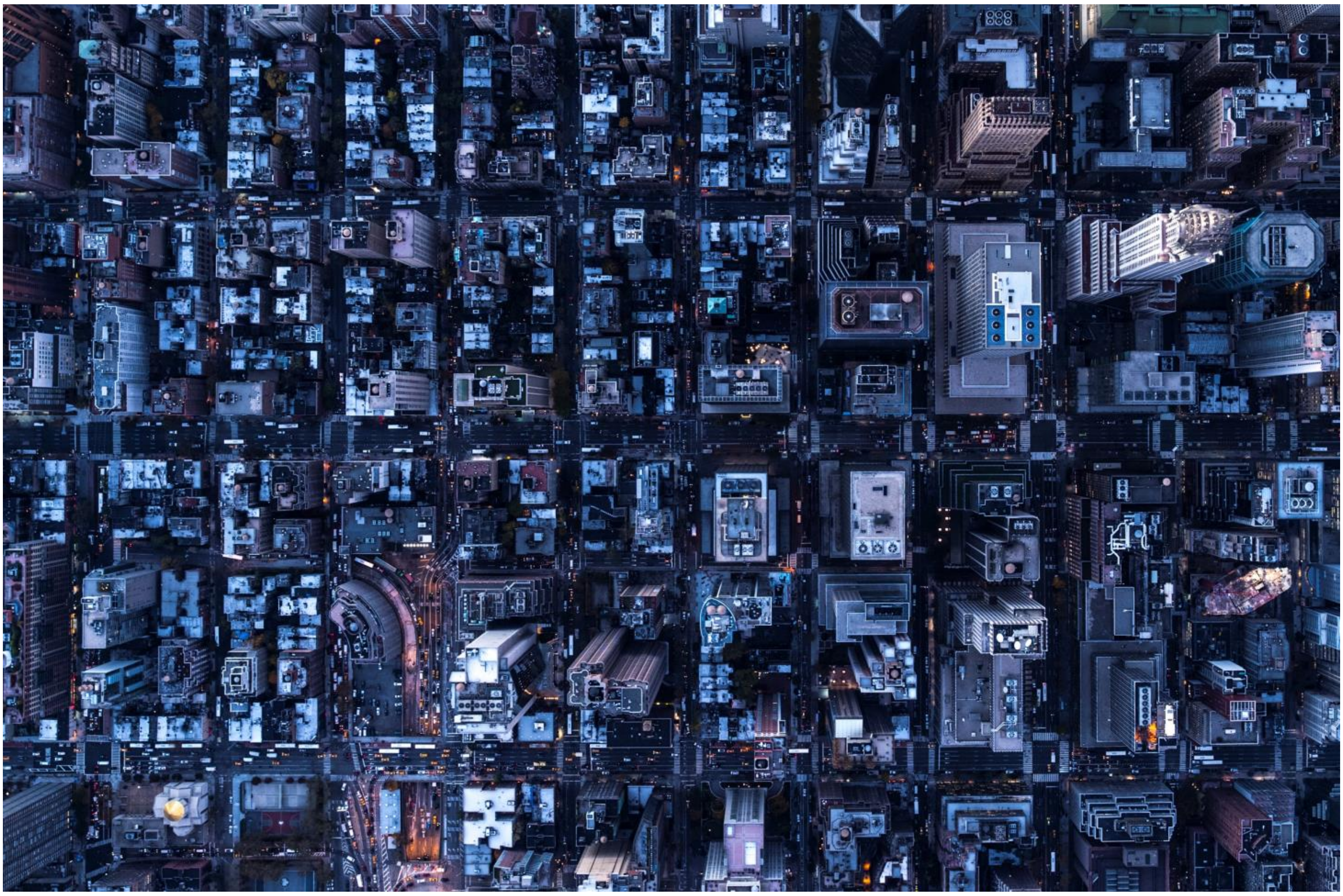
Generation Investment Management Global Equity Quarterly Investor Letter

July 2025



Dear fellow investors

In this quarterly letter, we discuss the impact of current world events and re-state our conviction that sustainability integration is key to successful long-term investing.

A number of companies, including real-estate firm CBRE, e-commerce company Mercado Libre and payments platform Adyen, have made outsized contributions to performance this year.

We feel optimistic about the future. The investment team is currently in 'execution mode' with the cogs of our investment process whirring. We are finding great opportunities in the market: so far this year analysts have presented five companies to the Focus List (and we expect five more to come). At a recent roadmap presentation on AI (more on that below), the energy and enthusiasm were palpable.

Today we operate in an uncertain and confusing world. It is hard to keep up with the news flow, with seismic events happening in Iran, Kashmir, Ukraine and more. The current US administration is chipping away at America's credibility on the world stage. Its tariffs represent a direct hit to companies' margins. Yet, so far, the financial and economic fallout has been minimal. Most global share-price indices are at or near all-time highs. Of course, it is always dangerous to comment on overall market pricing. But it is remarkable how resilient markets appear to be.

