

Generation Investment Management Global Equity Quarterly Investor Letter

October 2026



Dear fellow investors

In this quarterly letter, we examine shifting market leadership and the opportunity in quality companies that can turn AI adoption into lasting growth.

In our Q2 2026 investor letter, we argued that the market had become lopsided.

It was increasingly driven by a small group of companies exposed to the AI buildout. Even within that group, however, we distinguished between businesses with enduring quality and those seeing short-term earnings spikes from the investment cycle. Many outstanding quality businesses elsewhere in the market were trading at unusually depressed valuations, in part because of weaker momentum in their earnings growth.

As long-term investors in quality companies, our approach weighed on performance. Our clients quite reasonably asked when we thought the market would turn in our favour – and what would cause it to do so. In the third quarter of the year, we began to see early signs of shifting sands. We still have work to do, but we believe our approach is well suited to the opportunities we see.

MARKET REVERSAL

What happened? In July and August, memory companies delivered fantastic operating results, as the \$5 trillion AI buildout continues to accelerate. And yet these results no longer impressed the market. With expectations for memory stocks already so elevated, ‘fantastic’ had become an awkward, expected standard. Many investors were ‘surprised that they were not surprised’ by what they saw. Memory stocks sold off. From the end of June to the end of September, the median AI infrastructure share price fell by 15%, according to UBS HOLT.¹

By contrast, the hyperscalers – large technology companies that operate vast cloud computing networks – started to demonstrate that AI is translating into real demand for cloud capacity and enterprise products. More market participants have come to realise that firms like Amazon and Microsoft are well positioned to generate sustainable recurring revenue from AI. These firms not only directly benefit from the use of AI but also have a crucial role in the diffusion of AI across the economy and society at large.

Some brief examples show how much progress many of these companies are making. In the second quarter of 2026, for instance, Microsoft reported adding 10 million paid Copilot seats. The product seems to be improving quite quickly, with better responses and lower latency. Our research suggests that customers have strong (and growing) returns on using Microsoft’s AI products, with demand and the company’s backlog both accelerating. We explore these ideas further in our case study of AI capital spending, which appears later in this letter.

It is hard to know what may be prompting this ‘vibe shift’ in markets. The answer was not a single dramatic event. It was a series of pieces of information. Taken together, however, they have encouraged investors to look beyond the firms that benefit from AI demand today, and towards those firms which can earn durable returns over many years.

¹ “Record CFROI, Infrastructure Durability, Software Recovery, and Hyperscaler Economics.” UBS HOLT

REVIVAL OF SOFTWARE

In the third quarter many software firms benefitted from this shift in investors' perceptions. From the end of June to the end of September, the median 'software and services' stock appreciated by 35%.¹ This also helped our portfolio, which has big positions in companies like SAP. We have argued against the idea that AI renders software obsolete.² True, some firms will struggle as AI makes their products redundant – and we continue to acknowledge the risks to the software industry. But at the same time, we believe that the terminal value of the strongest businesses remains intact. In some cases, terminal value will increase.

The big opportunity for software, in our view, lies in AI adoption. Ordinary businesses across the economy would like to adopt AI, but doing so is a time-consuming and difficult process. It will require substantial investments and perhaps even the complete redesign of workflows. They will need help. We believe some existing large software firms are obvious conduits for AI distribution and diffusion.

The software companies best placed to benefit have three qualities: they are systems of record; they are grounded in proprietary customer data; and they have close, sticky relationships with their customers. To the extent that these firms can become the first point of call for firms trying to extract value from a range of different AI models, they stand to gain. And to the extent that they can adopt AI themselves, their software offering will improve. These improvements should make their relationships with their customers even stickier, in turn allowing both parties to share in the added value.

Other parts of our portfolio – outstanding businesses that had been trading at low valuations – are also performing nicely. The outlook for healthcare manufacturing company Danaher has improved in its core businesses: bioprocessing, diagnostics and life sciences. Specialty chemicals company Sika, which we profiled fully in our quarterly letter earlier this year, is seeing improving momentum, particularly in EMEA and the Americas. These trends leave us excited about the future. High-quality businesses offering outstanding value to their customers will always have periods where their share price is out of favour. Ultimately, however, the value of these franchises is dictated by what they can do over the long term.

