emotionally connected and grounded during the roughest periods. We are conscious that we have been among the most fortunate, with secure work that could be conducted from home throughout the pandemic.

So what have we learned one year on? Primarily that we need to imagine the unimaginable. That doesn't mean the unforeseen. Experts were warning for years that a pandemic of some kind was overdue. Rather, it shows just how difficult it is for humans to accept that everyday life could be so completely reshaped by a crisis. The countries that handled the pandemic best did so in part because of their recent experience of deadly viruses – not just because governments had invested in preparedness, but also because their societies knew the drill.

Now we must take this shared lesson into the climate and ecological crisis and into the fight for equality and social justice. Our day-to-day engagements provide opportunities to catalyse action with companies, clients and other stakeholders. But we will be listening too, to the scientists and to less privileged voices demanding change before it's too late. We trust a new spirit of making the unimaginable possible will become a powerful force in the transition to sustainability.

"There is urgency, but there is also agency."
Michael Mann, climate scientist

Another lesson from the pandemic: we can't afford to take a passive approach to global public goods. It will take a relentless commitment to action to move our societies onto a sustainable path. Still, it's difficult to know which way to turn and which truths to hold on to in a period of such disruption. While we can point to many sustainability trends which accelerated during the pandemic, there are also myriad questions and uncertainties.

Our team has been digging into the post-COVID-19 world for some time now. As you know, roadmaps are crucial to our process, feeding our thinking from different directions. Recent roadmap topics include the future of the office, the future of consumer travel, energy and hydrogen. Each helps us to focus on the future direction of travel for sustainability, beyond the short term.

© GENERATION INVESTMENT MANAGEMENT LLP 2021

This is also the period of the year when we consider our investment process, following our Hits and Misses meeting in December. After a decade of conducting this process, we find it involves few dramatic shifts, but rather some small tweaks. One hot topic is the need to enhance our use of sustainability data. We note some of the regulatory developments in sustainability disclosure in the next section and, in the Behind the Metrics section, we review the integrated reporting we introduced two years ago.

The world beyond the pandemic was also a key theme for our virtual client conference session for the Global Equity Fund on 15 March. As always, we were grateful for the depth and range of questions and points received. These will help us to focus on what really matters in the coming months. All going well, we look forward to seeing you in person at our next client conference in March 2022.

During Q1 2021, markets continued to benefit from the slow return to normality post COVID-19, and clearly experienced a sugar high from reflation policies being adopted by the US. Whether that sugar injection was needed to keep an anaemic patient safe, or has been administered too late, only hindsight will tell. Stimulus payments aside, we see very little to fault the ambitious Biden infrastructure plan, which makes for compelling reading (see here for details). Decades of under-investment in infrastructure are being addressed, and some key building blocks for a sustainable economy are being put in place.

ONE YEAR ON

In our Q1 letter last year, we set out our early thinking on COVID-19 and beyond. We highlighted five types of second-order effects of the pandemic. It has been fascinating to look back at these and reflect on how our expectations have played out.

The first area is fairly straightforward: we identified key sustainability trends such as the rise of ecommerce, telehealth and the stranding of oil assets that have played out more or less as we expected, though the pace has been breathtaking.

Second, we looked at debt and inflation. There continue to be questions raised about the loss of independence of central banks, given their support for fiscal policy in this period – something we mentioned in the letter. We also wondered about the implications of helicopter money. We may only discover the full impact once we settle into the post-COVID-19 new normal, but the recent US stimulus payments have certainly put this on the agenda.

Third, inequality. We thought that problems would arise around governments bailing out companies for long periods, especially those that are not paying their taxes. There have been some signs of this, but we suspect the real scrutiny will come when the music stops. Looking back, we could have underscored the wider risk of inequality and injustice even further in our letter to you. In particular, as the crisis continued, it both exacerbated and revealed the extent of racial injustice in society.

Fourth, we were worried that nationalism would pose a grave challenge for international cooperation. This has sadly proved to be the case, from China's rows with the World Health Organisation, to the race to use vaccines as a diplomatic tool with the developing world and, more recently, the tensions between the EU and UK over vaccine distribution. US-China tensions remain a key challenge for coordinating the recovery.

Finally, we thought the short-term effects of the pandemic would open up exciting opportunities for sustainability. Blue skies and lockdown restrictions might give us a new appreciation of the natural world. There was, as we put it in our Sustainability Trends Report, a palpable restlessness for change in society. We wondered if we would find that our collective commitment to protecting the environment might grow even deeper roots. This is also too soon to judge, but we find many reasons for hope – despite the worrying signs that emissions are rebounding and matters of social justice are only beginning to receive serious attention.

In April 2020, we set out our expectations on how companies should respond to the crisis in a letter to CEOs. We think this has also

stood the test of time. We called on them to put their people first during the crisis, to focus on long-term business strength and capital allocation rather than chasing the next quarter, and to double down on climate action despite the short-term pressures. We received many positive responses to the letter, and there have been many examples of portfolio companies acting in the same spirit.