We worry that progress on sustainability may slow. For instance, America's healthcare infrastructure is under threat. Spending by the National Institutes of Health, the largest public funder of biomedical and health-related research in the world, is already 10% lower in real terms than last year.[1] These cuts make it harder for the world to reach sustainability goals, including those covering human health. Crackdowns on immigration are not just rhetorical: net migration to the US has fallen by 80% from its level in 2023. The US government has withdrawn from the Paris Agreement, which was perhaps the world's best hope of keeping human life within planetary boundaries. It has also pared back support for clean energy and electric vehicles.

Regrettably, sustainability is now part of the culture wars. But really it should be something that the world can unite behind. The sustainability revolution can be good for business and margins, as well as good for society. Hiring from a diverse group of job applicants can help firms reach better decisions. Cutting out fossil fuels can help cut costs.

Many jurisdictions, including the EU, press ahead with regulations governing sustainability reporting. In addition, private actors mobilised by private capital can help solve many sustainability goals. Take, for example, healthcare. America spends 20% of GDP on health, higher than almost any other country. Yet outcomes are often unimpressive.[2] Making the healthcare system fit for purpose is a key sustainability objective. It is also an area where we believe there are many great opportunities for thoughtful capital allocation.

[1] Generation internal analysis of sources here.
[2] Generation internal analysis of US national accounts. See also The Commonwealth Fund article here.

We see healthcare tools as one of the most attractive niches. For one, tools-production companies are largely disconnected from the underlying pricing of their customers' drugs – useful at a time when drug pricing, especially in the US, is deeply uncertain. The barriers to entry, meanwhile, are formidable. There is entrenched intellectual property, regulatory moats and customer lock-in. This makes disruption rare. Yet within this market structure, innovation remains vibrant.

A long-term shift from small molecules to biologics (large molecules) is under way. Biologics are more complex to produce and validate, which drives demand for specialised tools. Within the tools sector, it is important to differentiate between research and production. Research budgets are under pressure. But production tools are a necessity for established pharma and biomanufacturing firms.

We therefore prefer those companies focused on production, including Danaher and Agilent. In our view Danaher in particular is a leader in precision manufacturing and life-sciences tools, offering long-term visibility and pricing power. These companies' innovations in manufacturing have significantly reduced the cost of producing biologics. This enables low-cost 'generic' biologics to be launched, which in turn allows for the broader use of life-saving drugs in poorer countries.

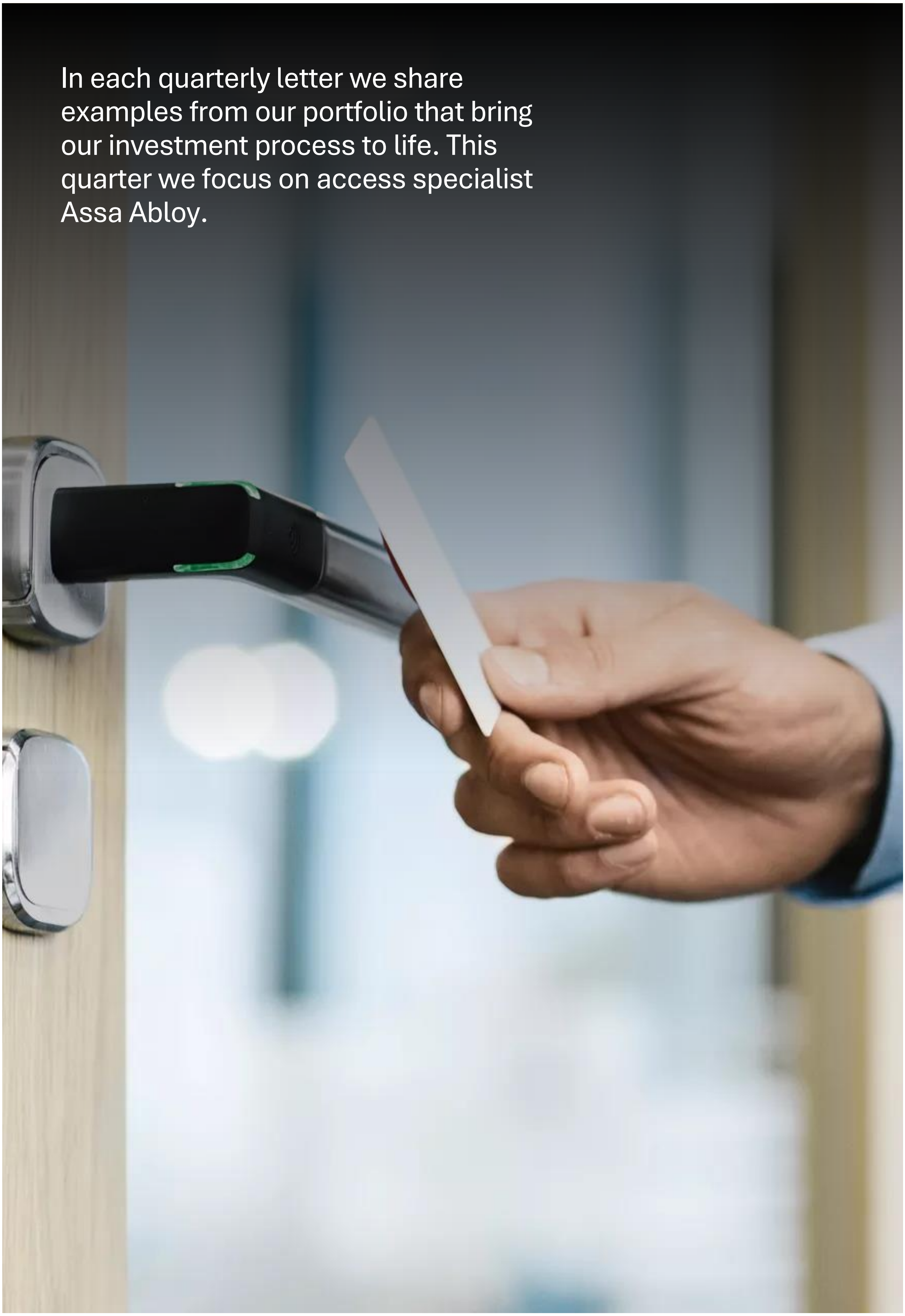
Another long-term opportunity, in our view, is AI. In the past year many of our AI-adjacent investments have contributed to returns. We think the use of AI tools could have large system-positive outcomes. It has the potential to boost efficiency across all sorts of companies. And if deployed appropriately, AI may also be able to cut carbon emissions in many industries, from transportation to building management, by optimising energy consumption. Assa Abloy, a Swedish company that we profile later in this letter, is deploying AI to dynamically adjust automatic entrance doors to minimise energy loss.

