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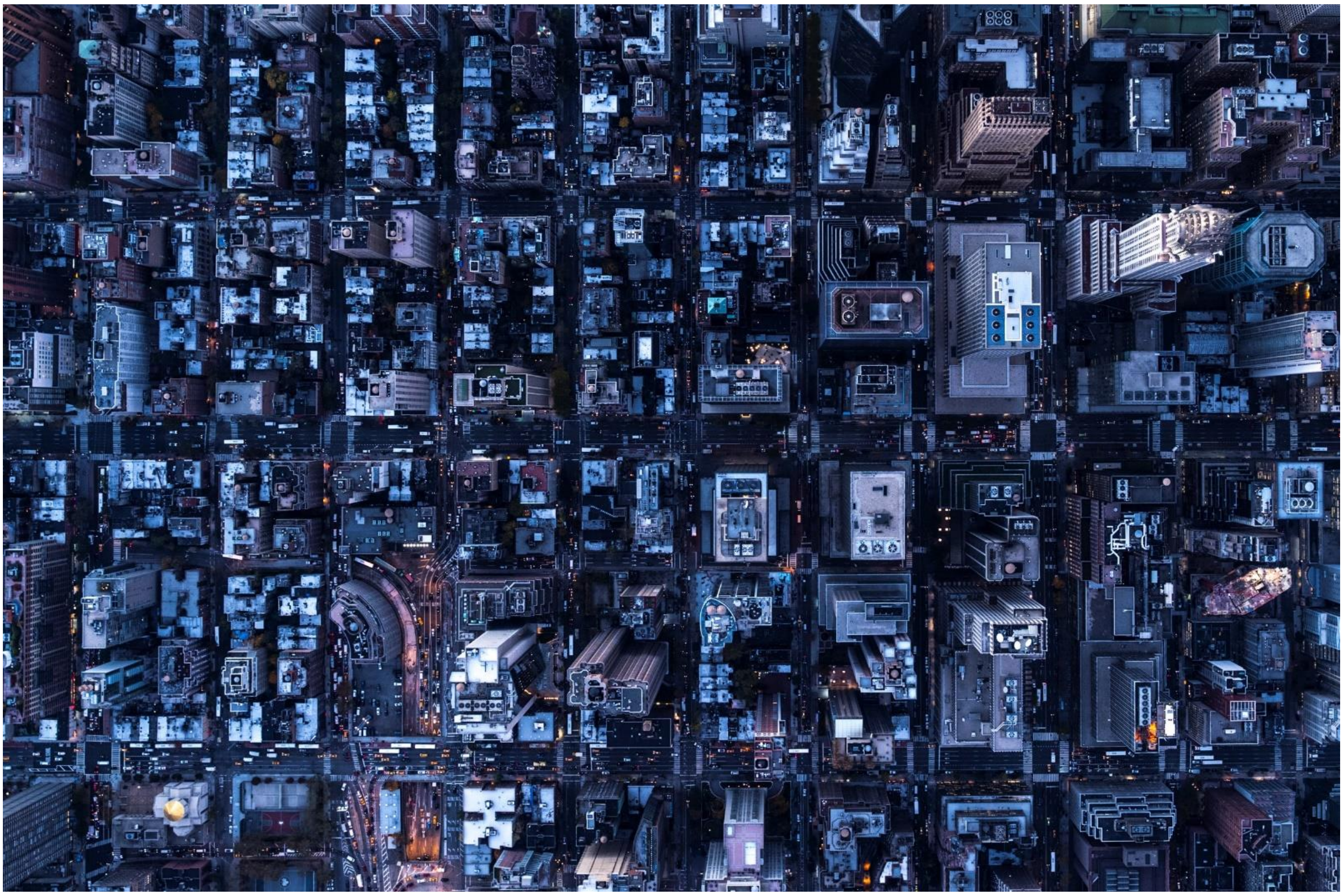
Generation Investment Management Global Equity Quarterly Investor Letter

January 2023



Dear fellow investors

When trying to sound wise, we typically misquote Einstein or refer to a Chinese proverb. “May you live in interesting times” is an example of the latter, and one that we will shamelessly use in this letter regardless.

The past few years have certainly been 'interesting', and as a result there is much to unpick in this letter. We start with performance.

PERFORMANCE

During the past year your portfolio significantly underperformed the benchmark. This is, with 2011, the second year of underperformance in the Fund's history. This is clearly a disappointing result, and one that we keenly feel ourselves as significant shareholders in the Global Equity Fund. Benjamin Graham once said that "in the short run, the market is a voting machine but in the long run, it is a weighing machine". In 2022 our candidates received fewer votes than they might have liked. Over the coming years, however, we cautiously believe that the scales will tip in our favour.

First, let's discuss the most relevant share price impacts we saw in 2022:

- Less than one third of the headwind came from not owning shares in Oil & Gas, Materials and Utilities.
- Four names in the Consumer sector (Adidas, Amazon, Ocado and Zalando) accounted for over a third of the underperformance. We share some thoughts on these companies below.
- Two investments in Healthcare (Baxter and Clarivate) accounted for under a third of the underperformance.
- There are a number of other positives and negatives that net out to zero.
- For context, 73% of the companies in our Focus List underperformed the benchmark during 2022.

The crucial question to ask is this: what proportion of this value decline is temporary versus permanent?

To answer this question, let us introduce the concept of 'impairment', a tool we use to measure ourselves. We think about impairment in two ways. The first is simple. Imagine we buy shares in a company. The investment case then turns out to be wrong, and we sell our position, typically at a loss.

