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GENERATION IM GLOBAL EQUITY QUARTERLY INVESTOR LETTER

January 2022

DEAR FELLOW INVESTOR

We hope you had a good start to the new year. Given this is our year-end letter, we've decided to open with a few key observations about 2021. We will then move on to our regular sections of portfolio commentary, a stock-specific example, and information about our sustainability and engagement activities. We also include annual reporting of portfolio mapping to the UN Sustainable Development Goals and a broader firm and advocacy update, as well as perspectives from the Generation Foundation.

Predictable unpredictability

2021 was full of surprises. Practically every week something unexpected happened. In May the world realised that the Delta variant was going to change the Coronavirus pandemic in profound ways. Around the same time inflation started to pick up. No one saw worker shortages coming but by the summer vacancies in many countries were at all-time highs. From one day to the next prices for crucial commodities soared and slumped. And who would expect that across the richest countries on earth, stores would have empty shelves?

We are, in sum, living in a world of unprecedented uncertainty and volatility: what you might call "predictable unpredictability".[1] Politics is extraordinarily unstable: one week the Taliban assume control of Afghanistan; the next China launches a hypersonic missile; the next the world witnesses the emergence of the Omicron variant. Quantitative measures of uncertainty are somewhat lower than in 2020 but very high by historical standards.[2]

We believe that a new version of political economy is emerging, with potentially profound implications for markets. Five big themes stick out:

1. **The role of the state.** Governments are playing a bigger role in people's lives. The unprecedented fiscal intervention of 2020-21 was, broadly, successful. Governments have prevented much of the economic "scarring" that normally occurs in recessions: corporate bankruptcies are below their long-run average, for instance.[3] Governments are also intervening more with people's personal choices, whether that be vaccination mandates or border closures.

   This has shifted the Overton window. Governments now believe they can do more. When the next recession happens, there is little doubt that they will step in with large stimulus cheques and furlough schemes once again. This also has important

[1] https://www.economist.com/leaders/2021/12/18/the-new-normal-is-already-here-get-used-to-it
[2] https://www.policyuncertainty.com/
[3] https://www.oecd.org/coronavirus/en/data-insights/bankruptcy-rates-fall-during-covid-19

implications for policy to achieve net zero. Government confidence to intervene in the economy to mandate sustainable options (e.g. banning the sale of ICE vehicles) seems to be growing.

But there are risks too. Higher government spending and large government debts will at some point need to be addressed.

2. **A fragile coalition on net zero.** The world is making uneven progress towards a net zero future. The agreement at COP26 can be summed up with the phrase "useful progress made", but implementation of all the commitments made by governments and non-state actors is now key.[4] The main positives have been unprecedented private-sector mobilisation (especially the Glasgow Financial Alliance for Net Zero – GFANZ – a coalition of financial institutions committed to the decarbonisation of the economy) and some important government commitments, including from India, on deforestation and methane.

   Of course, we worry that politicians' rhetoric will not be matched by their commitments on the ground. But there is a more profound concern. Could the politics of net zero change? Rising prices for both natural gas and petrol (gas) are leading to public anger. A very cold winter in Europe could compound this problem. It might not take much for net zero energy to become the new Brexit: a new dividing line in politics.

   Consider the latest polls from Gallup, which show a weakening commitment among Americans to deal with climate change. In 2019 8% of Americans thought the government was doing "too much" to protect the environment, but that has since risen to 15%.[5] This could be a temporary trend, and we hope it is, but nonetheless we watch it anxiously.

   That said, the efforts made by the private sector are encouraging. As we detail in the latest edition of our *Sustainability Trends Report*, published in July, sustainable investment is booming. A growing number of corporations are adopting clean-energy pledges. And the economics of renewable energy continue to impress, with production costs continuing to decline extremely rapidly. We remain aware of what we call an "impact gap", where insufficient capital is going to decarbonising hard-to-abate sectors, emerging markets and nature-based solutions. This is one of the main reasons why this year we launched Just Climate, an investment business dedicated to climate-led investing.

3. **Deglobalisation.** Globalisation had lost its shine long before the pandemic. Back in the 1990s and 2000s countries were becoming rapidly integrated—financially, technologically, culturally. But by the late 2010s this process was slowing. Global trade was losing steam. Countries such as America had lost their willingness to engage in global challenges.

   With the pandemic globalisation has not just slowed further; it has gone into reverse. Governments and companies are keener than ever on supply-chain "resilience" and on putting their countries "first". Global immigration flows have collapsed, partly as a result of border closures. China is developing what is in effect a parallel internet.

   The implications for companies are unclear. Some will surely benefit: for instance, those that are defined as "strategic" industries by governments. But others will struggle, perhaps as it becomes more difficult to source materials. The implications for net zero are also not clear. In itself less cross-country transport of goods will reduce emissions. But aggregate emissions may rise if production of goods and services shifts to less efficient, higher-polluting countries.

4. **A new deal on fairness.** More companies are aligning with sustainability goals on financial inclusion and pay equity. Not so long ago most were focused on cost control. Now they are competing with each other to boast about how much they are paying their workers. Amazon says that it wants to be the world's best employer, and is offering jobs paying up to USD 22.50 an hour.[6] Don't forget that not that long ago, activists who demanded a USD 15 an hour federal minimum wage were seen as radicals.

   This is part of a wider, welcome, societal reassessment of fairness. The pandemic has made the value of "essential" or "frontline" workers abundantly clear. And companies are putting their money where their mouth is.

   One possible outcome of faster wage growth is spiralling inflation, as companies are forced to raise their prices. We see some evidence of this in the companies we talk to. A more benign outcome is that, with large pay-packets, workers are able to afford

[4] A deeper discussion of COP26 follows below.
[5] https://news.gallup.com/poll/1615/environment.aspx
[6] https://www.aboutamazon.com/news/operations/update-on-our-vision-to-be-earths-best-employer-and-earths-safest-place-to-work

more goods and services, boosting companies' sales in a virtuous cycle. We hope it is the latter. In early 2022 we will launch a three-part series of *Insights* pieces exploring the relationship between sustainability and inflation further.

5. **Consumer choices.** As we detail in our *Sustainability Trends Report*, the pandemic has accelerated a move towards more sustainable consumer choices. The share of retail purchases taking place online has jumped. It seems likely, too, that people are keener on more sustainable, healthier food, such as organic. It is also clear that the long-run trend towards replacements for animal-based products is accelerating.

   This is not the only way in which people are becoming more sustainable. Talk to almost any business and they will tell you that they are cutting back on travel — something that Generation is also embracing. The idea of a London-New York-London day trip for a meeting now seems quaint. Perhaps, also, the pandemic has made people realise the benefit of the simpler things in life: family and time at home.

PORTFOLIO UPDATE

At Generation our objective is to generate superior returns over the MSCI World benchmark over a three- to five-year period.[7]

We consider the following to be key inputs to this performance:

First, we build a global coverage list of companies which we feel are aligned with a sustainable future and have attractive financial characteristics. Our Focus List now has 147 companies across multiple geographies. We added 25 companies in 2021, the highest number in over a decade, which operate in industries from industrial gases to ecommerce to cardiovascular medicine. We also removed 11 companies, helping keep quality high. In future years we expect the pace of addition to slow. We currently estimate our coverage capacity to be about 150 companies.