FRONTIER LABS

This past quarter has also seen the debate around AI safety come into the public consciousness. For the record, we do not believe that frontier labs – organisations that develop the most advanced AI models, pushing the boundaries of what AI can do – can or should police themselves. It is self-evident that all foundational general-purpose technologies require regulation, and we disagree with those that say this is all merely an 'engineering challenge' that can be covered by existing product liability law. The nature of the multiple incidents revealed just in the past months is deeply troubling, and we feel that we face a collective action problem in the corporate sector, which is being met by an insufficient response from policy makers.

We are confronting this challenge with an integrated approach. First, our analyst team has undertaken considerable detailed work on the critical sustainability challenges and opportunities for frontier labs. This is still a work in progress but a top priority. Our current assessment is that frontier labs can be sustainable, but much work must be done around safety, alignment and control to ensure this.

Secondly, we are actively working on ways to engage with those frontier labs and other AI leaders who will need to implement controls, sharing the investor perspective on the

² See our Insights piece from earlier this year: [Our Thinking on Enterprise Software in a World of AI](#)

importance of long-term sustainability. Neither of these is easy, and will take time, but we know the effort is essential.

Our investment approach remains unchanged. Over the long term, quality companies will prove their worth. The sort of company we like can navigate ups and downs, ultimately emerging stronger. Indeed, our estimates³ point to stronger earnings growth for our companies than the market in the coming years. We will only buy these companies, however, if we can do so at the right price.

Market volatility can be useful for our purposes. It gives us the opportunity to acquire assets whose prospects and business model have not changed at all, but whose prices have changed a great deal. As an example, during the past quarter we initiated a position in Synopsys. We see a business with deep customer relationships and a crucial role to play in the design of complex semiconductors. From Amazon to Google to even the frontier labs themselves, big tech firms increasingly see the benefits of designing their own hardware. This has happened just as the intensity and complexity of that design has risen. In this new world, Synopsys is well placed to thrive. We continue to look for similar opportunities.

The total assets under management for the Global Equity strategy as at 30 September 2026 are \$14.1 billion.

³ These are estimates about company earnings, not a forecast of fund returns, and they may prove wrong.

In each quarterly letter, we share views and insights that shape our portfolio. This quarter we examine the potential returns of AI capital expenditure and explain how our assessment is reflected in our investment decisions.



Case study of AI capital expenditure

The artificial intelligence boom may be the biggest surge in capital expenditure on record. Big tech ‘hyperscaler’ companies such as Amazon and Alphabet, which fund perhaps 85% of America’s AI build-out, have let their climate targets slip rather than slow construction. Perhaps the biggest question among investors today is whether this investment will be worth it.

Indeed, there are widespread concerns about a potential AI market correction. An ‘air pocket’ – where there is insufficient demand for all the AI infrastructure being built – could well emerge. We would never try to guess when this will happen. But we do believe this would be at most a short-term phenomenon. This is because we expect huge growth in AI demand over the long run. Use cases are likely to multiply. We also believe that the technology, despite short-term challenges, will create substantial sustainability gains.

In this piece, we focus on the question of which companies will benefit most from AI. Our core argument, based on substantial internal research, is simple. In an AI world, the most durable returns are likely to accrue not to companies that ‘make intelligence,’ but instead those which ‘make use of intelligence.’

By the first, we mean the firms supplying the build-out: many chip designers, memory and storage makers, the ‘neoclouds’ that rent out raw computing capacity, and the suppliers of the transformers and turbines behind them. By the second, we mean the firms that embed AI in the data, tools and workflows of businesses across the economy.

From today’s vantage point this is a counterintuitive argument. The ‘makers’ are enjoying soaring sales, profits and share prices. We choose not to invest in many of them as we do not believe they are quality businesses over the long term. By contrast, the market has been sceptical on many aspects of the hyperscalers’ business models over the past year.

We summarise our argument as follows. Future AI demand will be extremely high. Over time, the supply of AI infrastructure to service this demand will become commoditised. Therefore, the real opportunity will shift to the companies that can make use of intelligence. That is where we choose to invest.