In 2022 this type of impairment accounted for approximately 1.5% of your portfolio, which compares with a long-run average of around 2% a year. These are cases where we misjudged Business Quality (BQ), Management Quality (MQ) or both. These are always irritating (and always seem avoidable with hindsight). Yet in aggregate they are in line with our historical experience.

The second type of impairment is more subtle. Imagine we buy a business for USD 50 thinking it is worth USD 100. Imagine that our initial assessment of fair value was over-optimistic and we now believe the shares to be worth USD 80. Say we own a 1% position in this company. We will register a notional impairment of 20%, or 20 basis points on that investment. This is, as you might think, a conservative approach. We consider that these types of impairments may be temporary. The investments may ultimately turn out to be successful.

This type of 'notional impairment' was about 2.5% of your portfolio in 2022, compared with about 1% a year on average. Out of the 11 companies that suffered fair-value downgrades, we were able to add to seven of them. Even though we had downgraded our view of the fair value of these companies, we believed that the market's downgrade was too severe.

Therefore, to answer our original question: we estimate that only a small proportion of our underperformance in 2022 – less than a quarter – is permanent.

For us, 2022 has been a year of contrarian investing. We have added meaningfully to companies that have underperformed this year.

When an investment underperforms, our first step is to re-test the investment case. This isn't always easy. Ego can get in the way. However, if the investment case is unchanged and the price has fallen, we will continue to invest on your behalf.

In this regard we remain resolute. While price moves have been wild during 2022, the elements of our process that are in our control – the ability to judge BQ and MQ, as well as the appraisal of a reasonable estimate of fair value – have remained unchanged throughout our 18-year history.

There are other ways to think about whether value declines are temporary or permanent. For example, we also analyse companies' operational performance.

Taken as a weighted average, the companies you own appear to be on track to register 11% organic growth for this year and stable operating margins. Operating returns on capital (the post-tax profitability that the company registers on its operating assets) remain very high at 37%.[1] Crucially, we believe that these companies can reinvest the capital they generate at attractive returns. 2023 is clearly uncertain, and we model a significant recession across many countries. Nonetheless we believe that the companies you own will grow revenues and margins and sustain very high returns on capital. We will update you on this outcome as 2023 unfolds.

A portfolio that declines materially in price but maintains robust operating performance leads to an interesting outcome: there is increased upside. At the time of writing, the upside in your portfolio is approximately 70%, and average BQ and MQ scores compare favourably with past cycles. The health warning is that the upside figure is derived from our internal assessment of fair value, and is thus a collection of judgments. Over past cycles it has proved predictive, but there is no guarantee this will continue to be the case.

At the time of writing, your portfolio has a 'free cash flow yield' (the free cash that the company generates) of over 4% in 2023 (a recession year) and 5.5% in 2024. We think these are reasonable yields for a portfolio that we expect to deliver high teens growth in earnings and free cash flow per share over the coming years. In some cases, this value is already starting to be recognised. Slowly, we believe Benjamin Graham's scales are starting to tilt in our favour.

HITS AND MISSES

Since 2009 we have met every year to discuss how we can do things better. We call it our 'hits and misses' meeting. Every person in the Global Equity team, seniority be damned, is encouraged to suggest areas of improvement. This cannot be achieved without humility and teamwork. The focus isn't on fighting the last battle but rather on process improvements that will prove durable. We also celebrate what is going right.

Start with the hits. We are happy with the way the team worked this year. Beating the market is obviously more fun than being behind it, but the team showed resilience, humility and focus. We doubled down on our research, which reached new highs in terms of volume. 2022 was a year for re-testing our investment theses through primary research.

We have also made some changes at an organisational level. We are delighted to share with you the news that Puja Jain and Brian Dineen have been promoted to the newly created position of Heads of Research. As well as continuing to drive excellent

[1] Our own analysis reflects internally modelled returns on operating capital. The integrated portfolio metrics on p.14 include a different (third-party) metric, historical 'cash flow returns on investment' (CFROI). CFROI returns are typically lower than operating return on capital employed, as the asset base is inflation-adjusted to reflect replacement cost, while conventional accounting practice is to depreciate. The larger denominator results in smaller CFROIs. In both measures, there is a wide spread between the portfolio's return on capital and its cost of capital.

investment ideas, Puja and Brian will take ownership for continued excellence in our research process.

The average tenure of people across our team is 10 years. We continue to register low turnover and feel immensely privileged to work with such incredible people.

As for misses, we noted the need for sharper execution of our BQ and MQ process, with reference to some flawed investment cases and instances of overpaying for growth. Bear markets are better teachers than bull markets. We plan to refresh our MQ framework in 2023 and will continue to take a more critical view of certain long-dated investment cases. As ever, our investment process will benefit from a number of tweaks. Still, the basic principle of buying high-quality sustainable companies at a reasonable price will remain unchanged.

OPERATING ENVIRONMENT

The context in which we invest is also 'interesting', for three interrelated reasons: global monetary tightening, inflation and geopolitics.

Take tightening **first**. In the history of the modern world, central banks have never tightened as aggressively as they are doing today. In the past year the average central bank has raised rates by about 3.5 percentage points, faster even than in the 1980s.[2] It is clear that they are serious about getting inflation under control and may well end up returning the price of money to historical ranges.

In a sense, therefore, we are in uncharted territory. Yet financial history offers some crucial lessons for investors. Perhaps the biggest is this: when rates rise, something usually breaks. In the 1980s it was Latin American public finances. In the 2000s it was America's housing market.