Our second input is to develop superior knowledge of these companies. Here the trick is appropriate time management. Recent years have seen an explosion of information, as the internet liquified data availability. Our analysts today are as likely to find insight on Twitter, blogs, specialised consultants or talking to an NGO as they are from traditional sources such as sell-side research.

So, how do we pick the right drops from the fire-hose? In our case, our strategy is to focus on critical questions such as competitive advantage, customer-value proposition, environmental and social externalities, and company culture. These topics require significant judgment. Our success in making these judgments will be the most important driver of your returns in coming years.

Third, we seek to harness the power of our team, but without falling into groupthink. In almost every mistake we have made in the last 17 years, at least one member of the team has seen the situation more clearly than the portfolio managers. Our job is to build a diverse team, create the right conditions for debate, and then listen and calibrate opposing views. We have been fortunate to retain a highly experienced team, and have also greatly benefitted from the fresh perspectives of recent joiners such as Nedko Kyuchukov, Sara Cheche and Alice Townshend.

The final input is portfolio execution. As co-CIOs, one of our critical jobs is to wait for the right price. This can take several years. Our ability to recognise mistakes of judgment early, and understand when to "run for the hills" is critical, as is knowing when to double down on an investment. The market is a machine which distributes humility as well as capital. It pays never to be too certain.

All in all, our performance against this checklist for 2021 was good, but not perfect. In some cases our assessment of risk has been sub-par (some companies in China come to mind). In other cases we have suffered from a lack of imagination and owned too little of a company.But in general, we feel that the four critical building blocks outlined above remain secure for the long term.

It is difficult to make predictions, especially about the future.
Unknown

When asked by our clients to future-gaze we sometimes hide behind this quotation, typically attributed to either Yogi Berra or Mark Twain (those two always seem to get all the good quips). The truth is that the market is a complex system. There are too many variables at play for anybody to make a credible forecast. The market is also adaptive: it learns from its past mistakes. This is even more the case today, where this learning is codified into awe-inspiring machine-learning algorithms.

In our 2020 letter we wrote about the "exuberance in the valuations of high-growth companies, particularly those whose goods and services have proven indispensable during the pandemic". Well, the stock market started to take care of that one in 2021. The mood swing in the prices of fast-growth companies is palpable. Two-thirds of 2021 IPOs on the New York Stock Exchange were underwater by the end of December.[8] In certain companies we believe this mood change will ultimately create attractive investment opportunities.

On the flipside, some companies in fairly pedestrian industries (such as dental care, medical devices and consumer goods) are now selling at very attractive valuations. These companies generate steady rather than explosive growth, and are able to reward

[7] Although Generation seeks to generate superior returns, there can be no guarantee this goal will be achieved.
[8] Generation analysis of https://www.nyse.com/ipo-center/recent-ipo

shareholders with mid- to high-single-digit free-cash yields, a valuation which we haven't seen for a few years. We grew up investing in the 1990s and then witnessed the painful unwinding of the excesses created during the latter part of that decade. Indeed, to put it into somewhat artificial bookends, the noughties were all about mean-revertive value investing, and the following decade was all about growth investing. Just when a consensus model for capital allocation gets established, the market distributes humility. We are not smart enough to predict what the 2020s will hold, but it wouldn't be unthinkable if mean-reversion and focus on valuation come back into fashion.

Much ink has been spilt on inflation. We will add our take in the upcoming *Insights* series exploring the links between sustainability and inflation/deflation. Obviously, the critical question is the speed, level and duration of the rise in inflation. For the companies in your portfolio the most critical considerations are threefold. First, does the company add meaningful value to its inputs? In other words, is the company able to derive sufficient compensation from its clients for more expensive materials, logistics and labour? Second, does the company operate in an industry which benefits or suffers from rising inflation? Finally, how long-dated are the cash flows the company offers? Mechanically, longer-duration cashflows tend to get penalised by the market when inflation, and consequently discount rates, are higher.

The toughest market for us in 2021 has clearly been China. Hand-in-hand with our Asia team, we are both aware of the risks (centralised decision-making, regulatory risks, high competitive intensity) and opportunities (rapid growth in consumer spending, strength of domestic brands). At present we consider China to be investible, but with an extra layer of caution. We will continue to try and judge that balance objectively, and report any changes of view in further letters.

One of our shining lights continues to be our Research Strategy team, led by Della Deme. Through their knowhow, we have been able to continue to build a detailed picture of the companies we invest in. We have held over 1,000 company meetings, over 1,100 expert calls, conducted multiple surveys and brought in several world-class speakers to the team.[9] As an example, an expert has been literally taking apart a small number of electric vehicles for us to figure out the sensors and connectors they contain. We have experts assessing the cybersecurity vulnerability of our companies as well as customer-experience experts assessing how much the customers like certain products.

Finally, we held our 13th Hits and Misses discussion in late November. The themes this year included: tools and strategies to make us more efficient in our research; the use of explicit carbon pricing in our models; and strategies for gaining the insight of Gen Z. Every year we walk away from this meeting humbled by the creativity and open-mindedness of our team.

The total assets under management for the Global Equity strategy as at 31 December 2021 are USD 33.3 billion.[10]

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

Miguel Nogales and Mark Ferguson, co-CIOs

[9] Company meetings include those with the management teams of Focus List companies, their competitors and pipeline companies.
[10] Includes subscriptions and redemptions received by the last business day of the quarter but applied the first business day after the quarter-end.

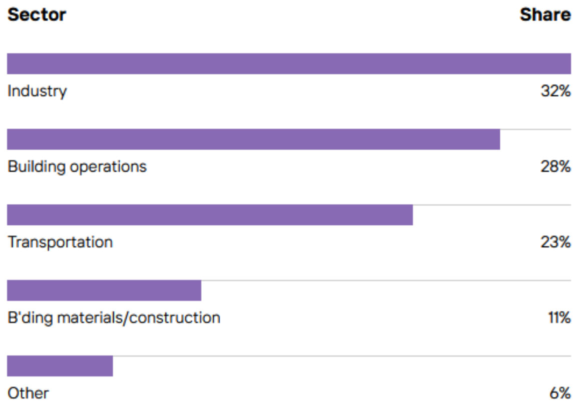
To complete our review of the year, the remainder of this letter will cover the following areas:

1. Company example: JLL and CBRE (pages 7-9)
2. Stewardship and engagement: engagement & proxy voting update (pages 10-12)
3. Portfolio metrics (page 13)
4. Portfolio mapping to the UN Sustainable Development Goals (pages 14-16)
5. Firm update:
    - Advocacy – the road from COP26 (pages 17-18)
    - Infrastructure update (page 19)
    - People update (pages 19-20)
6. 2021 at the Generation Foundation (page 21)

COMPANY EXAMPLE

In each quarterly letter we share portfolio examples that bring our investment process to life. This quarter we're focusing on commercial real-estate services firms JLL and CBRE. Both are covered by our Financials team.