SUSTAINABILITY DISCLOSURE

Coming back to the present, we wanted to update you on some of the regulatory activity around ESG. One dilemma we often face is that, while attempts by regulators to provide clarity are crucial for setting a high bar as sustainable investing hits the mainstream, sometimes their attempts to codify an approach to sustainability do not chime with our investment process. There are a few aspects we wanted to share with you.

First, there are signs that the SEC is preparing important new ESG guidance for the United States, which could be a gamechanger in this crucial jurisdiction. We expect the initial focus to be on identifying material gaps or misstatements in issuers' disclosures of climate risks under existing rules. We hope the regulator sends a clear signal on climate action, in line with the new administration's commitment to net zero by mid-century, and alignment with the Task Force on Climate-related Financial Disclosures (TCFD).

Second, we have been looking closely at the EU's Sustainable Finance Disclosure Regulation (SFDR). As you are probably aware, the SFDR seeks to standardise the measurement and disclosure of sustainability for financial entities and the companies they invest in. We have found this quite a complicated exercise, involving ourselves as well as colleagues in our legal, risk and compliance teams.

Under the regulation, the Global Equity Fund is considered 'a financial product that promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics'. One of the quirks is that, due to the way the regulations are phased in, investors are required to use ESG data from companies that may not yet have disclosed it. Clearly this is a work in progress. We have set out our investment policy and approach to disclosures for the fund in documents on our website.

Finally, we submitted our first annual stewardship report to the Financial Reporting Council (FRC) in Q1, in response to new UK rules. The UK introduced a stewardship code in 2012 in the wake of the financial crisis to encourage better stewardship standards in the UK market. Investors were required to place a statement on their website, to be assessed by the FRC. The code was considerably strengthened in 2019. Investors now need to report much more detail – including their approach to and processes for stewardship, their activities each year and the outcomes these have delivered.

While we await the FRC's review, we have attached the stewardship report to this email for your review. If we are approved as signatories, we will post the report on our website. The data we are now collecting systematically on engagement will help us to provide more granular insights in future editions of this report.

FROM PLEDGES TO ACTION

Following the launch of the Net Zero Asset Managers initiative (NZAM) in December 2020, momentum has been growing. In March, additional asset managers joined the initiative, including BlackRock and Vanguard. NZAM now has a total of 73 signatories, representing USD 32 trillion in assets under management, and over one third of the total assets under management across the globe. As you may have seen, this is also the topic of our latest Insights piece on The Race to Zero.

We are also delighted to announce that Generation is the first investment manager – indeed the first financial services company – to join The Climate Pledge. The great thing about this initiative is that it provides a platform to work with others committed to rapid climate action, maximising impact while avoiding duplicated effort.

The Climate Pledge was co-founded in 2019 by Amazon and Global Optimism – an NGO founded by Christiana Figueres, who was Executive Secretary of the UN Framework Convention on Climate Change when the Paris Agreement was concluded in 2015.

© GENERATION INVESTMENT MANAGEMENT LLP 2021

The pledge is a commitment to reach net zero emissions by 2040, ten years ahead of the 2050 net zero target date normally associated with the Paris Agreement. It is therefore a perfect fit with Generation's commitment to our clients: we will align the investment portfolios we manage with net zero greenhouse gas (GHG emissions by 2040 or sooner).

In joining the pledge we become part of a community of businesses that shares our high ambition, as well as knowledge, ideas and best practices. We hope this will prove useful as we encourage all the companies in your portfolios to commit to net zero emissions and put the necessary short-term measures in place for 2025 and 2030.

Sadly, there is a very long way to go to transform the wider market. Despite a deluge of corporate climate pledges, only a handful of the 159 companies associated with up to 80% of global industrial emissions have set adequate targets and still fewer have aligned capital allocation with climate action.[1] A further reminder, if one was needed, that in the journey to net zero, there are important differences between goals, plans and action.

ADIDAS CASE STUDY

Adidas' performance has not been exceptional in recent months, but it has done well for a discretionary consumer company during the pandemic, matching the market during this period. We are excited to have found an opportunity to buy, because we see significant potential in the coming years.

Sporting goods is an attractive business across emerging and developed markets. We believe the two market leaders, Adidas and Nike, both have potential to increase share of spend and sell more products direct to consumers. Adidas in particular should be able to increase margins through a combination of channel and geographic mix, improvements in its North America business, and cost leverage.