Today we are on the lookout for what the famous economist JK Galbraith called 'the bezzle'. This is when tighter financial conditions expose what you might call 'less-than-virtuous' corporate activity – or, alternatively, skeletons in the closet. There are plenty of examples where difficult stock market conditions and corporate scandals go hand in hand. You see it as far back as the South Sea Bubble of 1720. More recently, the collapse of Enron in 2001 and Bernie Madoff in 2008 show what can happen when financial times are tough.

This time around, not much has broken so far – with the big exception of a number of crypto firms. Fortunately, the evidence is that the demise of these firms has had little wider effect on markets or the real economy, though we suspect that other skeletons are waiting to be discovered. For instance, we notice a rise in the use of non-standard financial metrics such as 'adjusted EBITDA' (we correct for these metrics in our analysis). When managers struggle to make the numbers, some are tempted to start making *up* the numbers.[3] We are comfortable, however, that our companies will weather the coming storm. They have strong balance sheets and low debt – not to mention high MQ.

The pressure from higher rates will continue until the threat from inflation – our **second** factor – disappears. We do not seek to forecast the future path of inflation. Few people saw it coming; few people expected it to remain so high for so long. There is no reason to believe the many and varied prognostications on what will happen in 2023.

What we can do is pick companies that, we believe, are positioned to weather the inflationary environment. We have conducted deep analysis into the 'pricing power' of your portfolio. We feel reassured that they will be able to pass on extra costs, either in the short term or with some delay. We also talk frequently with your portfolio companies

[2] Generation calculations using Bank for International Settlements data.
[3] For this quip we thank Warren Buffett.

about the pressures in the labour market. The worst appears to be behind us, though labour shortages do remain a large problem – a finding backed up by macro data in America.[4]

Increasingly, indeed, our worries are less about the economy and more about geopolitics – our **third** factor. We believe that we are now deep into a new phase of globalisation. Not 'deglobalisation', the buzzword of the day, but instead a profound reconfiguration of trading and investment relationships. The world is increasingly moving towards two 'blocs', one centred on democracies and the other around more authoritarian regimes.

Some industries have always been fragmented – Healthcare being one such example. China and America have long existed in two different internet ecosystems. The question is whether this will start to affect other industries – the sorts of industries that benefitted so much from globalisation in the 1990s and 2000s.

Semiconductors are the canary in the coalmine. America depends heavily on East Asia, especially Taiwan, for supplies. To say that disruption to the global supply chain for semiconductors would have 'profound consequences' is an understatement. Markets and countries would be roiled. Depending on who you ask, you should either be worried or very worried about the future of Taiwan. Xi Jinping is clear about his long-term goals for the island.

At the same time, however, China also relies heavily on intellectual property from the West – and has, if anything, only become *more* reliant in recent years.[5] This means that any conflict between China and the West would have huge consequences for both sides – something that gloomy pundits often forget. We do not wish to fall into the 'Norman Angell trap', named after the commentator who in 1909 infamously predicted that the First World War was impossible, on the grounds that the great powers of Europe were too dependent on each other economically. However, recent events offer some encouragement: in recent weeks Xi has met with Joe Biden and Olaf Scholz – and may soon meet Emmanuel Macron. We hope that hints of a more constructive relationship will develop into something more. Your portfolio companies have less than 8% direct revenue exposure to China, but we are aware of the significant indirect impact should there be further escalation.

When all is said and done, though, we do not seek to base investment decisions on our reading of macro or geopolitics. There is a playbook, of sorts, for tighter monetary policy and inflation – though events of the past year have surprised even the most seasoned economists time and again. There is no playbook whatsoever for the sort of great-power conflict that seems to be emerging – one in which two massive, sophisticated economies compete for influence.

All we can do is to continue with what we know works: buying well-managed, high-quality sustainable companies with pricing power that also want to make a positive impact on the world. And no matter how the news develops in 2023, we will continue to do that.

The total assets under management for the Global Equity strategy as at 31 December 2022 are USD 24.0 billion.

[4] For instance, note that in America total vacancies have fallen by over 10% from their recent peak.
[5] https://www.economist.com/briefing/2020/08/15/xi-jinping-is-trying-to-remake-the-chinese-economy.

Review of the year

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

In each quarterly letter, we share examples from your portfolio that bring our investment process to life. This quarter we focus in depth on Gartner, the technology consulting firm, and provide briefer updates on four Consumer and two Healthcare names in the portfolio.

Company example

Gartner

"The exponential growth of technology is transforming the way business operates. Those who can adapt to this change and harness the power of technology will have significant competitive advantage in the marketplace."

This is not a quotation from a business guru, nor from a technology luminary. Instead, we asked an artificial intelligence to opine on the state of global tech.[6] We couldn't agree more with what it says.

The pace of technological change is staggering. Machine intelligence is becoming powerful and creative, while software permeates every industry. From farms to factories, connected sensors are mapping the world.

Technology is not the only thing changing fast: the world is also becoming more volatile. Since 2019 alone we have seen the beginning of a new phase of globalisation; then a pandemic; then inflation; and then Europe's largest war in 80 years. Global uncertainty is near an all-time high.[7] As a result, understanding and responding to rapid change is essential. Future corporate winners will need to be agile.

This is where Gartner comes in. They help customers make smarter, quicker decisions related to their technology and other business functions. We believe that Gartner will become increasingly relevant to their clients in a world undergoing rapid change.

ENTERPRISE IT

Generation has been researching Enterprise IT for well over a decade. If we have learned one thing, it is this: when it comes to IT, there is an enormous disparity between supply and demand. The world has an insatiable need for information technologies, yet it suffers a lack of experts able to build and operate these tools.