Buildings are at the nexus of many social and environmental drivers. As the chart below shows, the buildings sector is responsible for nearly 40% of annual global CO_2 emissions.[11] Decarbonising the built environment is thus critical to solving the climate crisis.



Global Alliance for Buildings and Construction; Architecture 2030

We have identified a number of innovative businesses reducing the carbon footprint of buildings. On the operational side, elevators, lighting and HVAC (heating, ventilation and cooling) make up the majority of energy use in buildings.[12] Clearly, more efficient solutions can have a meaningful impact. Insulation materials, for example, enable HVAC equipment to be used more efficiently. Schindler, Acuity, Trane Technologies and Kingspan are long-term holdings we believe are leading these sub-sectors. Indeed, 18 of the 147 Focus List companies relate to the built environment.

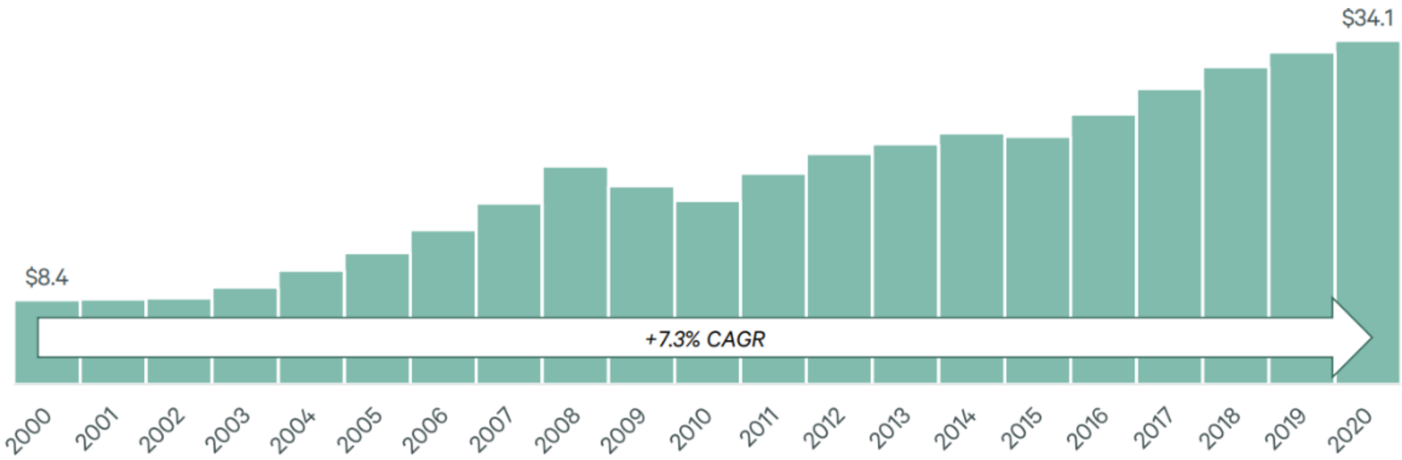
JLL AND CBRE

JLL and CBRE are the two largest global commercial real-estate (CRE) services companies. Both have huge real-estate investment management divisions and CBRE has a real-estate development arm. They offer a range of services to building owners and occupiers, including leasing and property management. If you are reading this in an office, it is likely that one of these firms has been involved in operating or advising on a transaction in your building.

We first invested in JLL over a decade ago. A number of factors attracted us to the sector, including: rising institutional ownership of CRE, increased institutional investor allocation to CRE, industry growth exceeding GDP, industry consolidation and increasing occupier preference for outsourcing. These firms had high organic growth and high returns on capital.

[11] https://architecture2030.org/why-the-building-sector/ In this context the "buildings sector" refers to the materials and construction processes used to put up buildings, as well as the energy used in running and maintaining buildings.
[12] https://www.environment.gov.au/system/files/energy/files/hvac-factsheet-energy-breakdown.pdf

GLOBAL TOTAL INVESTABLE COMMERCIAL REAL ESTATE STOCK, TRILLIONS, USD



Source: CBRE research[13]

Specifically, we were attracted to JLL because of the early leadership they showed around sustainability. They had a unique culture, championing diversity, and a more conservative balance-sheet strategy than their larger peer CBRE.

Over the following decade, JLL grew rapidly but we felt the firm was failing to meet its full potential. JLL was built through a series of mergers. It lacked centralised systems, functions and controls. Management was focused on revenue growth and paid limited attention to margins and cash flow per share. The firm had a weak capital-allocation process. This situation was exacerbated by poor alignment and an inappropriate set of compensation metrics. Furthermore, these problems were industry-wide so management felt little pressure to change.

We had numerous discussions with management and the board. However, we made little progress. In 2016 the board awarded a large pay-out to the outgoing CEO. At the time we wrote to you describing why we were planning to vote against the company on several key items at the annual meeting, including the re-election of the chair and "say on pay".

Since then our engagement efforts have had more traction. JLL has a new CEO, a new Chair and refreshed board, a more thoughtful capital-allocation framework and a revised compensation plan. They've also worked hard to build centralised systems.

Our increasing conviction on the strong industry tailwinds convinced us to add CBRE to the Focus List in 2019. We were also attracted to CBRE by several company-specific factors. For example, we believed that sustainability had become one of the firm's top priorities.

When COVID hit, both CBRE and JLL's share prices fell sharply due to concerns about their highly cyclical, transactional revenue and the impact of remote working on demand for office space. However, we believed both companies would navigate this downturn better than previous ones. Both entered the crisis with more conservative balance sheets and a bigger share of recurring revenue. Further, we were confident that any hit to revenues would be manageable.

JLL and CBRE went on to perform even better than expected. They have been positive net contributors since the start of COVID. Recurring revenue held up well, and both firms successfully pivoted to areas where COVID has accelerated growth. Both have made some difficult decisions which enabled them to exit the crisis financially stronger than when they entered it.

We have always believed that JLL and CBRE play a vital role in reducing the carbon impact of the built environment. We have engaged with them extensively on this issue. As they both directly manage more than 10 billion square feet of CRE and put sustainability high on their clients' agendas, this is also a huge business opportunity for both firms.

[13] Financial and Operation Review, CBRE, Q3 2021

Decarbonisation, especially the retrofitting of existing buildings, is often a problem of coordination rather than of finance. In our view both firms are well-placed to address this. For example, CBRE's recent partnership with Altus Power, a provider of clean-energy solutions, will allow their clients to accelerate decarbonisation efforts. We were delighted when both companies committed in 2021 to net zero by 2040. We like to think the friendly rivalry we encouraged between both firms helped this. As with all our Focus List companies, we will continue to engage them in achieving their net zero targets in this important decade ahead.

STEWARDSHIP AND ENGAGEMENT

Every analyst at Generation undertakes engagement and proxy voting as part of their ongoing coverage of companies. Our Director of Engagement, Edward Mason, and Director of Sustainability Impact and Research, Felix Preston, support the team on stewardship strategy and execution.