The sustainability case around sportswear lies in products and services that encourage and enable people to lead more active and healthy lifestyles. As Adidas puts it, 'through sport, we have the power to change lives'. This was never clearer than during the pandemic. Running outside has been a relief valve for many, and periods of unlocking saw a resurgence in tennis, swimming pool and golf bookings and informal football in the park. In the UK alone, seven million people used running to help look after their mental health.[2]

A key challenge for sportswear companies is switching to sustainable materials. This quarter, we were delighted to see Adidas unveil a bold new approach to sustainability. By 2025, the company says, nine out of ten of its articles will be sustainable, up from six today. This builds on their three-loops strategy: 1 products made from recycled materials, 2 products that are 'made to be remade' – i.e., reused at the end of their first life and 3 products made with natural and renewable materials.

In addition, as a Fashion Pact signatory, Adidas is committed to reaching net zero by 2050 and it joined the Science Based Targets initiative in spring 2020. Its focus is on shifting to zero-carbon in its own operations while promoting environmental programs along the entire value chain in close cooperation with suppliers. As with other companies in our engagement, we are exploring details on the precise approach to net zero the company is taking, and we await the details of its science based target. Adidas currently scores a three on our climate engagement framework, the second-highest level.

Human rights in the cotton supply chain

This quarter there has been a deepening controversy over alleged human rights violations in the cotton supply chain. Human rights groups and Western governments believe China's Uighur minority is being persecuted and conscripted for forced labour in Xinjiang Province, which produces 85% of China's cotton and 20% of the global supply. The BBC has been shown evidence that over half a million Uighur minority workers are working in seasonal cotton picking under conditions that appear to raise a high risk of coercion.[3]

[1] See the Climate Action 100+ net zero benchmark report
[2] See survey by Macmillan
[3] See BBC story

When global clothing companies raised concerns and looked to switch supplies away from the region, they were met with a backlash on social and state-owned media in China. Customers are being encouraged to switch to domestic brands. In part, the backlash is a response to sanctions imposed by the EU on Chinese officials – a further sign of geopolitical tensions in the wake of COVID-19.

While the initial focus has been on Nike and H&M, Adidas is also in the picture. Adidas said over a year ago that it does not source material from Xinjiang, and that its workplace standards strictly prohibit all forms of forced and prison labour in its supply chain. The key question for Adidas and other brands is how do they ensure and demonstrate that cotton from Xinjiang does not find a way into the supply chain from an indirect source. It is worth noting that fast fashion companies have a much greater exposure to cotton than Adidas and other sportwear companies.

It is not yet clear how serious the backlash will be. Past experience suggests that it may be short-lived, but we are in a new world and past may not be prologue. In any case, it is a reminder that sticking by your principles sometimes comes at a cost. We truly believe sustainable business wins over the longer term, but it can involve tough choices. It is encouraging that many brands are so far responding to these human rights allegations with the appropriate steps. This fast-evolving issue is of course a priority for our research and engagement.

Thank you for the support and trust you have placed in us.

Regards,

Miguel Nogales and Mark Ferguson, co-CIOs

© GENERATION INVESTMENT MANAGEMENT LLP 2021

PORTFOLIO METRICS

Below are select Environmental, Social and Governance (ESG) metrics alongside financial metrics for the portfolio.[4]

	FACTOR	PORTFOLIO	BENCHMARK
E	Carbon footprint - (tonnes) CO_2equivalent/$m (revs)[5]	57	253
	Greenhouse gas - imputed cost (% of revenues)[5]	0.5%	1.4%
	Water & resource use - imputed cost (% of revenues)[5]	0.7%	1.5%
	Waste & pollution - imputed cost (% of revenues)[5]	0.4%	0.8%
	Percentage of companies in CDP[5]	75%	73%
	Percentage of companies in SBT initiative[6]	31%	20%
S	Human capital development score[7]	5.6	5.1
	Data security score[7]	5.6	5.0
	% of employees would recommend company to friend[8]	75%	73%
G	Firm tenure of executive team[9]	13.1 years	NA
	Fewer than 10% shareholder votes against executive pay[7]	75%	80%
	Equal shareholder voting rights[7]	89%	88%
	CEO total pay less than 3x of median executive officer[7]	55%	77%
	Percentage of shares owned by executives[10]	0.23%	0.10%
	Female board directors[7]	28%	27%
	Board not entrenched[7]	68%	82%
	All non-executive board members on less than four boards[7]	52%	54%
	Independent compensation committee[7]	86%	70%
	Independent board[7]	77%	72%
	Independent chairman or lead non-executive director[7]	84%	64%
F	3yr revenue growth (annualised)[10]	8.2%	7.8%
	Gross margin[10]	53%	49%
	Cash flow return on invested capital (CFROI)[11]	17%	8%

Data in green: relative performance above benchmark. Data in red: relative performance below benchmark.

[4] As at 15 March 2021. Portfolio referenced is the Generation IM Global Equity Fund and may not be representative of all client portfolios within the strategy. Referenced data may not be available across all portfolio companies and it is limited to the data received from the source provider. This information may no longer be current. To the extent not sourced from Generation, it is from sources believed reliable. However, Generation does not represent that it is accurate or complete and it should not be relied upon. It should not be deemed representative of future characteristics for the Portfolio. For definitions of each metric, please refer to the notes to metrics at the end of this letter.