Yet crucial questions about AI remain fundamentally unclear. Which businesses will adopt AI tools? How fast will this happen? And when they do, what will be the impact? To explore these questions, we recently hosted the first of three in-depth roadmaps on AI. Over the next few months, we will deeply research and discuss what we view as the three key topics on AI: demand, supply and sustainability.

The conclusion of our recent discussion on AI demand, broadly, was as follows: we are optimistic about the technology's potential, yet we are alive to the fact that a certain amount of overinvestment could take place in the infrastructure layer.

The total assets under management for the Global Equity strategy as at 30 June 2025 are USD 23.3 billion.

In each quarterly letter we share examples from our portfolio that bring our investment process to life. This quarter we focus on access specialist Assa Abloy.



Company example

ASSA ABLOY

Cities are the most sustainable form of human settlement. According to one study, cities and large towns contribute 50% fewer greenhouse-gas emissions per person than other areas.[3] In addition, cities enable the efficient delivery of services that make people healthier and wealthier. But for cities to work properly, you need security. That is where Assa Abloy, headquartered in Stockholm, comes in.

OUR INVESTMENT THESIS

Assa Abloy was created in 1994 through the merger of Sweden's ASSA and Finland's Abloy, though many of its brands are centuries old – one dates back to 1645. Assa Abloy supplies the full suite of 'opening solutions': mechanical and electromechanical locks (53% of sales), entrance automation systems such as sliding doors (30%), and security doors, hardware and identity technologies (17%). Its products protect everything from the front door of a South Korean apartment block to the perimeter fence of a European data centre.

We believe that Assa Abloy is well positioned for the future. This is in part because of a crucial secular trend, in which access is shifting from the analogue to the digital. Purely mechanical locks are giving way to electromechanical, software-defined and, increasingly, cloud-connected solutions. In 2003 only 30% of Assa Abloy's relevant revenue was electromechanical. Today that figure is almost 60%. Digital locks command higher upfront prices, attract service revenues and shorten replacement cycles. Penetration remains low in many industries, particularly residential, so we expect strong organic growth for many years.

Assa Abloy has a powerful market position to take advantage of this trend. Access solutions sit in the 'low price, high cost of failure' quadrant. A door opening accounts for perhaps 0.1% of a building's construction budget, but a malfunction can be catastrophic. When people buy access solutions they therefore often turn to a trusted name. Assa Abloy has roughly USD 14 billion of revenue and a market capitalisation of USD 33 billion, making it two to four times larger than its nearest competitors. Assa Abloy's dominant position in this market is an important 'moat' that can be hard for its rivals to breach.