This disparity means that firms cannot digitise as fast as they want, which in turn constrains corporate agility. This limits global productivity growth. Getting digitisation right thus has huge sustainability implications, and will influence future living standards for all.

If the world does nothing, the tech disparity could worsen over time. Demand for technology is likely to increase materially. Our best guess is that it could rise from 5% of GDP today to potentially 10% by 2040. That transition will be driven by economic development, a shift from physical goods to intangible services and the digital enablement of all sectors.

Supply of skilled technologists could, therefore, become an even more binding constraint. Even the high wages in the sector have not encouraged enough people to train as technologists. There are many reasons for this shortfall: poor technical education, failure to tap diverse talent pools and lacklustre retraining efforts.

Traditional approaches to closing the imbalance between supply and demand, such as outsourcing, have run their course. We believe Gartner can chart a different path.

ABOUT GARTNER

Gideon Gartner founded the company in 1979 to help clients understand and implement IBM technology – the dominant vendor of the era. It expanded to provide research and advice about hundreds of vendors, collect market data and run flagship events in the IT industry.

In 2004 a new generation of leadership entered the company. It expanded into other business functions: initially supply chains, then marketing, followed by a big push into finance, sales, HR and legal through their acquisition of the company Corporate Executive Board.

Today Gartner has nearly 16,000 clients. They employ 2,200 experts who have nearly half a million client engagements per year. Gartner engages on

[6] Chat GPT from Open AI was asked to "write about technological change impacting business".
[7] https://www.policyuncertainty.com/.

topics as diverse as the future of remote work, the use of data in decision-making, increasing supply-chain resilience, and crafting diversity and inclusion initiatives.

Gartner diligently researches the top trends impacting business, so that their clients can stay informed without the burden of hiring staff for the task.

OUR INVESTMENT THESIS

Gartner has been on our Focus List since May 2012. Our primary research on Enterprise IT drove our conviction that Gartner was a sound investment. Our research was informed by interviewing and surveying senior IT leaders, attending industry conferences, speaking with vendors, and studying market data.

We believe Gartner's Business Quality (BQ) is very strong. First, Gartner provides an essential service for firms: helping them digitise. Second, the business is very hard to emulate. They have unique data, networks of users and experts, and years of process learning under their belts. All this has led the company to hold market share ten times larger than their next peer. Third, the business has significant recurring revenue and pricing power.

We consider the Management Quality (MQ) to be similarly strong. The firm avoids a 'star culture'. Teams are flat and meritocratic. The interests of the CEO and the long-term interests of the company are also aligned. Gene Hall owns 1.5% of the company and has held on to nearly all of his stock throughout his tenure. Capital allocation is thoughtful: most free cash is returned to shareholders; buybacks are at sensible prices; operating efficiency is rising over time; and the business is capital-light.

Gartner is not free of controversy, however. First, the company has itself been challenged by technological disruption. New methods of delivering research and advice have sprung up over the years. Internet blogs from freelance experts, crowdsourced peer reviews and social networking-based alternatives have thrived. Gartner has successfully incorporated these approaches into their own offering and has come out stronger after each challenge.

Second, the company has historically had an operating margin of around 10%, which is far below peers in a similar position. After significant research we concluded that suppressed margins were as a result of aggressive investment in growth. The pandemic provided evidence of this, as margins peaked at over 20% when investment was forced to slow.

SUSTAINABILITY AT GARTNER

We feel that Gartner can drive sustainability in two ways. First, they help make businesses more digital, efficient and agile, with substantial positive effects on global welfare. Second, they can advise their clients on how to become more sustainable, particularly in terms of how they can get to net zero.

Helping companies digitise is core to Gartner's mission. It has been true for the life of the company. However, until a few years ago Gartner was behind the curve in helping their customers drive environmental change and other forms of sustainability. They produced a few articles on Green IT, but their body of research was limited and was not front-and-centre for clients to discover.

We engaged with management on the issue, and they have been very receptive to our arguments. Gartner now prioritises 'sustainable business strategy' as one of its top research areas. They made sustainability the central theme of their most recent CIO conference. Additionally, they have committed to ensuring that their own operations reach net zero by 2035. They have also committed to setting a Science Based Target.

There is still scope for improvement. We feel that Gartner could use its leverage with technology vendors to drive them towards sustainable practices. For instance, they could suggest that customers only adopt technologies from vendors with suitable climate reporting, goals and action. We continue to engage them on the issue.

CONSUMER AND HEALTHCARE NAMES IN THE PORTFOLIO

We also thought it wise to update you on four holdings in the Consumer sector: Adidas, Amazon, Ocado and Zalando, and two companies in the Healthcare sector: Baxter and Clarivate. For these companies, the share price has had a challenging 2022, but we'd like to explain why we continue to believe that these companies have a strong investment case.

Consumer names

Adidas

The Adidas share price has had a tough year. Alongside a challenging consumer backdrop, it has scored several own-goals. Most notably, it has struggled to rebuild in China during the rolling lockdowns, and was slow to react to the rising 'Guochao' trend, where consumers demonstrated a preference for products with a nod to traditional Chinese culture. We also think the company could have done a better job on franchise management.

In light of its challenges, the CEO of six years, Kasper Rørsted, stood down. Fortunately, Adidas has found an experienced replacement in Bjørn Gulden, previously the long-standing CEO of Puma. We expect new leadership will reinvigorate the business. As one of very few truly global Consumer mega brands, Adidas has enormous potential.

Amazon

Amazon has also seen its shares underperform in 2022. Whilst some of this is attributable to the market anticipating a weaker consumer, the market also worries about profitability in the retail business. Amazon.com has seen increased losses due in part to an over-expansion of its logistics network, as well as continued high levels of investment in new business areas like their Alexa virtual assistant.