[5] Trucost data, [6] Generation analysis based on data from the Science Based Target initiative and MSCI as at 15 March 2021, [7] MSCI ESG data, [8] Glassdoor data, [9] Generation in-house analysis prepared in March 2021, [10] CapiQ, [11] Credit Suisse Holt.

BEHIND THE METRICS

Our Q4 letter marked two years since we first introduced our integrated reporting framework with 22 ESG metrics at the time. This seems a good time to look back at the evolution in these metrics so far and their evolving role in our investment process.

Let's note some big caveats up front: two years is a relatively short period, and it includes a year of COVID-19. Changes in the metrics are due to a combination of changes in portfolio composition and weightings and progress made within individual companies.

With that in mind, we have identified eight of the most interesting trends. You can also explore the data in the Appendix at the end of this letter:

1. The rate of decarbonisation is striking. Carbon intensity fell more than one third. This was a faster improvement than we saw in the benchmark, from a more carbon-efficient base. This gives us confidence as we continue to implement our approach to investing in line with net zero emissions by 2040. Looking forward, however, we are conscious that some companies enabling decarbonisation have significant emissions themselves. The journey to net zero could be a bumpy road.

2. Membership of the Science Based Targets initiative (SBTi) is becoming the norm. When we introduced this metric in Q4 2019, one fifth of companies in the portfolio were SBTi members. This has risen to almost one third (31%). The trend is similar for the wider Focus List, so this isn't due to portfolio composition. Our climate engagement framework calls for companies to join the initiative and set targets using the 1.5 degree methodology.

3. Board-level representation of women is poor and improving far too slowly. The proportion of women directors on the board stands at 28%, up from 25%. The situation is similar in the benchmark. This, and diversity more broadly, is a priority area for our engagement. We want to introduce a wider set of metrics on diversity.

4. The average tenure of executives has declined from around 16 years to around 13 years. We can't currently assess this for the benchmark.

5. About half of non-executive directors in portfolio companies are now potentially over-boarded, up from less than a third. This trend appears in the benchmark to a lesser extent.

6. The 'human capital development' score has moderately improved. The portfolio is ahead of the benchmark on a similar trajectory. This should be a key metric to track in the wake of COVID-19 and concerns around the future of work. On reflection, however, it is hard to intuit what lies behind this particular metric. We will look for better alternatives.

7. The data security score has improved for the portfolio much faster than the benchmark. This is good news given all the challenges around data – but, like human capital, we do not find the score intuitive. We will look for a better solution.

8. On two key financial metrics – CFROI and gross margin – the portfolio has remained meaningfully ahead of the benchmark. Three-year revenue growth has declined for the portfolio and is similar to the benchmark at present.

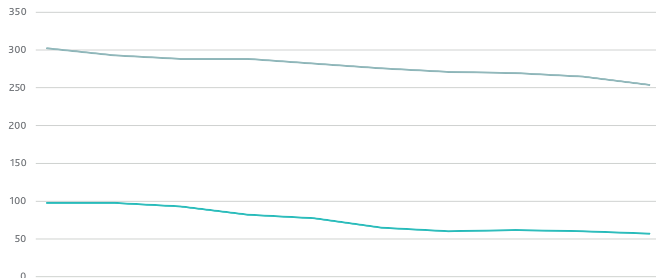
Several metrics have seen little change in both the portfolio and the benchmark. In some cases this is due to a disappointing lack of progress, but in others it reflects difficulties with measuring the trend. Slow progress on the representation of women at senior levels is an example of the former, as we mention above. As an example of the latter, we are not sure the lack of movement on waste and pollution is meaningful – it is probably due to fairly crude modelling. The portfolio continues to produce about half as much waste and pollution as the benchmark according to this metric.