After selling clients hardware, Assa Abloy provides them with services over many years. Indeed it generates more than two thirds of revenue from the 'aftermarket,' comprising repairs, upgrades and service contracts. This represents a resilient, recurring cash stream that is largely decoupled from new construction. A market that can be highly volatile. The stability of the company's EBIT margins, through the global financial crisis and the COVID-19 pandemic, underlines the resilience of the business model.

We think it is important to emphasise Assa Abloy's evolution from a hardware provider to a solutions provider. Let's take the example of an office building. In the old days, Assa Abloy sold the client mechanical locks via distributors, which would then be installed on the building's doors. The aftermarket revenue came from selling spare parts for those locks to locksmiths, and then key blanks for locksmiths to make spare keys. With the shift to electromechanical solutions, things improved a bit. Assa began selling more complicated locks – ones that are opened with an access card as well as a key. Here, the lock costs more and is more complex, requiring more frequent servicing. Assa moved up the value chain, though it still sold everything through distributors and did not really interact with the customer.

With digitisation, the picture changes more significantly. Now the building's doors do not just have access cards. Rather, there is a centralised 'access control' system managed by software, which controls all access points, including their security and associated energy use. Now Assa provides a key system and its components, managing all the access points to a building. Assa also now interacts directly with customers. The company must be involved early in a building's design stage, to help the client plan how the access points of their office building will work. The aftermarket revenue is much more than just selling spare parts: it involves managing the entire system.

[3] See article here.

Assa Abloy is adept at channelling strong demand into shareholder value. The company converts around 100% of earnings into free cash flow.[4] It has a conservative balance sheet. This allows it to pursue bolt-on deals while still paying a ~40% dividend. Goodwill impairments over 30 years amount to just 4% of cumulative M&A spend – evidence, we believe, of disciplined capital allocation.[4]

The company is always thinking about the future. R&D intensity has increased from 2.7% of sales under the previous CEO to 4% today, with 22% of revenue coming from products launched in the past three years.[5] Many of those innovations directly tackle climate or resource challenges.

They produce a range of high-efficiency products that can support buildings in attaining green building certifications from respected standard setters such as BREEAM and LEED. In Europe especially, these products are in demand as low-efficiency commercial property is starting to command a discounted rental price. These products include battery-free locks that harvest energy from the turn of a handle; smartphone credentials that eliminate the need for plastic access cards; and entrance systems engineered to minimise air leakage and thereby cut building heating needs.

SUSTAINABILITY

Assa Abloy does not just produce system-positive goods and services; we believe it does so in a sustainable way. For instance, Assa Abloy has 1.5°C near-term and long-term science-based targets. It aims to cut Scope 1 & 2 emissions by 50% and Scope 3 by 30% by 2030, en route to net zero by 2050.

The company has a clear pathway to achieve these goals. Nine successive manufacturing footprint programmes have consolidated plants, shifted production closer to customers and trimmed logistics miles. In addition, product engineers are encouraged to reduce metal content and maximise recyclability.

We engage regularly with management to deepen lifecycle carbon analysis and to use the group's purchasing clout to decarbonise supply chains as 92% of its Scope 3 emissions sit in purchased metals and electronics.[5] We are encouraged by the fact that the company is deeply committed to being transparent about its operations and its decarbonisation plan.

KEY RISKS

Even the very best companies face key risks. As locks become connected, hacking becomes a greater threat. Assa Abloy invests heavily in encryption and over-the-air patching, but a high-profile breach could dent trust. We also watch closely how Assa Abloy manages the transition from analogue to digital access solutions. We cannot be certain that the company's moat will remain as impressive as it is today.

We are also aware that Assa Abloy is somewhat exposed to the macroeconomic cycle. Roughly one third of revenue is tied to new construction markets, which are highly volatile. On the other hand, we value the fact that its customer base is highly fragmented – its largest customer accounts for just 2% of revenue – meaning that the risk of a large hit to sales is quite low.

In conclusion, we believe Assa Abloy is to locks what Amazon is to e-commerce: a runaway global leader that continually re-invests in its moat. Its combination of a strong market position, disciplined capital allocation and a clear sustainability roadmap makes it, in our view, a system-positive compounder.

[4] Generation internal analysis.
[5] Company data.

Stewardship and engagement

It is sustainability report season, and this year the sustainability report of the biggest holding in the portfolio, Microsoft, has attracted some negative attention.

The report was published at the end of May and covers Microsoft's fiscal year 2024 ("FY24"), which ran from 1 July 2023 to 30 June 2024.

MICROSOFT'S CLIMATE GOALS

Big tech companies set some highly ambitious climate targets in the early years of net-zero commitments, and none was more ambitious than Microsoft.

In January 2020, Microsoft committed to be carbon-negative by 2030. This means that Microsoft has pledged to be removing more carbon from the atmosphere than it emits into it.

Microsoft's direct ("Scope 1") emissions are relatively small for the size of the company. The company's emissions reduction plan therefore focuses on reducing its emissions from electricity usage ("Scope 2") and from its value chain ("Scope 3").