We were pleased to be accepted by the Financial Reporting Council in 2021 as one of the first signatories to the UK's robust new Stewardship Code, based on our Stewardship Report for 2020.

ENGAGEMENT OVERVIEW

In 2021 we undertook 570 meetings with Global Equity Focus List companies. The purpose of our meetings can be "monitoring", to ensure that our investment thesis remains intact, or "engagement", to advance changes that we would like to see at the business. In 2021, 121 of our meetings included engagement for a change in corporate practice. We engaged on environmental issues in 51 meetings, social issues in 41 meetings and governance issues in 35 meetings.

We will provide a complete picture of our engagement in 2021 in our upcoming Stewardship Report. For now, we will share a big-picture overview of our activities over the past year, together with the outcomes we are observing after a year of engaging in line with our climate-change framework, introduced in 2020.

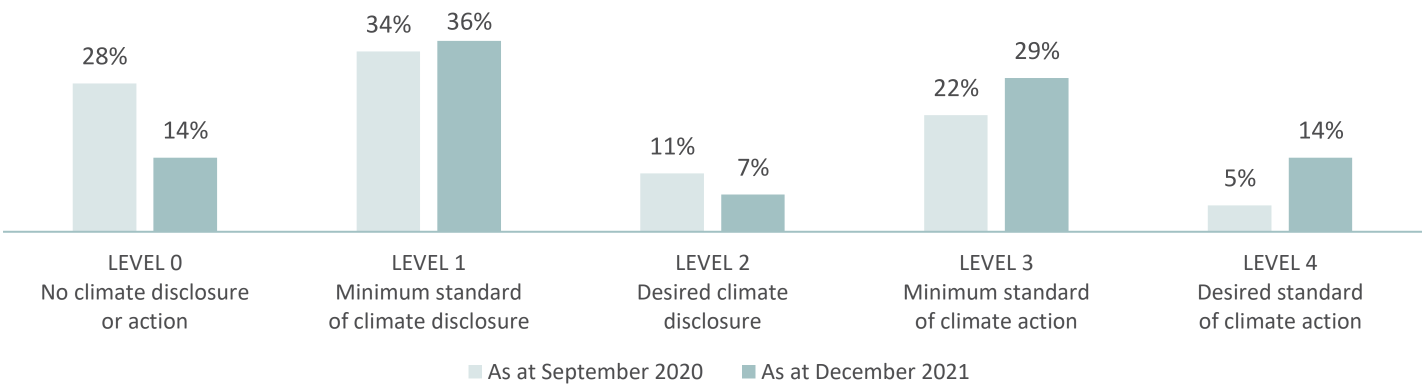
Climate Change

Climate change was the issue on which we engaged most in 2021. A year ago we wrote to all Global Equity Focus List companies to introduce our new climate-related expectation: companies in your portfolio should achieve net zero emissions by 2040.

Our climate "levels" work as follows. Level 1 companies disclose greenhouse-gas emissions either to CDP or in their own reporting. At Level 2 they disclose on climate-related risk and opportunity, in line with the recommendations of TCFD. Level 3 means they participate in the Science Based Targets initiative (SBTi). Companies at Level 4 are aligned with our goal of net zero emissions no later than 2040 and are, in our opinion, showing leadership on climate action.

We can see meaningful progress against our engagement framework after just one year. Below we display how the Focus List looked in Q3 2020 vs Q4 2021.

PROPORTION OF FOCUS LIST COMPANIES AT EACH LEVEL



We are pleased to see the number of Focus List companies participating in the Science Based Targets initiative and/or with 2040 net zero commitments increase from 27% to 43%. The most recent portfolio company to join SBTi was Alibaba in December, in the wake of long-standing engagement on climate change from Generation and other investors. The company has also disclosed its emissions for the first time. We know, however, that we must keep up the pace of engagement if we are to achieve our target of 60% Science Based Target coverage across the portfolio by 2025.

While it is positive to have reduced from 28% to 14% the number of companies at Level 0, it is more disappointing still to have 20 non-disclosers in the Focus List. Only three of these are in your portfolio and these are high-priority engagement targets. It is our practice generally to vote against the re-election of the Chairman of a company that is not disclosing its emissions.

Diversity

Diversity was the issue on which we engaged next most commonly, in 32 meetings. As we wrote in our last investor letter, we have established a framework on diversity, equity and inclusion (DEI). We ask that companies disclose comprehensive DEI data and ambitious plans for improvement. We encourage companies to set out a vision for gender parity, together with racial and ethnic representation that reflects the societies from which the company recruits and the customers that the company serves.

We expect companies to address with urgency any glaring deficiencies in basic diversity at governance and senior-leadership level (i.e. board and executive committee), which we define as a minimum of a one-third representation of women, and including at least one person from a minority racial or ethnic group (interpreted according to geography and company context). We take egregious DEI shortcomings into account in our proxy-voting decisions on director elections.

We observed increased momentum on the DEI agenda in 2021. We will set out company examples in our 2021 Stewardship Report.

Engagement with Financial Sector Peers

Generation's mission is to ensure that sustainable investing drives the change required for a net zero, prosperous, equitable, healthy and safe society. This requires engagement beyond the companies in which we invest. We seek to collaborate with and motivate others, including our clients and the broader financial markets.

In 2021 we continued to support the Net Zero Asset Managers (NZAM) initiative, sitting on the advisory group and helping drive growth in membership through engagement with our peers, including some of the world's largest asset managers. At COP26, the initiative reached 220 signatories with USD 57 trillion in assets under management.

We also played an active role in the development of the Glasgow Financial Alliance for Net Zero (GFANZ), established in April 2021. We sit on the principals' group and steering group, and lead the portfolio-alignment measurement workstream. At COP26 the alliance announced that it had gained more than 450 signatories, responsible for assets of over USD 130 trillion, across banks, asset owners, asset managers, insurers and financial-sector service providers.

The asset management industry and wider financial sector now have a huge task ahead. The road to Glasgow was one of net zero commitment. The road from Glasgow is one of net zero implementation, and we have no time to lose.

PROXY VOTING

We updated and published our proxy-voting principles in 2021. While these serve as a guide to the team, analysts are responsible for applying their own analysis when voting the proxies of the companies they cover. While analysts have access to research from Institutional Shareholder Services (ISS) for context, they do not automatically adopt its recommendations.

Below are the headlines from our voting activity during 2021:

- There were 718 resolutions at portfolio companies on which we qualified to vote.[14]
- We voted 97% of these proxies.[15]

[14] In a limited number of cases, due to registration requirements that lock up shares or other legal reasons we are sometimes unable to vote. This is a consideration in security selection.
[15] One meeting was not voted due to an analyst oversight. We have thoroughly reviewed how this occurred and have strengthened our voting control procedures in order to mitigate the risk of recurrence.