© GENERATION INVESTMENT MANAGEMENT LLP 2021

METRICS OVER TIME

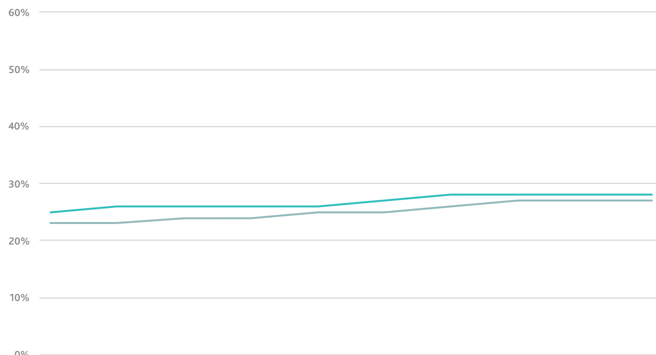
Benchmark   Global Equity Fund

1. Carbon intensity
tCO2equivalent/$m (revs), scope 1 + 2

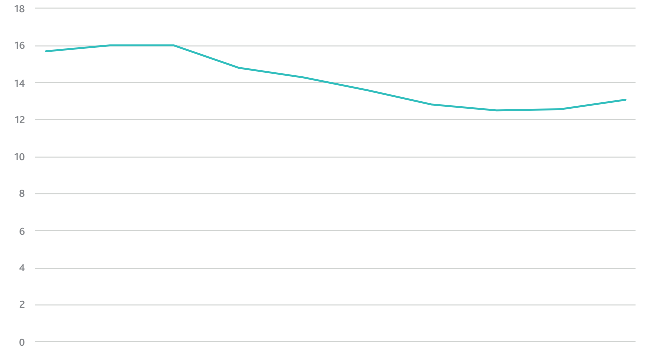


2. Science Based Targets initiative
% companies in the initiative

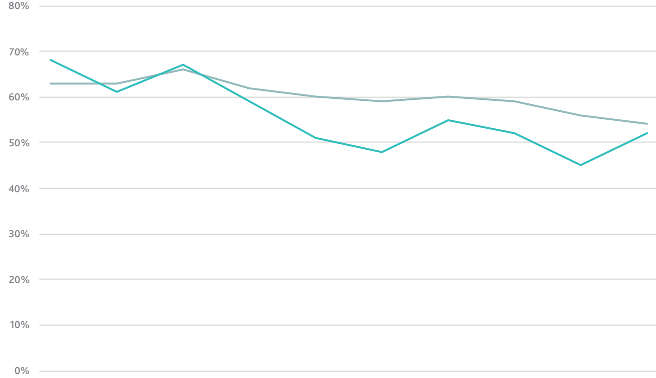
3. Female board directors
%



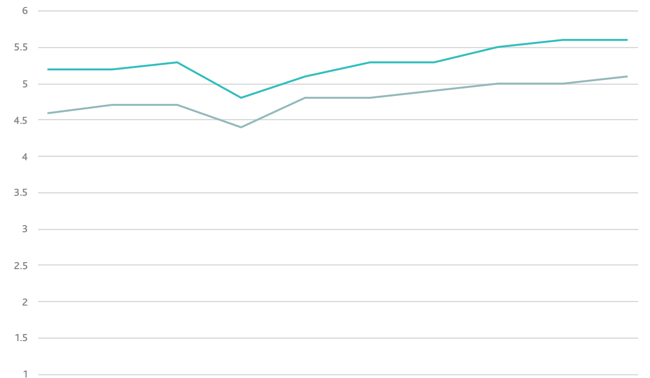
4. Average tenure
Years



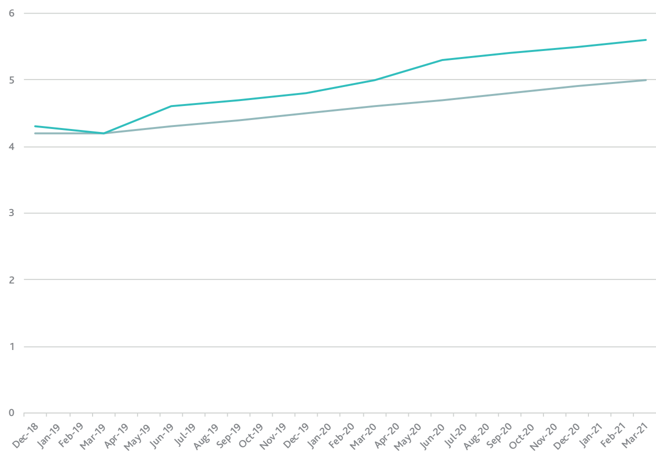
5. No overboarding
% with all non-executive board members on <4 boards



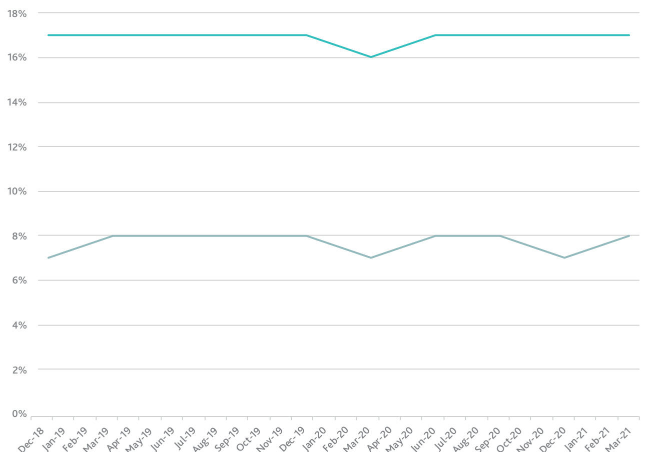
6. Human capital development
Score



7. Data security
Score



8. Cash Flow Return on Invested Capital
CFROI



© GENERATION INVESTMENT MANAGEMENT LLP 2021

Taking a step back, what have we learned from this exercise? We think reporting on a set of metrics has been valuable, but it makes sense to periodically review the metrics we report. This will help to ensure closer integration with the investment process, so that what we report to you is closely aligned with what we discuss as a team and what we are pushing for with companies and with other stakeholders.