For Scope 2 emissions, Microsoft's 2030 goal is to match 100% of the company's electricity consumption by zero carbon electricity purchases, 100% of the time.

For Scope 3, Microsoft's goal is to more than halve emissions by 2030. These emissions are principally those associated with the goods and services that Microsoft buys – things like construction materials, servers and chips.

TRACK RECORD

So, what has happened since 2020, as the AI boom has gathered pace?

Microsoft's electricity use has soared. Its 'location-based' Scope 2 emissions (reflecting the emissions associated with the grids where it operates) have increased 132% from FY20 to FY24, from 4.33 million metric tons of CO_2 equivalent (mtCO_2e) to 9.96 million.

However, Microsoft has managed to buy enough zero-carbon electricity annually to cover its electricity usage. The great majority of this (78%) comes from direct sources (on-site generation, Power Purchase Agreements and green tariffs). Only 22% is attributable to the purchase of 'unbundled' renewable energy certificates – a much less impactful approach.

As a result – and in line with the Greenhouse Gas Protocol – Microsoft is able to report much lower 'market-based' Scope 2 emissions; these were just 259,090 mtCO_2e in FY24.

But this does not constitute matching the company's power consumption with zero-carbon electricity '100% of the time.' This would mean purchasing clean power generated at the same time as Microsoft actually used that power and is a whole further challenge. Microsoft does not at present report at what level it is managing to do this.

Meanwhile, Microsoft's even more material Scope 3 emissions have also been growing. They stood at 15.1 million mtCO_2e in FY24 – 28% higher than in the company's FY20 baseline year.

OUR VIEW

There is no escaping the facts on what has happened since Microsoft made its carbon-negative commitment: the company has consistently struggled to make a dent in its emissions.

But our view is that assessment of Microsoft's performance requires some nuance.

First, Microsoft should be applauded for setting the most ambitious climate goals of any major corporation globally.

Second, the company should be commended for sticking with these goals, notwithstanding the unleashing of an AI revolution that has upended Microsoft's expectations for its data centre and power consumption needs and a decisive change in the political weather in the US.

Third, and most importantly, Microsoft is playing a critical system-positive role across the full spectrum of its climate strategy.

The Power Purchase Agreements the company signs are providing financial certainty to developers of zero-carbon electricity generation capacity. They make projects possible, including in the expensive nuclear space.

Microsoft's carbon-free electricity programme has grown eighteen-fold since 2020, with contracted renewables increasing from 1.8 gigawatts (GW) to over 34 GW across 24 countries.

Furthermore, by being one of the early supporters of 24/7 matched clean power procurement, we believe Microsoft has given a powerful market signal to companies building both the certification systems required for 24/7 matching and the energy solutions that will be needed for businesses to run on 24/7 carbon-free energy (think baseload clean power and energy storage).

In part down to the support of companies like Microsoft and also Google, it looks like the Greenhouse Gas Protocol will move to incorporate 24/7 matching into a revision of its Scope 2 standard to enhance the robustness of 'market-based' accounting in Scope 2.

It is no surprise that Microsoft has found it hard to reduce its Scope 3, where its emissions are often several steps removed down its supply chain. Making progress while the company has been growing fast has required determined work: charging a carbon price on procurement teams, helping suppliers identify and implement carbon reduction opportunities, investing in solutions for hard-to-abate emissions (like steel and concrete production), and using renewable diesel, sustainable aviation fuel and EV trucking.

In FY24 Microsoft was able to record its first reduction in Scope 3 emissions and therefore its first reduction in overall emissions.

Last and by no means least, in carbon removal, we think it is no exaggeration to say that Microsoft is near single-handedly building the market for robust carbon removal solutions, both natural and engineered. It is by far the largest corporate purchaser of carbon removal credits globally.

In FY24, Microsoft contracted nearly 22 million metric tons of carbon removals to be delivered over the next 15 years and beyond. This compares to total Scope 1–3 emissions in FY24 (allowing for market-based accounting) of 15.5 million metric tons.

CONCLUSION

We applaud the work the company is doing to create, support and deploy decarbonisation solutions across all scopes of its emissions. This is exactly the type of action on the climate crisis we expect from a company with Microsoft's immense resources. As shareholders, we will continue to support and challenge them along the way.

We do not know whether Microsoft will achieve its ambitious goals for 2030. But what is clear is that emissions globally are not moving in the right direction and fossil fuel generation is still being added to the US grid in flat contradiction of the International Energy Agency's net-zero emissions scenario – exactly the geography where the greatest datacentre build-out is forecast. It is imperative that Microsoft does everything within its power not to roll back its commitments.