We believe the company is taking appropriately long-term action to reduce excess capacity and manage investment in earlier-stage efforts. The company's cloud computing business continues to experience robust growth. While we expect this growth to slow as businesses optimise their spending on cloud services, we believe the long-term trend towards more efficient, scaled cloud platforms like AWS and Azure remains robust.

Ocado
We wrote about Ocado in our Q3 2022 Investor Letter. There we explained how we believe Ocado continues to have the most efficient and also most sustainable (lowest carbon intensity) model for fulfilling online grocery orders. It has made strong progress this year in enhancing its proposition, with a number of impressive initiatives announced in January.[8] In addition, it has signed two new major partnerships in 2022, in Poland in March and in South Korea in November.

However, the shares have been weak for two reasons. First, its UK business has seen profits decline due to some normalisation in online sales as lockdowns have lifted, as well as margin pressures from inflation. We believe these issues will prove temporary. Second, the market has been far less prepared to ascribe value to future growth. We believe that as Ocado continues to sign new deals and to grow with its existing partners, investors' concerns will fade.

Zalando
We wrote about Zalando in our Q2 2022 Investor Letter. Zalando's shares have also been weak in 2022. Again, the post-lockdown normalisation in online sales plays a role. Margins also came under pressure from inflation. Our belief nonetheless is that Zalando will be *the* online Softline platform in Europe. As such, we see a long runway for sales growth, and also for margin expansion. On this, we were encouraged to see Zalando adding c.2m more active customers this year. Additionally, Zalando is uniquely placed to work with brands and consumers to enhance the sustainability of this industry. We have seen progress here this year, particularly in second-hand resale.

Healthcare names

Baxter
We wrote about Baxter in the Q3 2021 Investor Letter. Baxter shares have underperformed in 2022 due to the combined effect of muted revenue growth from continuing supply-chain shortages and rising cost pressures. In the short term, the company is unable to fully offset the impact of cost pressures via price increases. We think the company's strong market positions will help it to improve margins over time. Supply-chain challenges are likely to ease, and existing customer contracts are likely to be renegotiated at higher prices. The company's products and services are essential inputs to a well-functioning healthcare system. Further, there is a significant cost-optimisation programme underway. This should improve profitability and cash-flow growth.

Clarivate
Clarivate is a data and analytics business providing software and services to academic research, intellectual-property management and life-sciences. The shares have traded weakly throughout the past year, in part because the company did not deliver on high expectations, in part because of high management turnover and in part because revenues in some areas of the business were soft. Clarivate shares have also proven to be sensitive to rising interest rates, in part due to the company's significant indebtedness.

Looking ahead, however, we see room for significant optimism. We think the management churn is behind us. A fit-for-purpose management team has now taken the helm with substantial experience managing and optimising similar data and analytics businesses. The company is committed to rapid deleveraging, partly aided by divestments already announced and expected cash-flow generation in the next 12 months. Lastly, three businesses where Clarivate has underperformed recently are clearly improving, with expected results in the next few years. We believe a period of consistent execution along the company's stated strategy and the resulting rebasing of investor expectations will allow a fairer market appraisal of the quality of the business.

[8] https://ocadogroup.com/about-us/our-stories/ocado-reimagined/.

Engagement and proxy voting

Every analyst at Generation undertakes engagement and proxy voting as part of their ongoing coverage of companies. The analyst team is supported on stewardship strategy and execution by our Director of Engagement Edward Mason and Engagement Associate Jessica Marker.

We are pleased to have been accepted again in 2022 by the Financial Reporting Council as signatories to the UK Stewardship Code, based on our Stewardship Report for 2021.

ENGAGEMENT OVERVIEW

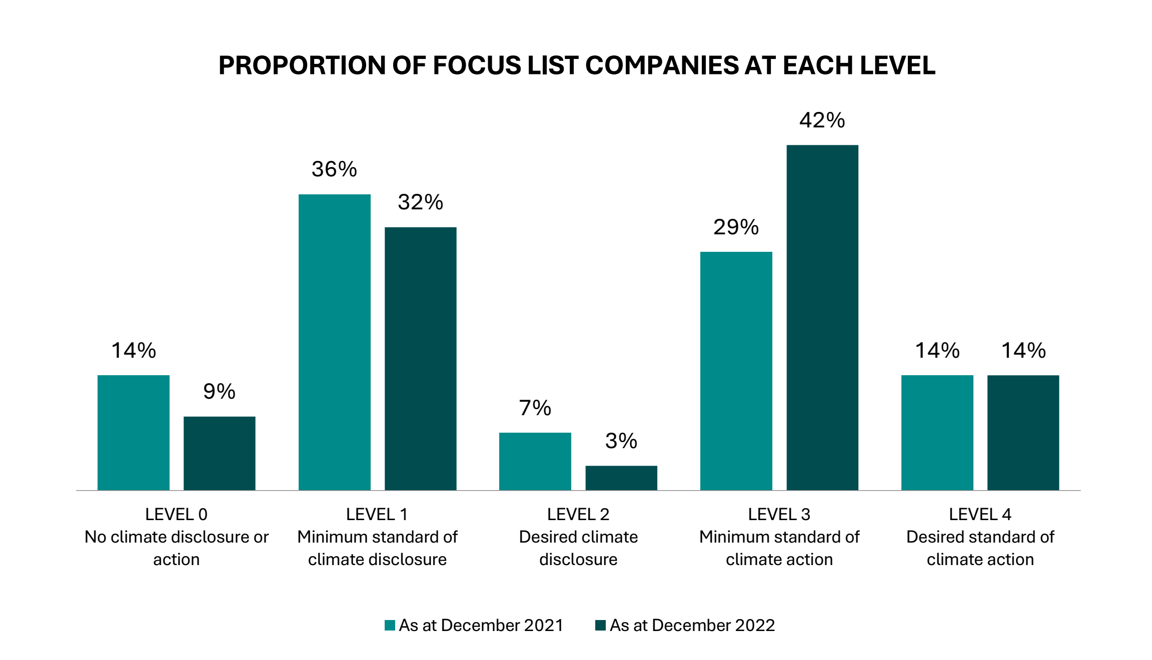
In 2022 we undertook **643** meetings with Global Equity Focus List companies. The purpose of our meetings can be 'monitoring', to ensure that our investment thesis remains intact, or 'engagement', where our interactions are in direct contemplation of the company achieving a specific outcome. In 2022, **72** of our meetings included engagement in relation to a specific outcome. We engaged on environmental issues in **54** meetings, social issues in **26** meetings and governance issues in **31** meetings.