As we go through the process of reviewing the metrics, we will have the following points in mind:

First, since we introduced integrated reporting in 2018, the world of ESG data has started to consolidate. The set of metrics recommended by the International Business Council has gained particular traction recently. The regulatory developments that we outline in the 'sustainability disclosure' section on p.3 will also lead to the mandatory disclosure of certain metrics.

Second, data availability has improved in the past two years. We would like to enhance our reporting on metrics capturing social dimensions, such as diversity and inclusion, workforce issues and supply chain impacts, although there would need to be sufficient data coverage.

Third, we have stepped up our engagement activities, including collecting detailed data on engagement and tracking ESG data at the company level for this purpose. It makes sense to ensure alignment between our engagement-related data and what we report to our clients at the portfolio level.

Fourth, our commitment to net zero investing brings specific requirements for reporting and tracking progress. This quarter, we have been in discussions with several providers of 'implied temperature rise' analysis. In this area in particular, we plan to remain actively engaged in pushing for robust, high-quality methodologies.

We would welcome the opportunity to discuss our approach to integrated reporting with you. Let us know if you have any questions or suggestions on our selection and use of metrics. We will keep you updated on how our thinking develops.

© GENERATION INVESTMENT MANAGEMENT LLP 2021

GLOBAL EQUITY PORTFOLIO

	31 MARCH 2021	31 DECEMBER 2020
AUM strategy	USD 29.3 billion	USD 27.4 billion
No. of investments	48	49

GLOBAL AND ASIA EQUITY TEAM

During the quarter, we were pleased to welcome Sara Cheche as a Director to our Consumer sector team, and Morgan Davies and Beth Robinson as Associates to our Research Strategy team.

Sara was previously an Investment Manager at CDC Group. She received an MBA from London Business School and a bachelor's degree in Economics from Harvard.

Morgan was previously Research Procurement Manager at Pictet Asset Management and began his career at Newton Investment Management. Morgan received a bachelor's degree in English Literature from Cardiff University and a master's in the same subject from Warwick University. He has also completed the Investment Management Certificate and is a CFA Charterholder.

Beth joins us from Guidepoint, where she was Team lead. Beth received a bachelor's degree in Economics and Mandarin from Bucknell University.

While welcoming our new joiners, after 11 years at the firm, Eko Yin is moving back to China. Eko was a Partner in the team splitting her time between research and coverage in China for the Global Equity and Asia Equity funds and Japan for the Global Equity fund. We thank Eko for her contribution over the years and wish her well in her relocation. We are delighted that Eko will continue to work with Generation as a consultant, remaining available for research and advice.

THE FIRM

As at 31 March 2021, the Generation team is 101 and assets under management total approximately USD 32.9 billion.[12]

[12] In addition, the firm has USD 2.1 billion assets under supervision as part of its Long-term Equity strategy as at 31 December 2020.

© GENERATION INVESTMENT MANAGEMENT LLP 2021

IMPORTANT INFORMATION

© Generation Investment Management LLP 2021. All Rights Reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of Generation Investment Management LLP.

Please note that this communication is for informational purposes only and describes our investment strategies. It is not and does not constitute a solicitation of any financial product in any jurisdiction. It is not intended to be, nor should be construed or used as, an offer to sell, or solicitation of any offer to buy units or interests in any Fund managed by Generation. The information contained herein is not complete, and does not represent all holdings, or material information about an investment in the Global Equity Fund, including important disclosures and risk factors. Units in Generation's Global Equity Fund are offered only on the basis of the Fund's prospectus. Specifically, units in the Global Equity Fund are only available for offer and sale in the United States or to US Persons (as that term is defined in Rule 902 of Regulation S promulgated under the Securities Act of 1933, as amended ("Securities Act"), that qualify as both (i) accredited investors and (ii) qualified purchasers (as such terms are respectively defined in Regulation D promulgated under the Securities Act and the Investment Company Act of 1940, as amended). In the European Union, Generation's Global Equity Fund is only available in certain countries to Professional Investors as defined in the Alternative Investment Fund Managers Directive (2011/61/EU). Any reference to individual securities does not constitute a recommendation to purchase, sell or hold the investment. Details of the entire portfolios of the Global Equity strategy are available on request. Further, this communication does not constitute investment research. Opinions expressed are current opinions as of the date of appearing in this material. Any projections, market outlooks or estimates are forward-looking statements and are based upon internal analysis and certain assumptions that reflect the view of Generation, and which may not be indicative of actual events that could occur in the future. No assurances can be given that the Fund's investment objectives will be achieved. Past performance is not a guide to future performance and the value of investments may vary substantially from month to month, and can go down as well as up. Future returns are not guaranteed and a loss of principal investment may occur.