Portfolio metrics[6]

We provide select Environmental, Social and Governance (ESG) as well as Financial (F) metrics, which we believe best represent the data we use to inform our Business and Management Quality process, out of those currently available for the majority of our portfolio and the benchmark. While they are best viewed as an output of our process rather than direct inputs, they also provide us with an additional lens through which to view the portfolio and stimulate internal discussion.

As well as measuring our portfolio against a benchmark, we measure it against thresholds too. This is because the portfolio might beat its benchmark in one of the criteria below, but this still might not achieve what is needed for a truly sustainable society. For example: the portfolio has a lower gender pay gap score than the benchmark, but really we want the portfolio, and society more broadly, to move towards eliminating the gender pay gap completely. Therefore, in this situation, our threshold for success would be zero.

E

	Portfolio	Benchmark	Threshold
Carbon intensity, Scope 1 & 2 (tCO_2e/$m)[7]	23	94	
Carbon intensity, Scope 1–3 (tCO_2e/Eur m)[7]	455	834	
SBTi target validated (portfolio weight %)[8]	64%	49%	100%
SBTi committed but target not set (portfolio weight %)[8]	11%	5%	
Implied temperature rise (Scope 1–3, degrees Celsius)[9]	1.6	2.4	1.5

S

	Portfolio	Benchmark	Threshold
Percentage of employees would recommend the company to friend[10]	72%	68%	
Effective tax rate[11]	19%	23%	
Commitment to a living wage[12]	39%		100%
Gender – female Board % (weighted average)[13]	34%	35%	40–60%
Gender – female executives % (weighted average)[14]	25%	25%	40–60%
Gender pay gap (simple average)[15]	12%	17%	0%
Advanced total race/ethnicity score (weighted average)[16]	67	67	
Pay linked to diversity targets (simple average)[17]	11%	11%	

[6] As at 25 June 2025. 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 appendix.
[7] Source: MSCI, weighted average calculation.
[8] Generation analysis based on data from the Science Based Targets initiative. Data as at 4 July 2025.
[9] Source: MSCI.
[10] Source: Glassdoor.
[11] Source: CapIQ. This metric is not shown as above or below benchmark, as one cannot deduce from the number alone whether a company's effective tax rate is a positive or negative; company profits are taxed in a range of jurisdictions with a range of tax rates and permissible deductions. For comparison, the global average Effective Average Tax Rate (EATR) published by the OECD in July 2024 was 20.2%. This was calculated on the basis of data for 2023 from 90 jurisdictions.
[12] Source: Denominator. Coverage is poor for this metric and not adequately representative of the benchmark, therefore no comparison is made.
[13] Source: Denominator.
[14] Source: Denominator. This is a Denominator calculated data point because there is no universally agreed definition of an 'executive' and therefore without a standard method one company's disclosure might represent something significantly different to another.
[15] Source: Denominator. This metric is a simple average of gender pay gap data disclosed by companies. We would note that coverage is poor for this metric. Pay gaps are not measured in a consistent way. Some data points reflect all full-time employees at a company and others only reflect the workforce in jurisdictions where reporting on gender pay gaps is mandatory. Nonetheless, we think it is important to show the data available on this metric and we expect data quality to improve over time.
[16] Source: Denominator. This metric is a score out of 100 that measures the company's total performance on racial/ethnic diversity across the Board, executives and company as a whole. Comparison to background race/ethnicity is calibrated to the country of operations: a company with 100% Caucasian leadership in the US scores less than a company with same ratio in Denmark, due to the different race/ethnicity composition of the background population (higher % of Caucasian in Denmark).
[17] Source: MSCI.

G

	Portfolio	Benchmark
Percentage of shares owned by executives (median)[18]	**0.14%**	0.09%
Independent Board (weighted average)[19]	**80%**	81%
Independent chair or lead non-executive director (simple average)[19]	**89%**	76%
Board not entrenched (simple average)[19]	**78%**	81%
All non-executive Board members on no more than four public company Boards (simple average)[19]	**95%**	95%
Equal shareholder voting rights (simple average)[19]	**86%**	88%
Independent compensation committee (simple average)[19]	**81%**	72%
Companies with regular 'say on pay' votes (simple average)[19]	**97%**	82%
Fewer than 10% votes against executive pay (simple average)[19]	**65%**	74%
Pay linked to sustainability targets (simple average)[19]	**68%**	26%

F

	Portfolio	Benchmark
Three-year revenue growth (weighted average)[18]	**11%**	12%
Gross margin (weighted average)[18]	**62%**	54%
Cash flow return on invested capital[20]	**16%**	9%

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

[18] Source: CapIQ.
[19] Source: MSCI.
[20] Source: UBS Holt.

The firm

Generation has ambitious impact initiatives in addition to our core investment work. We know that to bring about the transformative change required over this decade, we must also motivate others.

