

# Generation IM Sustainable Private Equity Fund II, ILP

## SFDR Article 10 Disclosure

This Fund is categorised as an Article 9 Fund for the purposes of SFDR.

### (a) Summary

Section	Summary
No significant harm to the sustainable investment objective	<p>Where the Fund makes SFDR sustainable investments it will seek to ensure through pre-investment due diligence that such investments:</p> <ul style="list-style-type: none"><li>• do not significantly harm any of the other sustainable investment objectives set out under SFDR, including taking into account the Minimum PAI Indicators referred to in section (b) below,</li><li>• are appropriately aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, and</li><li>• where relevant (for potentially EU taxonomy-aligned investments), do not significantly harm any of the other sustainable investment objectives set out under the relevant EU Taxonomy category.</li></ul>
Sustainable investment objective of the financial product	<p>The Fund's sustainable investment objective spans a range of environmental and social objectives including:</p> <ul style="list-style-type: none"><li>• <b>Environmental objectives:</b> less production of greenhouse gas emissions (including through more efficient use of energy and renewable energy), positive impact on the circular economy (including through more efficient use of raw materials and less production of waste), more efficient use of water and land, and a positive impact on biodiversity</li><li>• <b>Social objectives:</b> investment in human capital (including through fostering labour relations), tackling inequality, and fostering social cohesion and integration</li></ul>

Investment strategy	<p>The Fund intends to pursue well established, private mid-to-late stage growth companies expected to have a majority or all of the following characteristics:</p> <ul style="list-style-type: none"> <li>• high quality business models deemed by the Investment Manager to be suitable for long-term investing, with a secure local market position at scale with further global growth potential;</li> <li>• the potential to act as a 'Sustainability Platform' (i.e. the potential to drive an industry-level sustainability transformation in its respective sector), often with an opportunity to deploy further capital over time;</li> <li>• stable governance and strong management deemed by the Investment Manager to be led by world class entrepreneurs/leaders that share Generation's vision to drive sustainability outcomes and shareholder value in lockstep; and</li> <li>• an ownership model in respect of which the Fund generally expects to be able to exert significant influence over value creation and/or strategic direction.</li> </ul>
Proportion of investments	<p>Other than ancillary cash, liquid assets and derivatives, the Fund intends that the whole of its portfolio will be invested in SFDR sustainable investments.</p> <p>Within that commitment the Fund has made no minimum commitment to/as between environmentally and socially sustainable investments or to EU-taxonomy aligned investments.</p>
Monitoring of sustainable investment objective	<p>Generation uses a suite of investment-specific sustainability indicators and cross-portfolio indicators to measure the attainment of the Fund's sustainable investment objective.</p> <p>For each investment of the Fund, Generation defines:</p> <ul style="list-style-type: none"> <li>• the specific SFDR environmental or social objective to which that investment contributes; and</li> <li>• an investment-specific sustainability indicator used to measure the investment's contribution to that objective over the life of the investment.</li> </ul>
Methodologies for the sustainable investment objective	<p>Investment-specific sustainability indicators used to measure contribution to the investment-specific social or environmental objective are typically designed in partnership with the portfolio company itself. These indicators are typically selected based on a combination of factors and strive to capture the 'additional' effect of the product or service on the specific social or environmental objective versus the status quo or business as usual.</p> <p>The methodologies applied to measure the cross-portfolio measures vary according to the nature of the metric. Guidance is provided for portfolio companies in order to maximise consistency in calculation. This guidance is aligned to regulatory definitions, where relevant.</p>
Data sources and processing	<p>Generation aims to use primary data sources where possible by working closely with portfolio companies, supplemented</p>

	with third party data providers, desktop research, as well as interviews and discussions with industry and subject matter experts. But in some cases data may be estimated.
Limitations to methodologies and data	<p>The breadth of Generation’s overarching mission makes it hard to quantify the outcomes of all aspects associated with the actions underlying the attainment of the sustainable investment objective of the Fund. Generation has selected indicators that focus particularly on the contribution of the investee companies’ products and services to specific social or environmental objectives, as well as cross-portfolio sustainability performance indicators.</p> <p>There remain significant gaps in corporate sustainability reporting, and a lack of relevant, comparable, reliable and publicly available sustainability data on companies.</p> <p>Sustainability (including PAI indicator) data often rely on the data collection and assessment efforts of third parties and delays in accessing disclosures or inaccuracies in the data supplied will be beyond Generation’s control. Even where data is available, its impact and/or interpretation may be disputed. This is particularly the case for sustainability indicators that draw on third-party assessments.</p>
Due diligence	Due diligence carried out on underlying assets of the Fund, and the associated internal and external controls on that due diligence, is set out in Generation’s approach to <a href="#">Sustainability in the Investment Process</a> .
Engagement policies	The engagement policies implemented in support of the sustainable investment objective, including any management procedures applicable to sustainability-related controversies in investee companies, as set out in Generation’s <a href="#">Stewardship and Engagement Policy</a> .
Attainment of the sustainable investment objective	Generation does not make use of an index as a reference benchmark for the purposes of measuring the attainment of the sustainable investment objective of the Fund.