If you require more information, please contact **Generation Client Service** (clientservice@generationim.com or +44 (0)207 537 4700).

APPENDIX: METRICS OVER TIME

	Benchmark (BM)										Global Equity Fund (GEF)										% change	
Date	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	BM	GEF
Carbon footprint - (tonnes) CO2equivalent/$m (revs)	301.6	293	288	288	282	276	271	269	264	253	96.7	97	92	82	77	65	60	61	60	57	-16.11	-41.05
Greenhouse gas - imputed cost (% of revenues)	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.40%	1.40%	0.80%	0.80%	0.80%	0.70%	0.60%	0.60%	0.50%	0.50%	0.50%	0.50%	-6.67	-37.50
Water & resource use - imputed cost (% of revenues)	1.50%	1.90%	1.70%	1.70%	1.70%	1.70%	1.70%	1.80%	1.80%	1.50%	0.70%	0.60%	0.60%	0.60%	0.60%	0.70%	0.60%	0.60%	0.60%	0.70%	0.00	0.00
Waste & pollution - imputed cost (% of revenues)	0.90%	1.00%	1.00%	0.90%	0.90%	1.00%	0.90%	0.90%	0.90%	0.80%	0.50%	0.60%	0.50%	0.50%	0.50%	0.50%	0.40%	0.40%	0.40%	0.40%	-11.11	-20.00
% of companies in CDP	68%	69%	68%	69%	69%	72%	72%	71%	72%	73%	72%	70%	71%	69%	69%	76%	69%	72%	70%	75%	7.35	4.17
% of companies in SBTi					16%	16%	16%	16%	17%	20%					20%	27%	27%	25%	27%	31%	25.00	55.00
Human capital development score	4.6	4.7	4.7	4.4	4.8	4.8	4.9	5.0	5.0	5.1	5.2	5.2	5.3	4.8	5.1	5.3	5.3	5.5	5.6	5.6	10.87	7.69
Data security score	4.2	4.2	4.3	4.4	4.5	4.6	4.7	4.8	4.9	5.0	4.3	4.2	4.6	4.7	4.8	5.0	5.3	5.4	5.5	5.6	19.05	30.23
% of employees would recommend company to friend	64%	64%	65%	66%	66%	67%	68%	69%	70%	73%	69%	67%	68%	67%	69%	69%	70%	70%	71%	75%	14.06	8.70
Average tenure of executives at the firm (years)											15.7	16.0	16.0	14.8	14.3	13.6	12.8	12.5	12.6	13.1		-16.56
Fewer than 10% shareholder votes against executive pay	79%	79%	79%	80%	81%	80%	81%	80%	80%	80%	88%	88%	74%	73%	73%	68%	73%	70%	70%	75%	1.27	-14.77
Equal shareholder voting rights	91%	91%	91%	91%	91%	91%	90%	90%	90%	88%	85%	83%	86%	82%	82%	82%	82%	82%	84%	89%	-3.30	4.71
CEO total pay less than 3x of median executive officer	76%	76%	76%	75%	76%	76%	77%	77%	77%	77%	66%	66%	64%	68%	71%	64%	57%	57%	57%	55%	1.32	-16.67
Percentage of shares owned by executives	0.10%	0.10%	0.11%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.20%	0.20%	0.18%	0.16%	0.16%	0.17%	0.17%	0.18%	0.18%	0.23%	0.00	15.00
Percentage of board directors that are female	23%	23%	24%	24%	25%	25%	26%	27%	27%	27%	25%	26%	26%	26%	26%	27%	28%	28%	28%	28%	17.39	12.00
Board not entrenched	82%	81%	82%	83%	83%	81%	82%	83%	83%	82%	68%	66%	71%	77%	76%	73%	70%	70%	70%	68%	0.00	0.00
All non-executive board members on less than 4 boards	63%	63%	66%	62%	60%	59%	60%	59%	56%	54%	68%	61%	67%	59%	51%	48%	55%	52%	45%	52%	-14.29	-23.53
Independent compensation committee	79%	79%	79%	73%	73%	73%	71%	69%	69%	70%	78%	80%	88%	84%	82%	84%	82%	84%	82%	86%	-11.39	10.26
Independent board	68%	69%	69%	69%	69%	69%	69%	70%	71%	72%	77%	77%	77%	76%	76%	76%	76%	76%	76%	77%	5.88	0.00
Independent chairman or lead non executive director	60%	60%	61%	61%	61%	61%	62%	62%	63%	64%	78%	80%	83%	80%	78%	80%	82%	84%	84%	84%	6.67	7.69
3yr revenue growth (annualised)	8%	8%	9%	9%	9%	9%	10%	11%	10%	8%	11%	12%	13%	12%	13%	12%	12%	10%	9%	8%	0.00	-27.27
Gross margin	43%	48%	48%	48%	48%	49%	50%	50%	49%	49%	50%	52%	52%	52%	54%	53%	53%	52%	54%	53%	13.95	6.00
Cash flow return on invested capital (CFROI)	7%	8%	8%	8%	8%	7%	8%	8%	7%	8%	17%	17%	17%	17%	17%	16%	17%	17%	17%	17%	14.29	0.00