THE MANIC RUSH

We believe that future demand for AI will soar. Distilling the lessons from 18 prior technology waves, we reckon that half to two thirds of consumers will be using AI by 2030, for instance.⁴

The intensity of use can also rise. More workers may switch from occasional AI use (‘write me an email’) to expert engagement (‘create me a swarm of AI agents to monitor developments in this sector daily’). Today a typical user of AI consumes perhaps 10,000-50,000 tokens, a measure of units of data processed by an AI model, each day. But typical desired usage could plausibly reach 5–25 million tokens a day by 2030, we believe. Add it up and, by 2030, total global desired usage could require some 500 gigawatts (GW) of power, vastly higher than total current global AI capacity.

⁴ Generation IM internal analysis. The analysis draws on 18 prior technology waves, including electricity and the internet. Their adoption patterns, particularly the pace of uptake and eventual penetration among consumers and across industries, inform our estimate that half to two thirds of consumers will use AI by 2030.

Companies are building so much AI supply because they also anticipate extremely high future demand. Shortages are emerging. This is creating a number of winners. Many people have heard of skyrocketing prices for computer chips and memory. Companies that rent out chips are also doing well. These constraints are now broadening out. Grid connections queue for years.

How long can shortages last? Some supply is likely to remain scarce for a long time, we believe. This includes ASML's advanced lithography and TSMC's leading-edge fabrication of chips. We believe that these firms will generate sustainable returns over many years. This is because, quite simply, companies like ASML and TSMC have no competitors at the leading edge.

By contrast, renting chips and providing computer memory are not particularly specialised businesses. For now, we believe that chip rental can generate returns to the order of 15% per year, which is highly impressive. But new companies are likely to enter the market, easing supply shortages and thus driving down returns.

The supply crunch may also ease as AI becomes cheaper and faster. The power needed per token has historically fallen by roughly two thirds a year. Developments in Chinese AI could spur further declines in costs. If AI can produce a given amount of useful output with less compute, supply becomes less of a binding constraint. Sam Altman and others have argued that the cost of intelligence should ultimately converge on the cost of energy. We think that is more-or-less right.

THE REAL OPPORTUNITY

If AI supply eventually becomes commoditised, then where does the real opportunity lie? That opportunity, in our view, is not in making intelligence, but making use of intelligence. Companies across the economy will need a great deal of help to incorporate AI into their production processes.

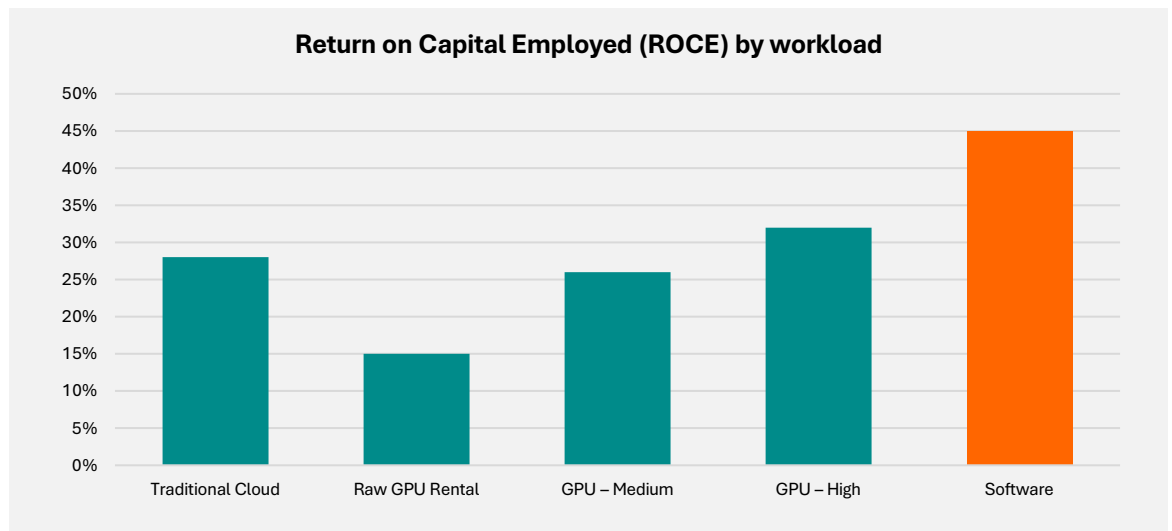
We believe that a handful of large tech firms, including Amazon and Microsoft, will be crucial to making this transition a success. These are high-quality companies with a proven track record of managing large-scale technology transitions.