This section is intended to be treated as a summary of the following disclosures and does not purport to be complete.

**(b) No significant harm to the sustainable investment objective**

Where the Fund makes SFDR sustainable investments the Fund will seek to ensure through pre-investment due diligence that such investments:

- do not significantly harm any of the other sustainable investment objectives set out under SFDR, which includes taking into account the Minimum PAI Indicators listed in the [PAI Assessment Policy](#) as well as additional voluntary indicators for principal adverse impacts as Generation may determine from time to time
- are appropriately aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the

International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

- If they qualify as an environmentally sustainable SFDR investment which is potentially taxonomy aligned, do not significantly harm any of the other sustainable investment objectives set out under the relevant EU Taxonomy category.

### **(c) Sustainable investment objective of the financial product**

The Fund's sustainable investment objective spans a range of environmental and social objectives in line with its strategy:

- **Environmental objectives:** less production of greenhouse gas emissions (including through more efficient use of energy and renewable energy), positive impact on the circular economy (including through more efficient use of raw materials and less production of waste), more efficient use of water and land, and a positive impact on biodiversity
- **Social objectives:** investment in human capital (including through fostering labour relations), tackling inequality, and fostering social cohesion and integration

### **(d) Investment strategy**

The Fund will seek to apply Generation's long tradition of sustainable investing to the larger ticket, influential ownership transaction structures of the buyout private equity model. The investment opportunities that the Fund intends to pursue are well established, private mid-to-late stage growth companies expected to have a majority or all of the following characteristics:

- high quality business models deemed by the Investment Manager to be suitable for long-term investing, with a secure local market position at scale with further global growth potential;
- the potential to act as a 'Sustainability Platform' (i.e. the potential to drive an industry-level sustainability transformation in its respective sector), often with an opportunity to deploy further capital over time;
- stable governance and strong management deemed by the Investment Manager to be led by world class entrepreneurs/leaders that share Generation's vision to drive sustainability outcomes and shareholder value in lockstep; and
- an ownership model in respect of which the Fund generally expects to be able to exert significant influence over value creation and/or strategic direction.

The Fund will seek to achieve its investment objectives through acquiring large minority or majority stakes in a focused portfolio, a focus on asset quality and selection, and deploying a highly active, agenda-driven ownership model.

The Fund will focus on investing in companies headquartered in developed markets, including but not limited to, Europe, the UK, the United States and Canada. The revenue footprint of target investee companies is anticipated to be global in nature but with a concentration in developed markets.

In terms of the policy to address good governance of investee companies, pre-investment due diligence for all investments includes a detailed examination of management quality. Concerns

or controversies relating to management structures, employee relations, staff remuneration and tax compliance are considered as part of this examination.

The Fund will seek to achieve its investment objectives through acquiring large minority or majority stakes.

The Fund aims to deliver attractive risk adjusted returns and positive impact although there is no guarantee this aim can be achieved.

#### **(e) Proportion of investments**

The Fund expects that a minimum of 90% of its portfolio will be invested in SFDR sustainable investments. The remainder portion of the portfolio will be cash or liquid assets for ancillary cash management purposes (up to a maximum of 10%).

Within that commitment the Fund has made no minimum commitment to/as between environmentally and socially sustainable investments or to EU-taxonomy aligned investments.

#### **(f) Monitoring of sustainable investment objective**

Generation uses a suite of indicators to measure the outcomes of the actions underlying the attainment of the Fund's sustainable investment objective.

For each investment of the Fund, Generation defines (i) the specific environmental or social objective to which that investment contributes to, in line with the sustainable investment objectives laid out under the definition of 'sustainable investment' within SFDR (ii) an investment-specific sustainability indicator ("**product impact KPIs**") that the team will use to measure the investment's contribution to that objective over the life of the investment.

In addition to investment-specific sustainability indicators, Generation monitors a suite of cross-portfolio indicators ("**corporate ESG performance KPIs**") designed to capture the social and environmental outcomes produced by the business operations of the underlying investment as a whole, along with governance maturity-related indicators. Examples of corporate ESG performance KPIs considered typically relate to environmental performance, governance and, in the social sphere, employee matters, respect for human rights, anti-corruption and anti-bribery matters. Subject to data availability and other considerations, examples of indicators of environmental performance may include: GHG emissions reductions, energy intensity improvements, the percentage of an equipment fleet powered by alternatives to fossil fuels, or the percentage of revenues derived from advanced, more resource- or energy-efficient technology. These indicators have from the coming into force of SFDR Level 2 been supplemented by the PAI indicators referred to in (b).

Both the investment-specific sustainability indicators and cross-portfolio indicators are monitored by Generation, at minimum, on an annual basis, with PAI indicators being reviewed quarterly. Data on how these indicators perform is predominantly received directly from portfolio companies (in some cases, gathered and computed with the support of the company's or Generation's consultant partners), and, to the extent practicable, is subject to quality assurance, review, and challenge by Generation where the attainment of the sustainable investment objective is not deemed to be met.