- For management proposals, we failed to support management (either voting against or abstaining) on 31 occasions (5% of voting on management proposals).
- 4% of proposals were filed by shareholders.
- We voted in favour of 72% of shareholder proposals.

2021 GLOBAL EQUITY PROXY VOTING SUMMARY

		NUMBER OF RESOLUTIONS				
		For	Against/ Withhold	Abstain	Total	% Against Management
Management resolutions	Board election & structure	409	12	12	433	6%
	Compensation-related	78	2	1	81	4%
	Auditor-related	52	3	0	55	5%
	Routine business	82	1	0	83	1%
	Other business	15	0	0	15	0%
	Total	**636**	**18**	**13**	**667**	**5%**
Shareholder resolutions[16]	Governance	11	6	0	17	65%
	GHG or other environmental reporting	1	0	0	1	100%
	Social	9	2	0	11	82%
	Total	**21**	**8**	**0**	**29**	**72%**

[16] Votes for shareholder resolutions are recorded as votes against management, unless management recommends voting in favour of a shareholder resolution.

PORTFOLIO METRICS[17]

We provide select Environmental, Social and Governance (ESG) as well as financial 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 the portfolio and benchmark.

	FACTOR	PORTFOLIO	BENCHMARK
E	Carbon footprint - (tonnes) CO_2equivalent/$m (revs)[18]	58	242
	Greenhouse gas - imputed cost (% of revenues)[18]	0.5%	1.3%
	Water & resource use - imputed cost (% of revenues)[18]	0.7%	1.5%
	Waste & pollution - imputed cost (% of revenues)[18]	0.4%	0.8%
	Percentage of companies that disclose GHG emissions[18]	75%	76%
	Percentage of companies in SBT initiative[19]	44%	27%
S	Human capital development score[20]	5.9	5.3
	Data security score[20]	5.9	5.5
	% of employees would recommend company to friend[21]	76%	73%
G	Firm tenure of executive team[22]	12.7 years	N/A
	Fewer than 10% shareholder votes against executive pay[20]	65%	76%
	Equal shareholder voting rights[20]	91%	88%
	CEO total pay less than 3x of median executive officer[20]	74%	74%
	Percentage of shares owned by executives[23]	0.21%	0.10%
	Female board directors[20]	30%	29%
	Board not entrenched[20]	65%	81%
	All non-executive board members on fewer than four boards[20]	46%	55%
	Independent compensation committee[20]	80%	69%
	Independent board[20]	75%	73%
	Independent chairman or lead non-executive director[20]	74%	66%
F	Three-year revenue growth (annualised)[23]	12%	9%
	Gross margin[23]	50%	49%
	Cash flow return on invested capital (CFROI)[24]	12%	6%

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

[17] As at 15 November 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 included as an Appendix at the end of this letter.
[18] Trucost data
[19] Generation analysis based on data from the Science Based Targets initiative and MSCI as at November 2021
[20] MSCI ESG data
[21] Glassdoor data
[22] Generation in-house analysis prepared in November 2021
[23] CapIQ
[24] Credit Suisse Holt

PORTFOLIO MAPPING TO THE UN SUSTAINABLE DEVELOPMENT GOALS

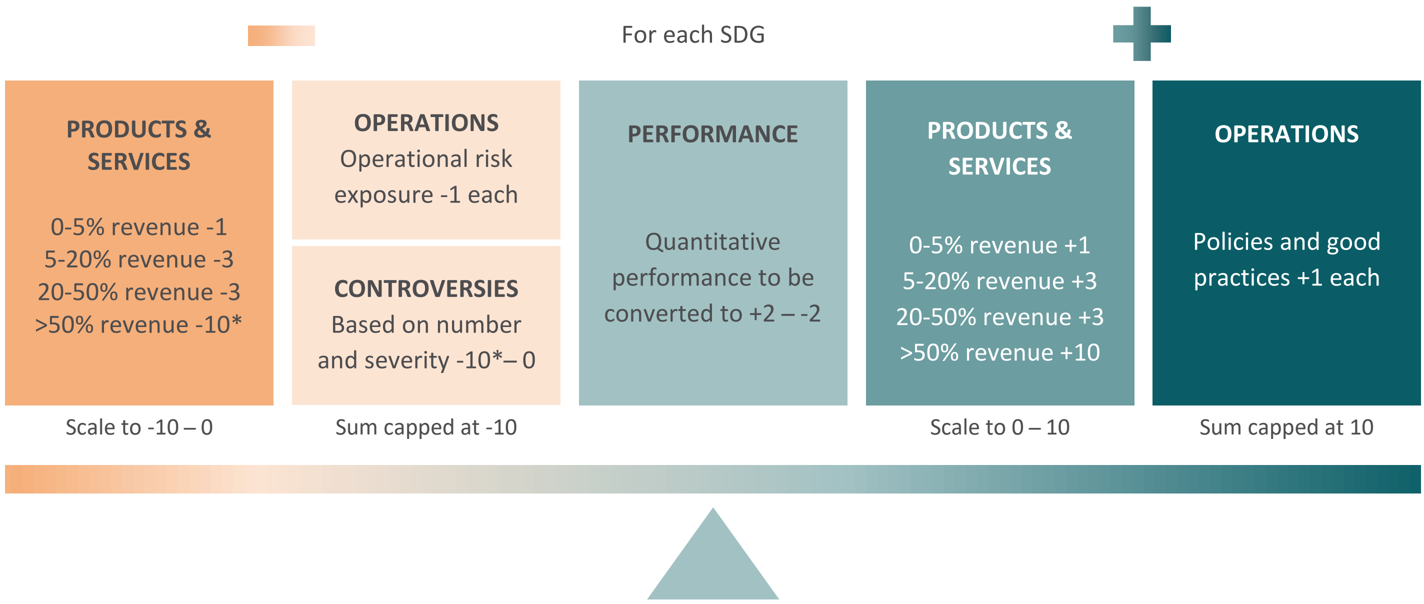
Last year we reported the alignment of your portfolio with the UN Sustainable Development Goals (SDGs) using an external tool for the first time: the MSCI SDG Alignment Tool.