We will provide a complete picture of our engagement in 2022, and engagement outcomes, in our upcoming Stewardship Report. For now, we will share an overview of our activities over the past year.

Climate change
Climate change remains the issue on which we engage most. We seek to align your portfolio with net-zero emissions by 2040. It was discussed in **46** engagement meetings in 2022.

Our climate 'levels' framework operates 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.

As you can see below, over the past year there has been further meaningful progress against our engagement framework.



We are pleased to see the percentage of Focus List companies participating in the Science Based Targets initiative and/or with 2040 net-zero commitments increase from 43% to 56%.[9] Portfolio companies joining SBTi in 2022 included Carlisle, Clarivate, Gartner, Mercadolibre and Trimble. We will keep up the pace of our engagement as we seek to achieve our target of 60% Science Based Target coverage across the portfolio by 2025.

Happily, the percentage of companies at Level 0 has continued to decline, from 14% to 9%. Only one of these companies, 10X Genomics, a recent admission to the Focus List, is in your portfolio. It has been our practice since the 2021 proxy season generally to vote against the re-election of the Chairman of a company that is not disclosing its emissions.

In 2022 we informed Focus List companies that, from 2023, we would also start to make it our general practice to vote against the re-election of the Chairman of a company that is not participating in the Science Based Targets initiative.

Diversity
Diversity was the issue on which we engaged next most commonly in 2022, in **17** meetings. Under our equity, diversity and inclusion (EDI) framework, we ask that companies disclose comprehensive EDI data and ambitious plans for improvement.

From 2023 we plan to begin taking a firmer approach to EDI shortcomings in our proxy-voting decisions on director elections.

Deforestation
In 2022 we started a new engagement programme on deforestation as members of the Financial Sector Deforestation Action group. Under this initiative, we are seeking to eliminate agricultural commodity-driven deforestation activities at companies in our investment portfolios by 2025.

This engagement programme involved **eight** meetings with Focus List companies at material risk of exposure to agricultural commodity-driven deforestation.

PROXY VOTING

Global Equity analysts draw on Generation's Proxy Voting Principles and their own analysis when voting the proxies of the companies they cover. While they 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 2022:

- There were **718** resolutions at portfolio companies on which we qualified to vote.[10]
- We voted **100%** of these proxies.
- For management proposals, we declined to support management (either voting against or abstaining) on 22 occasions (3% of voting on management proposals).
- 5% of proposals were filed by shareholders.
- We voted in favour of 39% of shareholder proposals.

2022 GLOBAL EQUITY PROXY VOTING SUMMARY

		For	Against / withhold	Abstain	Total	% against management
Management resolutions	Board election & structure	412	10	4	426	3%
	Compensation-related	82	3	1	86	5%
	Auditor-related	59	1	1	61	3%
	Routine business	92	0	0	92	0%
	Other business	18	2	0	20	10%
	Total	**663**	**16**	**6**	**685**	**3%**
Shareholder resolutions[11]	Governance	10	4	2	16	63%
	Environmental	0	3	0	3	0%
	Social	3	10	1	14	21%
	Total	**13**	**17**	**3**	**33**	**39%**

[9] You will see in the portfolio metrics table on p.14 that the rate of participation in SBTi is higher in the portfolio – at 60% – than when we look here at the Focus List as a whole.
[10] 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.
[11] Votes for shareholder resolutions are recorded as votes against management, unless management recommends voting in favour of a shareholder resolution.

Portfolio metrics[12]

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. While they are best viewed as an output of our process rather than direct inputs, they also provide us with an additional lens to view the portfolio and stimulate internal discussion.

	Factor	Portfolio	Benchmark
E	Carbon footprint – (tonnes) CO_2 equivalent/$m (revs)[13]	59	243
	Greenhouse gas – imputed cost (% of revenues)[13]	0.6%	1.4%
	Water & resource use – imputed cost (% of revenues)[13]	0.5%	1.3%
	Waste & pollution – imputed cost (% of revenues)[13]	0.4%	0.9%
	Average carbon-weighted disclosure percentage (Scope 1)[13]	85%	78%
	Percentage of companies in SBT initiative[14]	60%	42%
S	Human capital development score[15]	6.0	5.5
	Data security score[15]	5.9	5.7
	% of employees would recommend company to friend[16]	78%	73%
G	Firm tenure of executive team[17]	**13.8 years**	N/A
	Fewer than 10% shareholder votes against executive pay[15]	59%	73%
	Equal shareholder voting rights[15]	97%	89%
	CEO total pay less than 3x of median executive officer[15]	67%	73%
	Percentage of shares owned by executives[18]	0.18%	0.09%
	Female Board directors[15]	33%	31%
	Board not entrenched[15]	74%	80%
	All non-executive Board members on fewer than four Boards[15]	41%	57%
	Independent compensation committee[15]	87%	71%
	Independent Board[15]	81%	75%
	Independent chairman or lead non-executive director[15]	90%	71%
F	Three-year revenue growth (annualised)[18]	16%	11%
	Gross margin[18]	58%	50%
	Cash flow return on invested capital (CFROI)[19]	13%	8%