CLIMATE AND NATURE REPORT & TRANSITION PLAN

We recently published our latest Climate and Nature Report & Transition Plan. We believe that ensuring the integrity of sustainable investing, reporting progress, and encouraging peers and portfolio companies to do the same are essential to industry-wide progress. Consistent disclosure of climate and nature considerations is the key to enabling all companies, managers and owners to assess their exposure and opportunity.

We are committed to pioneering new approaches and supporting innovation in reporting tools. As an example, this year we piloted a novel approach to scenario analysis with Trex Analysis. Trex is informed by globally leading climate science at the University of Exeter and models scenarios in a much more economically sophisticated way.

Developments at the Task Force on Climate-related Financial Disclosures, IFRS Foundation and the Taskforce on Nature-related Financial Disclosures have highlighted how deeply intertwined considerations of climate and nature are. We believe it is rapidly becoming best practice for organisations to develop integrated climate and nature reporting frameworks and transition plans. We need a financial system in which all financial institutions and capital allocators integrate climate and nature into their decisions across all asset classes. While we need governments to step in where markets cannot succeed on their own, we believe the financial sector must act with or without government policy, because in our view managing climate and nature risks and opportunities is our fiduciary duty.

FIRM AND TEAM UPDATE

At the end of June 2025, we said farewell to our colleague and friend Lisa Anderson, who retired after two decades with Generation. As a Partner, Chief Operating Officer (COO) and Chief Risk Officer (CRO), Lisa played a critical role in shaping our control environment and business oversight. Just as impactful has been the culture she helped build: thoughtful, principled and grounded in care.

We are grateful for her leadership, the structures she built and the strong legacy she leaves behind, including a well-executed handover and succession plan. Lisa leaves not only a strong legacy but also many lasting friendships. We wish her every success for the future.

As part of this transition, Sameer Arsiwala, who joined Generation in 2024 from Morgan Stanley Investment Management, will assume leadership of our risk function. Sameer will report to General Counsel and Compliance Oversight Officer Alex Marshall and Non-Executive Director and Chair of the Risk Oversight Group Amanda Norton.

Responsibility for oversight of the Compliance function remains with Alex Marshall, supported by a strong and experienced team: US Chief Compliance Officer Ghessycka Lucien Bennett, UK Compliance Director Zoe Gibbins and US Compliance Director Montgomery Taylor.

Ruth Kent will assume the full COO title and remit, overseeing our Finance, Operations, Technology and Corporate Services teams. Ruth’s continued leadership will be instrumental in strengthening our operating environment and supporting strategic delivery across the firm.

We also announce that at the end of 2025, Ram Narayanan, Partner and Healthcare analyst in our Global Equity team, will retire from Generation. Over the past decade, Ram has made great contributions to our collective efforts and helped elevate the quality of our internal debate.

We are grateful for all Ram has brought to the Global Equity team and to Generation, and we wish him every success in his future endeavours. We are also pleased that he will remain a friend of the firm in the years ahead.

In the coming months, Ram will work closely with his healthcare analyst colleagues Miguel Nogales and Charles Cooper to ensure a smooth transition of responsibilities. As part of this process, we will begin the search for a new healthcare analyst to join the Global Equity team.

As at 30 June 2025, the Generation team comprises 136 people and assets under management total approximately USD 31.3 billion.[21,22] The Just Climate team comprises 51 permanent people and the Generation Foundation is seven people.

Thank you for the trust you have placed in us.

Miguel Nogales,
co-Portfolio Manager

Nick Kukrika,
co-Portfolio Manager

[21] Includes subscriptions and redemptions received by the last business day of the quarter but applied the first business day after the quarter-end.

[22] Assets under management as at 30 June 2025 are USD 31.3 billion. Please note that this includes Growth Equity strategy assets under management, Just Climate assets under management and Private Equity strategy assets under management as at 31 March 2025. In addition, the firm had a further approximately USD 8.2 billion in assets under supervision (AuS) as at 31 March 2025. AuS formed part of our Private Equity strategy and included assets where Generation sourced, structured and/or negotiated the investment and in relation to which it provided certain ongoing advisory services for a fee. Next quarter, Generation will not separately report AuS. This follows the successful conclusion of Generation's advisory role in a long-standing joint venture arrangement in April 2025. As a result, approximately USD 6.0 billion previously classified as AUS and related to the joint venture will no longer be part of reported assets. The remaining AuS assets (approximately USD 2.2 billion), including other Private Equity co-investments, have been reclassified as AuM.