In making this argument, history is on our side. Studies of earlier waves of information technology have found that the majority of spending is not, in fact, on building the technology itself. For spending on computer hardware to pay off, companies have historically required many more dollars of other sorts of spending, including on software and data reorganisation, to integrate it.

We doubt AI will be different. Trillions of dollars of AI hardware spending imply an eventual integration bill of many trillions of dollars over many years – a huge total addressable market. The cost of intelligence will decline rapidly, we believe. But integration costs, including customised software and organisational redesign, are unlikely to fall anywhere near as quickly.

Where do those dollars flow? Disproportionately, we expect, to the firms that provide a whole suite of tech services to firms in the real economy. Consider, for instance, Amazon. Amazon does not hand a customer a rack of AI chips and say 'good luck.' It layers on databases to store and manage the customer's data, as well as providing compliance services that regulators require, among many other things. Microsoft's version is Azure, Foundry and Copilot sitting inside Office. It sells AI within the tools where white-collar work already happens.

From our analysis, we believe the potential returns on capital for businesses that are ‘making use of intelligence’ are far higher than the ~15% generated by selling raw compute, as the chart below shows.



Source: Generation IM internal analysis. Illustrative steady-state return on capital employed for one gigawatt of data centre capacity, calculated as after-tax operating profit divided by the total build cost (chips and infrastructure.) These figures are scenarios, not forecasts, and actual returns may differ materially.

Their experience navigating major technological shifts in the past also gives us greater confidence in these companies’ prospects. Consider the cloud-computing revolution of the 2000s. In the early days of Amazon Web Services, the company showed investors the same two charts year after year. The first counted the new services it had launched, which always moved up and to the right. The second counted price cuts, which were always high in number.

Why, investors reasonably asked, cut prices on a business growing that fast? Because Amazon was passing on its efficiencies. Economies of scale allowed for price cuts, which in turn drew in more customers, and in turn justified ever more services. This was a virtuous circle that created one of the most profitable technology businesses ever built. That is how the cloud operators negotiated the cloud transition, and it is how, we believe, they will manage deployment in the AI revolution.

WHAT THIS MEANS FOR INVESTORS

As we have set out, in our view, the market does not yet fully appreciate the scale of the opportunity afforded to firms such as Amazon and Microsoft. The consensus currently anticipates that these firms will fail to convert their enormous AI investments into a commensurate increase in revenue.

We think, however, that the market is missing a crucial point. It counts what the hyperscalers spend on AI and misses what we believe the world will need to spend through them, as AI becomes integrated into everyday life.

As tokens become cheaper and the new types of costs come to dominate, profit pools will shift away from data centres. History shows that the builders of infrastructure rarely capture the enduring gains from the new technology. Instead, over time, the world is likely to need a particular type of business model: companies with the data, the distribution and the organisational muscle to absorb AI into the real world.

Quarterly attribution

Our quarterly commentary explores what has contributed to and detracted from portfolio performance and how our long-term investment approach informs our near-term actions.

Shifting views on artificial intelligence (AI) influenced both the main contributors to and the main detractors from portfolio returns this quarter, as discussed below. Several of our software holdings rebounded as investors moved away from worst-case assumptions about the impact of AI and began to recognise the benefits it could bring. Hyperscalers such as Amazon and Microsoft started to demonstrate real demand for their products. At the same time, concerns about a potential slowdown in AI development and spending weighed on related companies, particularly those priced highly for continued acceleration in both. The quarter showed how quickly AI sentiment can swing, and why each company's individual positioning matters.

Microsoft was a key contributor, with its results showing that AI can be a clear benefit rather than a threat. Demand for its cloud capacity and enterprise products gave investors tangible evidence that AI investment can turn into revenue. Business management software company Workday's results beat expectations: AI-related annual recurring revenue rose from \$150 million to more than \$600 million in a year, and customer retention remains high at 97%, suggesting AI is adding to its revenue rather than destroying it.

Elsewhere, Danaher contributed despite mixed results. Bioprocessing orders grew strongly, which we believe shows underlying demand remains robust, and management raised earnings guidance.

Detractors included Cooper Companies and Equifax. In both cases, developments damaged our view of the quality of the business, its management, or both, and we exited the positions.