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

[12] As at 30 November 2022. For definitions of each metric, please refer to the 'Notes to Metrics' at the end of this report.
[13] Trucost data.
[14] Generation analysis based on data from the Science Based Targets initiative and MSCI as at November 2022.
[15] MSCI ESG data.
[16] Glassdoor data.
[17] Generation in-house analysis prepared in November 2022.
[18] CapIQ.
[19] Credit Suisse Holt.

Portfolio mapping to the UN Sustainable Development Goals

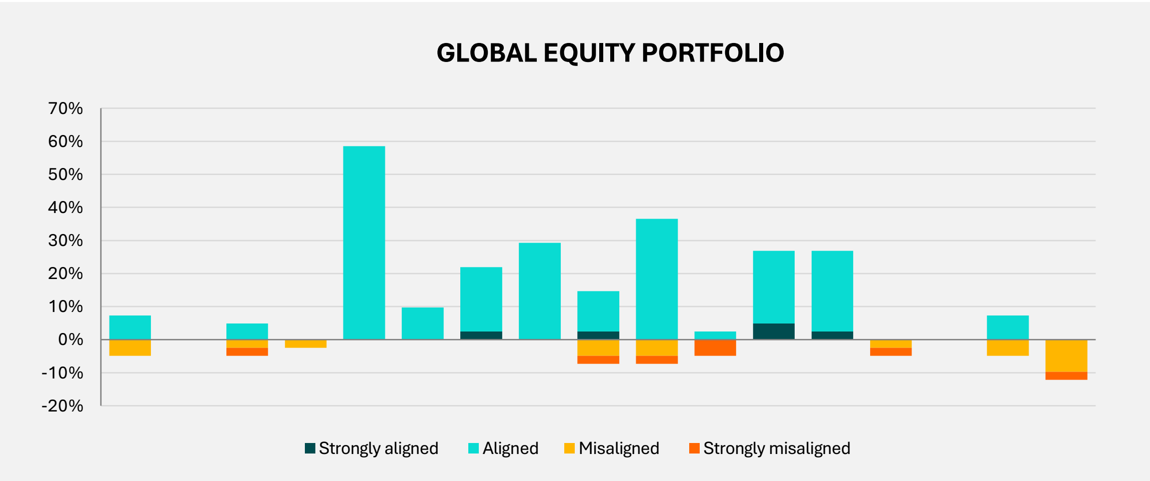
This is our third year of reporting the alignment of your portfolio with the UN Sustainable Development Goals (SDGs) using an external tool: the MSCI SDG Alignment Tool.

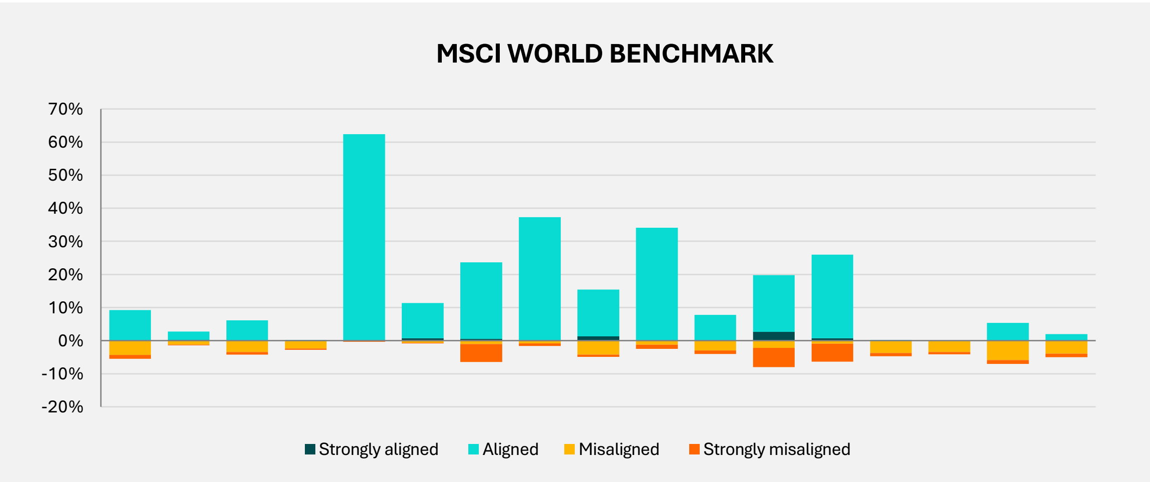
As a reminder, the tool:

- 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.