Each prospective investment's potential to contribute to the investment-specific social or environmental objective, and performance on the investment-specific sustainability indicator

(or a proxy thereof), along with potential negative and positive first and second-order effects on other social and environmental objectives (to ensure no significant harm), is also assessed during due diligence. This information, along with material financial, operational and valuation information, is used by Generation to inform the Fund's decision to invest.

If the Fund has already invested and circumstances have changed such that Generation determines that the attainment of the sustainable investment objective is not deemed to be met by the relevant portfolio company, Generation will seek to engage with the company in order to mitigate related risk or remedy related harm. If issues persist beyond the applicable grace period, Generation may seek a sale of its shares in a secondary transaction, noting that the Fund's investments are made in illiquid privately held investments, which may make a sale of shares in a secondary transaction difficult to execute in a timely way.

### **(g) Methodologies for the sustainable investment objective**

Investment-specific sustainability indicators used to measure an individual investment's contribution to the investment-specific social or environmental objective are typically designed in partnership with the portfolio company itself, leveraging Generation's in-house expertise in impact measurement and management methodologies, such as the "Product Impact Framework" developed in-house by the investment team that build on logic models (also called 'theory of change') and impact measurement frameworks laid out by industry initiatives such as the Impact Management Project (IMP). These indicators are typically selected based on a combination of factors (accuracy, precision, feasibility of measurement), and strive to capture the 'additional' effect of the product or service on the specific social or environmental objective versus the status quo or business as usual. Measurement methodologies deployed include bespoke environmental impact modelling, building on the long tradition of Lifecycle Assessments (LCAs) and, to capture the impact of a product or service on the social outcomes experienced by a customer or client, beneficiary surveys.

The methodologies applied to measure the aforementioned cross-portfolio measures vary according to the nature of the metric. Guidance is provided for portfolio companies in order to maximise consistency in calculation. This guidance is aligned to regulatory definitions, where relevant (for example, the case of the PAI indicators mentioned in (b)); in the case there is no regulatory definition, wherever possible, guidance is aligned with what the general partner determines to be widely-accepted standards. As an example, in the case of a metric designed to capture the portfolio company's portfolio GHG emissions (carbon footprint), guidance requires calculation methodologies to be in line with the GHG protocol.

### **(h) Data sources and processing**

Generation, in its management of the Fund, aims to use primary data sources whenever possible by working closely with our portfolio companies. This primary data is supplemented with third party data providers, desktop research, as well as interviews and discussions with industry and subject matter experts.

In addition to partnering with our portfolio companies so that they have an advanced understanding of the technical protocol and expectations for data collection and measurement, Generation also performs reviews of supplied information for accuracy, completeness, and fair presentation.

Data is provided by our portfolio companies directly to our investment team for processing and analysis.

In some cases data may be estimated. The proportion estimated may vary dependent on the data and the company in question.

**(i) Limitations to methodologies and data**

Because of the breadth of Generation's overarching mission as a firm, it is hard to quantify the outcomes of all aspects associated with the actions underlying the attainment of the sustainable investment objective of the Fund. For this Fund, Generation has selected indicators that focus particularly on the contribution of the investee companies' products and services to specific social or environmental objectives, as well as the aforementioned cross-portfolio sustainability performance indicators. Generation will supplement its reporting on these indicators with regular reporting on its activities in support of its mission in its wider client reporting.

In addition, there remain significant gaps in corporate sustainability reporting, including as a result of a lack of regulatory requirements of companies in many jurisdictions to make appropriate sustainability disclosures. This results in a lack of relevant, comparable, reliable and publicly available sustainability data on companies. This is true of the sustainability indicators used to measure the outcomes of the activities designed to achieve the social and environmental characteristics promoted by the Fund, as noted above, as well as for the PAI indicators that Generation considers as per its [PAI Assessment Policy](#). This can represent an impediment to a comprehensive and accurate assessment of these sustainability and PAI indicators.

Finally, sustainability data often relies on the data collection and assessment efforts of third parties and delays in accessing disclosures or inaccuracies in the data supplied will be beyond Generation's control. Even where data is available, its impact and/or interpretation may be disputed. The assessment of sustainability performance of an investment is therefore expected to be dynamic and to change over time as the data sources develop.

Notwithstanding the current limitations to the methodologies and data, as a result of Generation's investment selection process and ongoing portfolio monitoring and management, it believes that such limitations will not affect the attainment of the sustainable investment objectives of the Fund.

**(j) Due diligence**

Due diligence carried out on underlying assets of the Fund, and the associated internal and external controls on that due diligence, is set out in Generation's approach to [Sustainability in the Investment Process](#).

**(k) Engagement policies**

The engagement policies implemented in support of the sustainable investment objective, including any management procedures applicable to sustainability-related controversies in investee companies, as set out in Generation's [Stewardship and Engagement Policy](#).

**(l) Attainment of the sustainable investment objective**

Generation does not make use of an index as a reference benchmark for the purposes of measuring the attainment of the sustainable investment objective of the Fund.