Medical device business Cooper Companies reported results significantly below market expectations. Our work suggests US channel inventory had built up over the prior 18 months, overstating reported US growth by around 2% a year and implying share loss rather than the share gains that underpinned our thesis. In addition, the planned sale of Cooper Surgical was abandoned. Credit bureau Equifax's results slightly beat expectations, but guidance for the third quarter and full year disappointed. We saw continued evidence of share loss in the core Workforce Solutions business and were

disappointed that the company did not seem to be capturing greater benefits from its technology transformation. Following meetings with management and further work on competitive threats and regulatory risk, we concluded that the moat in Workforce Solutions has weakened.

Elsewhere, electrical company Legrand and medical technologies company Stryker detracted from performance on near-term concerns. We believe the market is concerned about Legrand's positioning in next-generation data centre technologies such as 800VDC and liquid cooling, where it is seen as a fast follower rather than a leader. Stryker faced temporary company-specific issues, including a manufacturing issue at recently acquired Inari. We have analysed these short-term impacts; our long-term theses are unchanged.

We continually reassess the Business Quality and Management Quality of our portfolio companies. Alongside our exit from Cooper Companies, we exited Charles Schwab. Two factors particularly influenced our decision. First, we struggled to quantify the potential impact of financial agents on low-cost deposits. Second, the company is increasingly an outlier on our Focus List in its unresponsiveness to the business risks and opportunities associated with climate change.

Our purchases reflect continual re-testing of the AI supply chain to find the real bottlenecks. We aim to invest in companies with unique, moated businesses at those critical points. ASML is the sole supplier of the extreme ultraviolet lithography machines needed to manufacture the most advanced chips. Synopsys and Cadence Design Systems together dominate the specialist software used to design increasingly complex chips. Each new generation of chips relies on their tools, and the cost and risk of switching provider are high for customers.

We are also exploring new areas in healthcare, and bought Intuitive Surgical, the leader in robotic-assisted surgery which helps surgeons perform minimally invasive procedures with enhanced precision and control.

Stewardship and engagement

Last month, Generation was in New York City for Climate Week. While sustainability remains a political battleground in some markets, the mood was noticeably more confident and front-footed than last year.

WHERE COMPANIES AND INVESTORS STAND ON SUSTAINABILITY

Today, in the political sphere, whether – or how fast – to transition to a sustainable economy is contested, and nowhere more so than in the United States. Nonetheless, at Climate Week NYC, we found a strong sense of corporate resolve to press ahead on sustainability, whatever the political noise, because sustainability is recognised as a material business issue.

It was clear from company comments that businesses know that they are in an unstoppable transition to a low emissions economy across both energy and land use. They know that environmental risks to their operations and supply chains are growing. They know that they need to work harder than ever to maintain a social licence to operate.

Yes, there are vested interests in dirty industries and, yes, solutions have to be cost effective. But we heard through the week from chief executives and chief sustainability officers alike that sustainability is intrinsic to their companies' competitive advantage and resilience.

Disappointingly, the sense of resolve from investors was less powerful. Conviction on sustainability as an imperative does not yet run as broadly or as deeply in the investment world as it does in business, certainly in the US, where fears of political retribution have led to some striking self-censorship. We heard, for example, a case of engagement with portfolio companies on physical climate risk being toned down because the investor did not want to risk accusations of being 'alarmist' on climate.

This reticence from investors has consequences. We heard many chief sustainability officers bemoan the lack of analyst and investor questions on sustainability, including in earnings calls. They said this is leading C-suites to question the extent to which investors really back them on sustainability.

This deepens our own resolve to press on with [our vision and mission](#), which includes advocating for the adoption of sustainable investing by the wider market.

DATA CENTRES AND AI

As a Bloomberg reporter joked midweek, it began to feel like New York was hosting a Data Centre Week rather than a Climate Week, so much were data centre energy, water and community issues dominating the conversation.

The attention on data centres in the US is of course understandable and worthwhile. The build-out of data centres for AI is on an astonishing scale and happening at breathtaking speed. Electricity grids and water resources are under strain. Any new fossil fuel-fired power – whether 'behind the meter' at data centres or on the grid – is a profound concern. Not only does it increase emissions now; it risks locking them in for decades due to the life span of the generating assets. On top of this, new data centres seem to have become the physical embodiment of people's concerns about what life holds for them in the age of AI.