Appendix

Portfolio metrics: definitions

FACTOR	METRIC	SUMMARY DESCRIPTION
Carbon intensity, Scope 1 & 2 (tCO_2e/$m)	Weighted average	Aggregate tonnes of GHG emissions (expressed as CO_2 equivalent) per USDm of company revenue.
Carbon intensity, Scope 1–3 (tCO_2e/Eur m)	Weighted average	Aggregate tonnes of GHG emissions (expressed as CO_2 equivalent) relative to the company's most recent sales in million Euro. Scope 3 emissions are estimated.
SBTi target validated (portfolio weight %)	Percentage	The percentage of companies in the portfolio with a validated science-based target.
SBTi committed but target not set (portfolio weight %)	Percentage	The percentage of companies in the portfolio that have committed to setting a science-based target with the Science Based Targets initiative but have not yet had their target validated.
Implied temperature rise (Scope 1–3, degrees Celsius)	Degrees Celsius	A portfolio level number in degrees Celsius demonstrating how aligned the companies in the portfolio are to global temperature goals. This metric uses an aggregated budget approach: it compares the sum of 'owned' projected GHG emissions on a Scope 1–3 basis against the sum of 'owned' carbon budgets for underlying holdings. Scope 3 emissions are estimated.
Percentage of employees would recommend company to friend	Average	Percentage of participating employees who would recommend the company to a friend. This metric may warrant caution where a small percentage of the workforce report.
Effective tax rate	Weighted average	The effective tax rate is calculated as the company income tax expense divided by earnings before interest and tax (EBIT) including unusual items. We show a three-year average for smoothing purposes and exclude significant outliers.
Commitment to a living wage	Percentage	The percentage of companies in the portfolio that have committed to a living wage. A living wage is defined by the Global Living Wage Coalition as the remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and their family. Elements of a decent standard of living include food, water, housing, education, healthcare, transportation, clothing and other essential needs including provision for unexpected events.
Gender – female Board	Weighted average	A weighted average calculation of the percentage of female Board directors on each of the Boards in the portfolio.
Gender – female executives	Weighted average	A weighted average calculation of the percentage of female executives at each of the companies in the portfolio. There is no standard definition of an executive and companies can define the executive level in many different ways. Denominator, our data provider, works to calculate the data point based on standard definitions.
Gender pay gap	Average	The average salary gender pay gap across companies that disclose this metric within the portfolio. Calculation methods can vary between companies and jurisdictions. Some data points reflect all full-time employees at a company and others only reflect the workforce in jurisdictions where reporting on gender pay gaps is mandatory. Nonetheless, we think it is important to show the data available on this metric and we expect data quality to improve over time.
Advanced total race/ethnicity score	Weighted average	This metric is a score out of 100 calculated by our data provider that measures the company's total performance on racial/ethnic diversity across the Board, executive and company as a whole. Comparison to background race/ethnicity is calibrated to the country of operations: a company with 100% Caucasian leadership in the US scores less than a company with same ratio in Denmark, due to the different race/ethnicity composition of the background population (higher % of Caucasian in Denmark).
Pay linked to diversity targets	Percentage	The percentage of companies where there is evidence of a commitment to linking executive pay to diversity and inclusion targets. The metric is calculated as: number of companies where evidence exists divided by the total number of companies in the portfolio.
Percentage of shares owned by executive	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.

FACTOR	METRIC	SUMMARY DESCRIPTION
Independent Board	Weighted average	Board independence is inferred by MSCI. The following categories of director are not regarded as independent: current and 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 have provided services to a senior executive or the company within the last three years. The compensation of a non-executive Chair must not be excessive in comparison to that of other non-executives and must be less than half that of the named executives. Where information is insufficient, the director is assumed to be non-independent. For the Board to be classified as independent, a majority of the Board members must be classified as independent.
Independent Chair or lead non-executive director	Percentage	Percentage of companies that have an independent Chair or, where the Chair is not independent, an independent lead director.
Board not entrenched	Percentage	Percentage of companies without an entrenched Board. Board entrenchment is inferred by MSCI using a range of criteria including: >35% Board tenure of >15 years, five or more directors with tenure of >15 years, five or more directors >70 years old.
All non-executive Board members on no more than four public company Boards	Percentage	Percentage of companies with no over-boarded non-executives. The threshold is where a Board member serves on five or more public company Boards.
Equal shareholder voting rights	Percentage	Percentage of companies that have equal voting rights.
Independent compensation committee	Percentage	Percentage of companies with independent compensation committee. Please see above for the independence criteria used.
Companies with a regular 'say on pay' vote	Percentage	The percentage of companies in the portfolio that have a policy in place to ensure that a firm's shareholders have the right to vote on the remuneration of executives on a regular basis.
Fewer than 10% shareholder votes against executive pay	Percentage	Percentage of companies that received less than 10% shareholder votes against executive pay at the most recently reported annual shareholder meeting. Only applies to companies that have a 'say on pay' vote.
Pay linked to sustainability targets	Percentage	The percentage of companies where executive remuneration is linked to sustainability targets. This metric is based on the company's own reporting. It considers whether one or more sustainability metrics are used to determine annual and/or long-term incentive pay and does not consider the effectiveness of those metrics.
Three-year 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.

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