As a reminder, the tool:

- takes account of all SDG-aligned revenues at a company, awarding scores for alignment of products and services according to revenue bands
- takes account of the impact of companies' operations as well as their products and services
- assesses negative as well as positive impacts for both products and services, and operations
- looks at historical as well as current data to ascribe a performance score according to whether the company is on an improving or deteriorating trend, taking account of the previous three years
- leverages all of MSCI's relevant data capabilities, including Sustainable Impact Metrics, Controversies & ESG data points, as well as business involvement research to ensure that revenues from products and services with negative impacts are identified (e.g. tobacco, arms, fossil fuels)

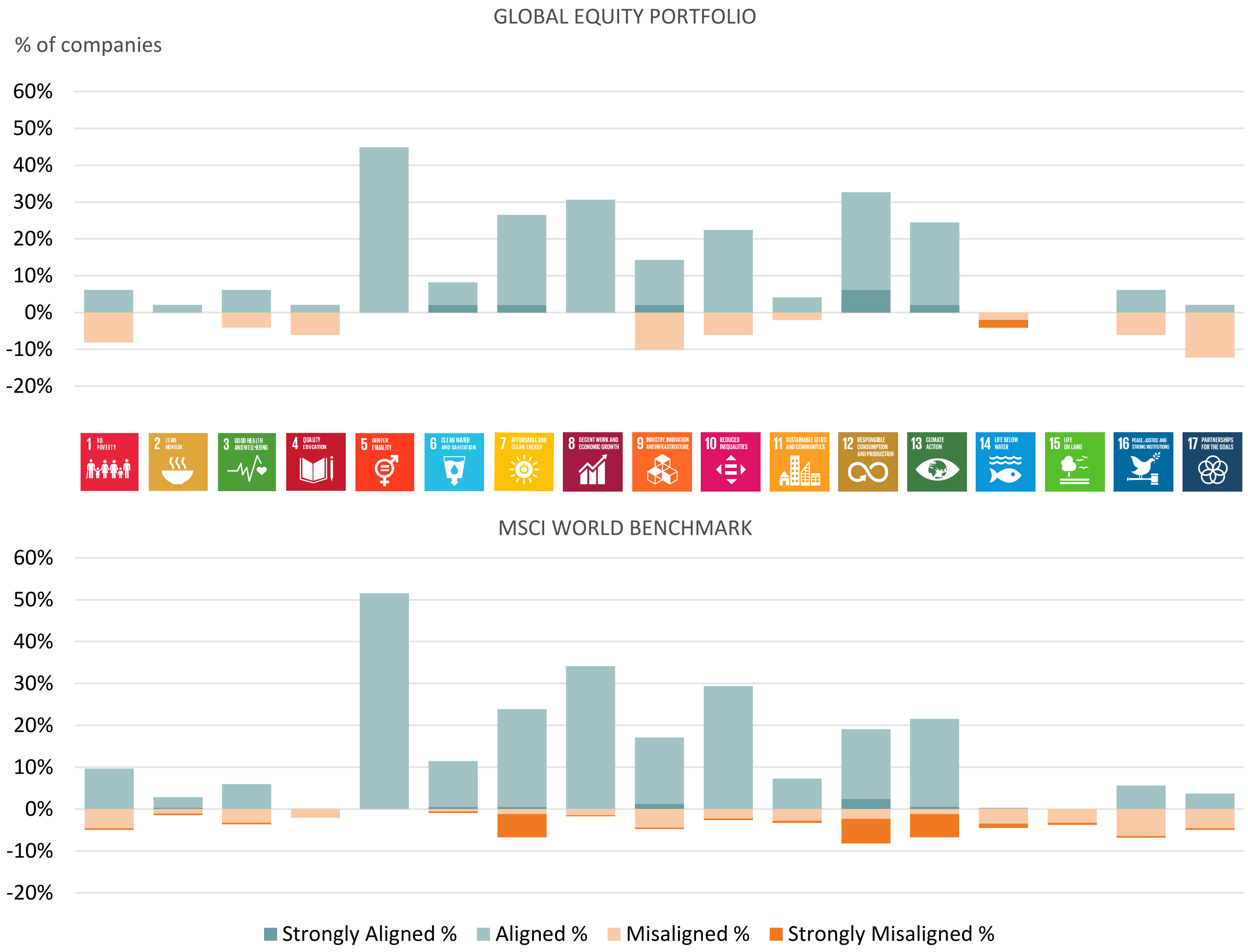
For each SDG, a company's contribution is weighed in the balance so that, based on their net scores, companies can be assessed as Strongly Aligned, Aligned, Neutral, Misaligned or Strongly Misaligned.

MEASURING COMPANY LEVEL GOAL ALIGNMENT

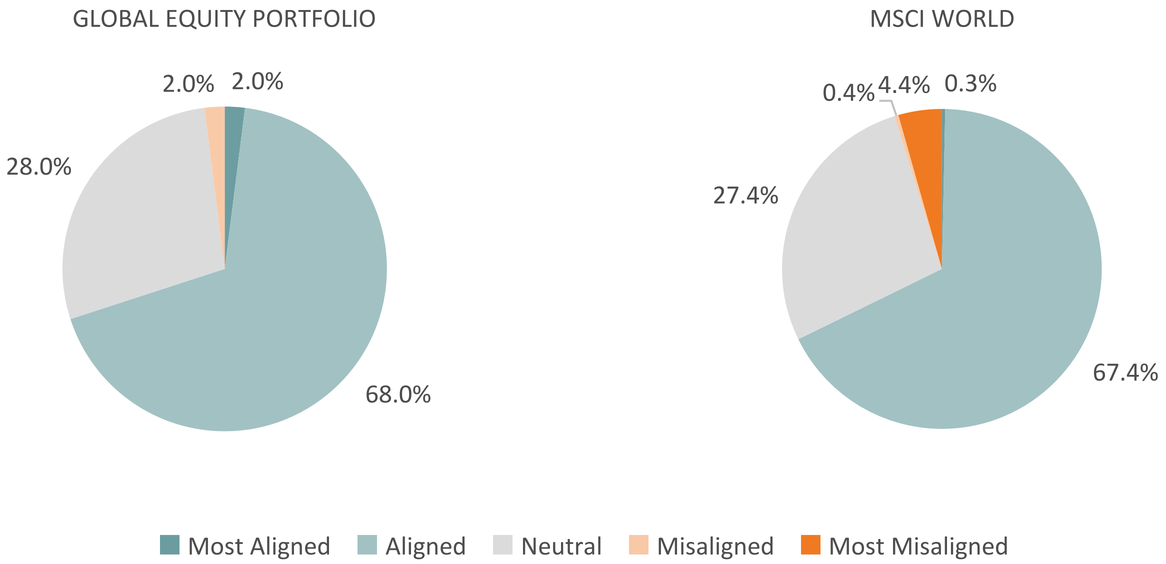


*Criteria signifying automatic classification as 'Strongly Misaligned'

The charts below show how the Global Equity portfolio (as at 19 November 2021) comes out using the tool relative to the MSCI World benchmark, for each of the 17 SDGs (companies whose alignment with an SDG is assessed to be Neutral are not displayed).



A pie chart showing the Global Equity portfolio is on the left below and another showing MSCI World companies as a whole is on the right. These are based on the same data as the bar charts, but the criteria used to assign companies to categories are different.[25]



We draw the following conclusions from this year's SDG alignment assessment:

- Your portfolio continues to show higher alignment with the SDGs, and lower misalignment, than its benchmark
- The portfolio's performance continues to be markedly better compared to the benchmark when it comes to avoiding companies assessed as Strongly Misaligned against individual SDGs or Most Misaligned against the SDGs overall
- The company in your portfolio that scored best, as Most Aligned, is Vestas, which is assessed as Strongly Aligned on four SDGs and Aligned on three, with no misalignment
- This year there is one instance in the portfolio of a company being assessed as Strongly Misaligned with one of the SDGs: Carlisle for SDG 14 (Life Below Water) because of the plastic content of the building envelope products the company manufactures
- The increased Misaligned scores this year against some of the SDGs are driven primarily by controversies recorded by MSCI for Alibaba, Amazon, Kingspan and Tencent which impact assessments of the alignment of the companies' operations

The results of the SDG alignment tool should be viewed with the usual caveats. Its assessments of companies will inevitably be less sophisticated than those based on primary research and engagement. The assessment of Carlisle seems particularly mechanistic given that Carlisle's products have not, to our knowledge, been associated in any way with the scourge of plastic waste in water. The assessment is given simply because the products, which have significant energy-efficiency benefits, are made of plastic. We would be pleased to explore the alignment of your portfolio with the SDGs, or evaluations of individual companies, in more detail with you.