These issues are incorporated into our engagement with the hyperscalers in our portfolio. But there is an argument that some of these challenges are getting disproportionate attention.

We know how to decarbonise grids, and we have long wanted to increase the demand for electricity, because we know that the way to reduce energy-related emissions is to get energy from electricity instead of the direct combustion of fossil fuels. The hyperscalers have deep pockets. They are the leading purchasers of carbon free energy in the business world, typically from Power Purchase Agreements (PPAs). PPAs enable new carbon free facilities to be built or existing assets to have their lives extended. In addition, the hyperscalers are funding new nuclear and geothermal technology. They are even starting to pay for other electricity users to reduce their demand when grids are strained (so called 'demand response' solutions) so that the grid resources we have are optimised.

On water, the hyperscalers know how to build highly water efficient data centres, how to avoid water cooling entirely where local conditions do not allow it, and how to help communities by recycling and replenishing water.

The world faces bigger and tougher climate challenges than data centres alone – from decarbonising steel, cement and aviation to ending deforestation this decade. We need to ensure that these issues get the attention, energy and capital they deserve as well.

As for AI, there are environmental and social opportunities as well as risks. Indeed, the scale of risk and opportunity is greatest in the social, not environmental sphere, and we plan to write more about our perspective on this in the near future.

THE HEALTH OF OUR SUSTAINABILITY INFRASTRUCTURE

We continue to care deeply about, and work hard on, the infrastructure for sustainable business and investing. As we have commented before, there is intense pressure on this infrastructure at present. As sustainability standards get used more, so they become bigger drivers of business action and spend. To put it another way, they become more consequential. And so, they are getting more attention from users.

We are impressed by the vision of the new leadership at the Greenhouse Gas (GHG) Protocol and Science Based Targets initiative. Both CEOs were highly visible during Climate Week NYC. It is ever more important that these organisations are on a secure financial footing and get their key judgements right. At Generation, we will continue to provide all the support that we can.

The threats to the success of sustainability standards and initiatives still abound. This is due not only to the intrinsic challenge of their work, but also to opposition from the enemies of climate action and, sad to say, to insufficient support or attention from institutions that should be their allies.

Climate Week NYC saw continued efforts to advance an alternative carbon-accounting initiative, Carbon Measures, backed by ExxonMobil. In a harsh coincidence, it also saw the International Organization for Standardization's draft Net Zero Standard fail to pass a vote by member organisations, with media reports indicating that the opposition to the draft came from fossil fuel-producing countries. Also, on the very last day of September, the UK regulator for sustainability disclosures for listed companies, the Financial Conduct Authority, decided that the International Sustainability Standards Board's reporting standards will apply in the UK not on a fully mandatory, but a weaker 'comply or explain,' basis.

We left New York with some powerful words from Generation's latest [Sustainability Trends Report](#) ringing in our ears: "*The energy transition is under way, and we have new reasons to speed it up. The only question left is how fast we can go.*"

If you would like to discuss any of these themes further, please do get in touch.

Portfolio metrics⁵

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 our portfolio and stimulate internal discussion.

As well as measuring our portfolio against a benchmark, we measure it against thresholds, too. This is because our 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: our portfolio has a lower gender pay gap score than the benchmark, but really we want our 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, Scopes 1 & 2 (tCO ₂ e/\$m) ⁶	25	90	
Carbon intensity, Scopes 1–3 (tCO ₂ e/€m) ⁶	408	897	
SBTi target validated (portfolio weight %) ⁷	61%	58%	100%
SBTi committed but target not set (portfolio weight %) ⁷	2.8%	1.2%	
Implied temperature rise (Scopes 1–3, degrees Celsius) ⁸	1.7	2.8	1.5

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Percentage of employees would recommend the company to friend ⁹	74%	68%	
Effective tax rate ¹⁰	18%	17%	
Commitment to a living wage ¹¹	29%		100%
Gender – female Board % (weighted average) ¹²	31%	35%	40–60%
Gender – female executives % (weighted average) ¹³	24%	26%	40–60%
Gender pay gap (simple average) ¹⁴	11%	16%	0%
Advanced total race/ethnicity score (weighted average) ¹⁵	67	70	
Pay linked to diversity targets (simple average) ¹⁶	13%	5%	

⁵ As at 30 September 2026. 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.