© GENERATION INVESTMENT MANAGEMENT LLP 2021

NOTES TO METRICS

generation

FACTOR	METRIC	SUMMARY DESCRIPTION
Average tenure of executives at the firm	Median	Average tenure of the current executives at the company. In our view, longer is considered better.
Fewer than 10% shareholder votes against executive pay	Percentage	Percentage of companies that received less than 10% shareholder votes against executives pay (most recently reported shareholder meeting). Only applies to companies that have 'say on pay' vote.
Equal shareholder voting rights	Percentage	Percentage of companies that have equal voting rights. In our view, a higher number is considered positive.
CEO total pay less than 3x of median executive officer	Percentage	Percentage of companies where the CEO's total pay for the last reported period was no more than 3x the median pay for other named executives. In our view, a higher number is considered better.
Percentage of shares owned by executive & board	Median	Executive share holdings as a percentage of shares outstanding. We show the median for portfolio and benchmark, as the average may be impacted by some companies (often founder run) with large executive ownership stakes.
Female board directors	Average	Percentage of female board directors. In our view, a higher percentage is positive.
Board not entrenched	Percentage	Percentage of companies without an Entrenched Board. The Board Not Entrenchment is inferred only; it is assumed and based on the following criteria from MSCI where board tenure is long and/or there are a significant proportion of older board members. The criteria includes >35% board tenure >15 years, 5 or more directors tenure >15 years, 5 or more directors >70 years old.
All non-executive board members on less than 4 boards	Percentage	Percentage of companies with no overboarded non-executives. The threshold is where a board member serves on four or more public company boards.
Independent compensation committee	Percentage	Percentage of companies with independent compensation committee, where such a committee has been established. Please see below for the independence criteria used.
Independent Board	Average	The Independent Board is inferred only; it is assumed and based on the following criteria from MSCI where it excludes current & prior employees, those employed by predecessor companies, founders, those with family ties or close relationships to an executive, employees of an entity owned by an executive and those who provided services to a senior executive or company within the last 3 years. Non executive compensation must be proportionate with other non executives and less than half of the named executives. Where information is insufficient the director is assumed Non-Independent.
Independent chairman or lead non executive director	Percentage	Percentage of companies which have an independent chair, or where the chair is not independent, an independent lead director. In our view, a higher proportion is considered better. As defined by MSCI, Independence is classified as independent of both management and other interests (employees, Government or major owners).
Human capital development score	Average	MSCI score (0-10) for motivating and engaging employees through variable compensation, work/life balance, training and Employee Share Ownership Programs (ESOPs). MSCI differentiates between labour management and human capital development based on educational attainment, but we aggregate.
Data security score	Average	MSCI score (0-10) for companies attempting to control and protect data through policies, audits, training and other programs.
% of employees would recommend company to friend	Average	Percentage of participating employees who would recommend company to a friend. This metric may warrant caution where a small percentage of the work force report.
Carbon footprint - (tonnes) CO_2equivalent/$m (revs)	Weighted Average	Aggregate tonnes of carbon dioxide (CO_2 equivalent) per $USDm revenue (not restricted to CO_2, includes a basket of emissions).
Green house gas - imputed cost (% of revenues)	Weighted Average	Aggregate green house gas cost (to society) of direct and indirect emissions, based either on disclosed or modelled emissions. Calculated as a percentage of revenues.
Water & resource use - imputed cost (% revenues)	Weighted Average	Aggregate waste and pollution cost, both direct and indirect, either disclosed or modelled. Calculated as a percentage of revenues.
Waste & pollution - imputed cost (% revenues)	Weighted Average	Aggregate water and resource use cost, both direct and indirect, either disclosed or modelled. Calculated as a percentage of revenues.
Percentage companies in 'Carbon Disclosure Project'	Percentage	Percentage of companies reporting to the Carbon Disclosure Project.
Percentage Companies in Science-based targets initiative (SBTi)	Percentage	Percentage of companies that have joined the Science Based Targets initiative. Please refer to the Science Based Target initiative website for further information.
3yr revenue growth (annualised)	Weighted Average	Aggregate (weighted) three year revenue growth rate to the last reported fiscal year. Revenue growth is not adjusted for acquisitions and disposals.
Gross margin	Weighted Average	Aggregate (weighted) gross margin for the last fiscal year. Gross margin is the difference between revenue and cost of goods sold divided by revenue.
Cash flow return on invested capital (CFROI)	Weighted Average	CFROI (cash flow return on investment) a (trademarked) valuation metric.

© GENERATION INVESTMENT MANAGEMENT LLP 2021