[25] Criteria used for pie charts: **Most Aligned**: no strongly misaligned assessments on any SDGs; at least three SDGs identified as strongly aligned; higher overall number of aligned SDGs than misaligned. **Aligned**: no strongly misaligned assessments on any SDGs; higher overall number of aligned SDGs than misaligned. **Misaligned**: at least one SDG is assessed as strongly misaligned; higher overall number of misaligned SDGs than aligned. **Most Misaligned**: three or more SDGs identified as strongly misaligned; higher overall number of misaligned SDGs than aligned. Companies not fitting into these categories are assigned to **Neutral**. This year we have excluded from these charts companies that are not assessed for SDG alignment by MSCI, whereas last year we treated such companies as Neutral. We believe that this is a more robust approach, but it does decrease the percentage of companies shown as Neutral and increase the percentage of companies in other categories (whether Aligned or Misaligned), both in the portfolio and benchmark. If you would like to see pie charts for 2020 prepared the same way, please do let us know and we will be glad to share them.

FIRM UPDATE

2021 saw Generation launch a new business called Just Climate. It is dedicated to climate-led investing and founded on the belief that, such is the scale and urgency of the climate crisis, capital allocated to climate solutions must now go deeper and broader. Just Climate has the mission of limiting global temperature rise to 1.5C, by catalysing and scaling capital towards the most impactful climate solutions and broadening what capital markets value by institutionalising climate-led investing. Just Climate seeks to deliver appropriate, risk-adjusted returns and we anticipate that it will make its first investments in early 2022.

We stepped up our advocacy activities further throughout the year. In October, we convened with TED Countdown a virtual gathering, Finance at Countdown, just ahead of COP26. Many of you participated in the gathering, which saw presentations from central bank heads, cabinet secretaries, advocates, investors and many more. We focused on issues such as the financing and impact gaps and how to address them, how to ensure a just transition and how companies are leading the way to net zero. Our note of the key messages from the event can be found here.

ADVOCACY – THE ROAD FROM COP26

The consensus view on COP26 emerged even before the Glasgow Climate Pact was agreed. The outcome is woefully insufficient given the scale of the crisis, yet it is better than many people expected.

Millions already experience the climate crisis as a reality of daily life. The gap between long-dated emissions pledges and technical discussions in Glasgow and the real world is underscored by every extreme weather event. Yet the Glasgow outcome is less about what happened at the summit and more about what happens next.

Coming into the negotiations, rich countries had failed to meet the USD 100 billion climate finance commitment, originally promised in Copenhagen in 2009 and reaffirmed by the Paris Agreement.[26] There were no big new pledges from the large emitting economies. It did not add up to a credible pathway to 1.5C and there was little chance of this changing in Glasgow. No wonder the avalanche of new “side deals” at Glasgow was met with cries of greenwash.

Much now depends on rebuilding trust through early action. Keeping the 1.5C goal alive was the theme of Glasgow, and finance is very much in the spotlight here. The Glasgow Financial Alliance for Net Zero (GFANZ) now covers USD 130 trillion of assets. Clearly we have the capital to get the job done, but the pace of decarbonisation is far too slow. Closing this “impact gap” is the focus of our latest Insights piece.

Below, we summarise some key points from COP26:

- **Emissions Pledges**: Assuming all government pledges are delivered, we are tracking to below 2C for the first time. Parties that have not submitted new, ambitious commitments are “requested” to do so by the end of 2022. The goal of 1.5C was kept alive, even if it has a weak pulse.
- **Fossil fuels**: For the first time, coal power and fossil fuel subsidies were named in the agreement. The signal to investors on coal is clear, regardless of the last-minute change from “phase out” to “phase down”. This also opens the door to discussions on oil and gas in future rounds.
- **Nature:** COP26 brought nature into climate discussions in a serious way for the first time. The preamble to the Glasgow Pact notes the importance of ensuring the integrity of all ecosystems. The first major announcement at COP26 was a new 2030 deforestation pledge, backed by a 2025 pledge by investors (including Generation).
- **Finance:** Commitments from developed countries are approaching USD 100 billion, but the target was missed. The Glasgow deal commits rich countries to USD 100 billion a year to 2025, while longer-term plans are finalised.

[26] See this report for more on the history of the USD 100 billion commitment.

- **Adaptation:** Developed countries agreed to double adaptation finance. A series of announcements on adaptation and resilience also provide building blocks for future investment. A new levy on emissions trading will go to adaptation. Nevertheless, adaptation remains the poor cousin of mitigation in the negotiations, leaving hundreds of millions of the most vulnerable people at risk.
- **Loss and damage:** 30 years after small island states called for a global insurance mechanism to compensate for the impacts of sea-level rise, developed countries finally acknowledged the need to address loss and damage in a separate track within the negotiations. This is a watershed moment, even though no new money has been found.
- **Emissions trading:** The Paris Agreement left several difficult areas unresolved, and finalising the rest of the "rulebook" was a huge achievement for COP26. On transparency, we now have clarity over how countries will report on emissions and timelines for targets have been aligned. On Article 6, which covers trading between countries and companies, the Glasgow deal is stronger on preventing double counting than many feared. This should set the stage for a scaling up of high-quality carbon credits in the coming years. Nevertheless, it is critical to ensure that implementation follows the highest-integrity approaches.

INFRASTRUCTURE UPDATE

Our Investment and Client teams work with our Infrastructure team, which is overseen by the firm's Operating Committee (OC). The OC is charged with delivering a controlled environment for the firm to conduct its business.

In 2021 the OC continued to manage a series of cross-team initiatives, including the transition to a new IT service provider, a review of our operating model and the focus on ESG regulatory preparedness.

The most detailed and advanced piece of ESG regulation globally is the European Union's Sustainable Finance Disclosure (and accompanying Taxonomy) Regulation (SFDR). Investors subject to SFDR will have to disclose and report detailed metrics on the extent to which their investment and engagement is aligned with achieving specific environmental and social goals.

The huge amount of detail involved in, and required by, SFDR is one of the reasons that it is not yet fully in force, with implementation of the core quantitative elements still not yet finalised and now anticipated for 1 January 2023. Generation is supportive of SFDR. In creating a common benchmark against which investment actions can be judged, we believe SFDR will drive greater transparency in sustainable investing and help achieve the changes that sustainable investing is designed to support.