⁶ Source: MSCI, weighted average calculation.

⁷ Generation analysis based on data from the Science Based Targets initiative.

⁸ Source: MSCI.

⁹ Source: Glassdoor. Generation analysis based on data from Glassdoor. In this instance the benchmark is a bespoke Generation-analysed universe of Global Equity Focus List companies and their competitors/peers. This universe is comprised of 500 companies. The universe is not designed to approximate the MSCI World but to give an indication of how portfolio companies are rated compared to competitors and peers.

¹⁰ 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 2026 was 20.5%. This was calculated on the basis of data for 2025 from 105 jurisdictions.

¹¹ Source: Denominator. Coverage is poor for this metric and not adequately representative of the benchmark, therefore no comparison is made.

¹² Source: Denominator.

¹³ 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.

¹⁴ Source: Denominator. This metric is a simple average of gender pay gap data disclosed by companies. Coverage is poor and pay gaps are not measured in a consistent way. Nonetheless, we think it is important to show the data available on this metric.

¹⁵ 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).

¹⁶ Source: MSCI.

G

	Portfolio	Benchmark
Percentage of shares owned by executives (median) ¹⁷	0.12%	0.07%
Independent Board (weighted average) ¹⁸	76%	81%
Independent chair or lead non-executive director (simple average) ¹⁸	93%	78%
Board not entrenched (simple average) ¹⁸	83%	81%
All non-executive Board members on no more than four public company Boards (simple average) ¹⁸	97%	97%
Equal shareholder voting rights (simple average) ¹⁸	90%	88%
Independent compensation committee (simple average) ¹⁸	83%	74%
Companies with regular 'say on pay' votes (simple average) ¹⁸	97%	82%
Fewer than 10% votes against executive pay (simple average) ¹⁸	73%	77%
Pay linked to sustainability targets (simple average) ¹⁸	37%	27%

F

Three-year revenue growth (weighted average) ¹⁷	11%	16%
Gross margin (weighted average) ¹⁷	56%	49%
Cash flow return on invested capital ¹⁹	19%	10%

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

¹⁷ Source: CapIQ.

¹⁸ Source: MSCI.

¹⁹ 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.



The Sustainability Trends Report is Generation's flagship annual report which seeks to answer the question of where the world stands in the transition to a low-emissions economy. Marking a decade since the report was first published, this year's edition explores how the disruption to global energy markets following conflicts in the Middle East and Europe has exposed the economic, security and humanitarian risks of continued dependence on fossil fuels. The report explains that recent extreme weather events have provided a visible reminder of the costs of climate inaction. It also assesses the progress and priorities shaping the sustainability transition across the Power; Transportation; Buildings & Industry; and People, Land & Food sectors; and how Financing the Transition is progressing.

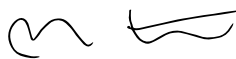
We invite you to read or listen to the report [here](#) – and hope it sparks fresh thinking and meaningful conversation. We look forward to hearing what resonates with you.

FIRM
UPDATE

As at 30 September 2026, Generation, including Just Climate, comprises 191 people and the Generation Foundation includes three people. Assets under management total approximately \$22.6 billion.^{20,21}



Miguel Nogales,
co-Portfolio Manager



Nick Kukrika,
co-Portfolio Manager

²⁰ Includes subscriptions and redemptions received by the last business day of the quarter but applied the first business day after the quarter-end.

²¹ Assets under management includes Growth Equity, Private Equity and Just Climate assets as at 30 June 2026.

Appendix

Portfolio metrics: definitions

FACTOR	METRIC	SUMMARY DESCRIPTION
Carbon intensity, Scopes 1 & 2 (tCO₂e/\$m)	Weighted average	Aggregate tonnes of GHG emissions (expressed as CO ₂ equivalent) per \$m of company revenue.
Carbon intensity, Scopes 1–3 (tCO₂e/€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 (Scopes 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 Scopes 1–3 basis against the sum of 'owned' carbon budgets for underlying holdings. Scope 3 emissions are estimated.
Percentage of employees who would recommend company to a 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, health care, 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. The pay gap data used is calculated by each company without any modifications applied. Calculation methods can vary between companies and jurisdictions.
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.
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.

FACTOR	METRIC	SUMMARY DESCRIPTION
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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