But there are also many challenges arising from SFDR, including for Generation. One is that Generation has been investing sustainably for 17 years and has developed its own concepts and methodologies around sustainable investing, which, not surprisingly, do not completely align with those developed by the European regulators. Another is that Generation invests in both public and private companies. The standards of disclosure and the availability of relevant sustainability data in respect of the latter can be more challenging. Furthermore, since Brexit, Generation straddles both the common EU regulatory regime (Generation's core investment funds are established in the EU and attract many EU investors) and the UK regulatory regime (where Generation has its head office and the majority of its staff). The UK has announced that it will be implementing its own Sustainability Disclosure Requirements (SDR) regime, which may not necessarily completely align with SFDR.

2021 saw the pandemic continue to impact life. The lockdowns in the first half of the year delayed the reopening of communities across the globe. This was alleviated, in part, by the vaccination programmes during the spring, and we introduced our phased return to the office during the second half of the year. We note that many millions of people globally have still not received a single vaccine.

Like many in our industry, we learnt from the positive aspects of working at home as well as the benefits of being together in the office. We applied a pilot hybrid model across both offices. We will continue to closely monitor the pandemic's impact to ensure our offices remain compliant with government health advice and restrictions. The health and safety of our staff remains paramount.

For 2022 the OC and Infrastructure team will maintain its focus on implementing new regulations, including the FCA Investment Firms Prudential Rules (IFPR), adopting the new calculations for regulatory capital requirements and implementing changes to the regulatory reporting, which now has greater emphasis on entity consolidation. Alongside regulatory adherence, operational resilience remains core to our business. The team is incorporating change initiatives to enhance our service to clients and improve internal workflow and data management as we evolve our platform to support the growth of our investment strategies.

PEOPLE UPDATE

While 2021 remained a challenging year due to COVID-19, we recognise we are among the most fortunate. We were pleased to be able to hold our first ever All Team Gathering in October. For some colleagues, that gathering was the first opportunity since joining Generation to meet everyone face to face and to forge new connections and friendships.

Over the year, we continued our work on diversity, equity and inclusion (DEI). We completed a roadmap and realigned on what DEI means at Generation. We identified key metrics for tracking progress and updated the representation data for our teams relevant to the locations in which we operate. We participated in the Impact Capital Managers Mosaic Fellowship and #100BLACKINTERNS (now #10,000BLACKINTERNS) and are considering applications for 2022. More work on DEI at Generation is needed in 2022 and beyond.

Finally, we welcomed two existing members of the firm to the partnership: Andrew Given in Long-term Equity and Shalini Rao in Growth Equity. During the year we saw the departure of Eko Yin who returned to China to be closer to family and friends. We thank Eko for her contributions and wish her well in her new endeavours. We look forward to Clara Barby joining as Senior Partner of our new Just Climate business in January 2022.

As at 31 December 2021, the Generation team is 109 people and assets under management total approximately USD 39.0 billion.[27, 28] The Just Climate team comprises seven permanent people.

[27] Includes subscriptions and redemptions received by the last business day of the quarter but applied the first business day after the quarter-end.
[28] In addition, the firm has USD 2.3 billion of assets under supervision as part of its Long-term Equity strategy as at 30 September 2021.

2021 AT THE GENERATION FOUNDATION

The two principles that guide the Foundation's activities are more relevant than ever. Those principles are impact and urgency. There are too many new partnerships and activities to cover them all, but we will take this opportunity to provide a few examples here.

1. **Investing for sustainability impact**: This year saw the culmination of a project to overcome the barriers preventing mainstream finance from playing its part in the achievement of societal goals like the SDGs and limiting warming to 1.5C. It sought to answer this question: to what extent are investors permitted, or required, to account for the impact of their activities on sustainability factors, not only the impact of sustainability factors, on their portfolios?

   The critical output of this project was an analysis prepared by law firm Freshfields Bruckhaus Deringer, commissioned by the PRI, UNEP FI and the Generation Foundation. It presented some surprising findings: most investors are not only permitted, but are actually required, to invest for impact. Investors must take action to achieve a sustainability impact through asset allocation, stewardship or policy engagement when that impact is likely to affect financial performance.

   In practice, this could be the beginning of a significant shift for mainstream investors. It is undoubtedly in investors' financial interest to limit global warming to 1.5C, and therefore it is clear that investors have a duty to set goals, take action and assess progress (also called 'Investing for Sustainability Impact' or 'IFSI' in the report).[29]

   The next phase of this work will be a) to support investors to understand their obligations and put them into action and b) to work with policymakers, regulators and governments to make this duty even clearer in law and ensure market characteristics like benchmarks or asset allocation standards do not impede progress.

2. **Careers for Good:** 2021 was an important year in our partnership with the Social Mobility Foundation (SMF). It saw the launch of the Department for Opportunities, funded by the Generation Foundation, which uses advocacy and campaigning to address systemic social inequalities in the UK. Additionally, the Foundation established a new programme with SMF called Careers for Good. Our Chairman Al Gore kicked off the programme with a closed session for students, moderated by a SMF student who was also an intern at Generation. The programme supports students from low-income backgrounds to access careers in mission-driven organisations.

3. **In numbers:** The Foundation reached its target of spending c. GBP 11 million in pursuit of an urgent response to the dual crises of climate change and inequality, matching last year's extraordinary year. The portfolio consisted of 26 grant partners in total, with 12 new projects added over the course of the year. The Foundation's work begins with grant allocation and continues with deep support for our partners to amplify their impact.

4. **For 2022:** In 2022, the Foundation will accelerate spending and increase its charitable allocation once again. The process for doing so is not as simple as writing a bigger cheque, however. The Foundation operates a proactive grant-making process which is not dissimilar to an investment process. The Foundation conducts deep research to identify the interventions that could catalyse transformative change in each of its four strategic priority areas. Only once it has identified the interventions and outcomes does it seek out organisations to deliver the work, and then works closely with them to design a project or programme. We intend to expand our structured provision of support to partners on issues such as diversity, impact management and strategic communications.

[29] The report does not go so far as to establish a positive duty for taking action on climate. Instead, it argues that investors are required to assess factors in the real world that could have an impact on their investment performance. Therefore, if sustainability is likely to affect financial performance, and it is possible and feasible to do something to improve this impact, *then* an investor has an obligation. Though each investor is different, it seems difficult to imagine that there would be many who could credibly argue that action on climate did not fit the bill. For issues like biodiversity and economic inequality, the ultimate systemic threat is quite well established, but has received less focus than climate to date, and the pathways for investor action are less clear (so far). That will undoubtedly change as the research in these areas expands and investor activity matures.

IMPORTANT INFORMATION

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 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).

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FACTOR	METRIC	SUMMARY DESCRIPTION
Firm tenure of executive team	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	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 fewer than four 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 of companies that disclose GHG emissions	Percentage	Percentage of companies reporting GHG emissions data including in sustainability reports or via the CDP.
Percentage of 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 Targets initiative website for further information.
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.