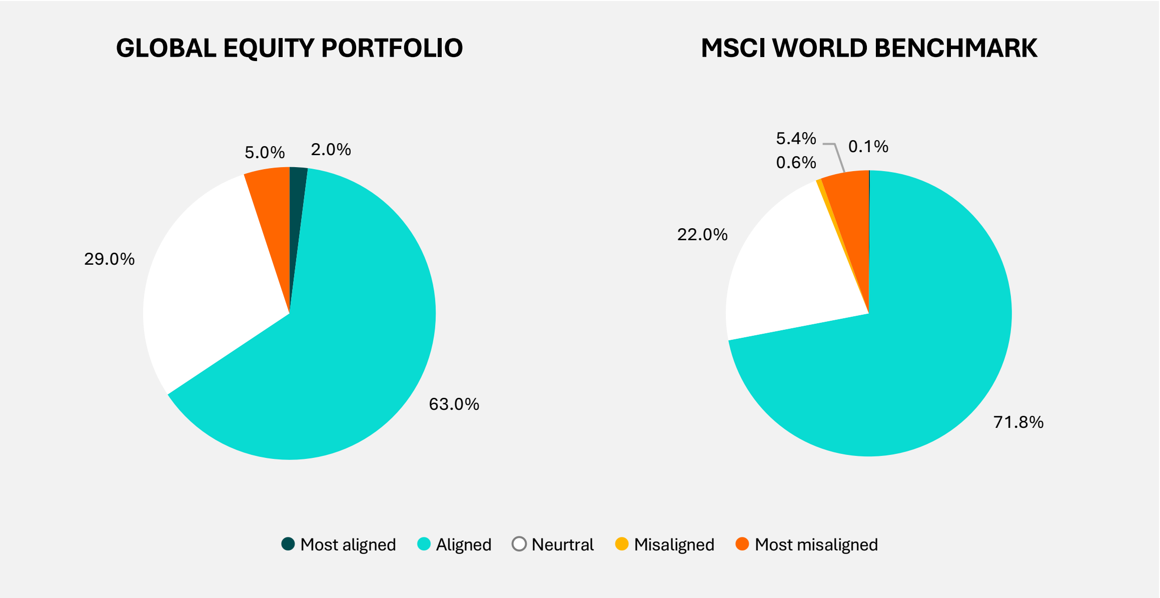
For each SDG, a company's contribution is weighed in the balance so that, based on their net scores, companies can be assessed as Strongly aligned, Aligned, Neutral, Misaligned or Strongly misaligned.

The charts below show how the Global Equity portfolio (as at 30 November 2022) 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.[20]



We draw the following conclusions from 2022's SDG alignment assessment:

- Your portfolio continues to hold more 'Most aligned' and fewer 'Most misaligned' and 'Misaligned' companies than its benchmark, although these categories are small in both instances.
- Your portfolio is tilted more this year towards companies assessed as 'Neutral'. New additions with Neutral ratings were: 10x Genomics, a biotechnology company powering innovation in gene sequencing; PTC, an industrial-software company facilitating greater materials efficiency; and Mastercard, a company we believe is a leader in the area of financial inclusion.
- The company in your portfolio that scores best, as 'Most aligned', is Vestas, which is assessed as 'Strongly aligned' on four SDGs and 'Aligned' on three, with no misalignment.

There are seven instances in the portfolio of a company being assessed as 'Strongly misaligned' with one of the SDGs, which relate to three companies. This is an increase on last year where we had only one such instance (Carlisle):

- **Carlisle** was again assessed as 'Strongly misaligned' with SDG 14 (Life Below Water) because of the plastic content of the building envelope products the company manufactures. We continue to see this as mechanistic given that Carlisle's products have not, to our knowledge, been associated in any way with the scourge of plastic waste in water.
- **Kingspan** was assessed as 'Strongly misaligned' on: SDG 3 (Good Health and Well-being), SDG 9 (Industry, Innovation and Infrastructure) and SDG 11 (Sustainable Cities and Communities). The change in alignment assessment for all of these goals relates to the presence of Kingspan insulation boards on Grenfell Tower in London, which saw a catastrophic fire in 2017, as a result of which 72 people tragically died. The Grenfell Inquiry has established that the principal reason for the rapid spread of the fire was the cladding system fitted. While Kingspan did not supply or recommend its insulation boards for use with the cladding system in the Grenfell refurbishment, the company has, however, been the subject of controversy because of evidence that came to light at the Grenfell Inquiry in 2020 of poor culture and controls in its insulation boards business in the years prior to the fire. Generation has engaged extensively with Kingspan about these failings and the company has taken what we think constitute appropriate actions to address them. We will continue to monitor the effectiveness of these actions. The Inquiry's final report is expected to be published in 2023.

[20] 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. We exclude from these charts companies that are not assessed for SDG alignment by MSCI. Values may not add up to 100% due to rounding.

Thermo Fisher was assessed as 'Strongly misaligned' on: SDG 10 (Reduced Inequalities), SDG 11 (Sustainable Cities and Communities) and SDG 17 (Partnerships for the Goals). The change in alignment assessment for all of these goals relates to a controversy that came to light in 2019, when it was revealed that Thermo Fisher's products were being used by officials in Xinjiang, without the company's knowledge, to collect DNA data on Uighur Muslims. Generation engaged with the company shortly after these practices came to light and Thermo Fisher quickly stopped selling its products in the region.

The results of the SDG alignment tool should be viewed with the usual caveats. Its assessments of companies are less sophisticated than those based on primary research and engagement. In addition, as we have seen this year, controversies data are a blunt tool. There is both a significant time lag between controversies occurring and their impact on assessments, and further lag before companies' responses to controversies are recognised.

Multiple new SDG alignment tools continue to come to market, and Generation will continue to review whether any offer the greater sophistication of assessment that we would like to see.

Firm and Foundation update

At Generation, our mission is two-fold. We seek to deliver superior, risk-adjusted investment results utilising a ‘systems view’ to integrate sustainability and environmental, social and governance (ESG) factors into our investment framework.[21] As importantly, we share our experience and voice as a sustainable investment manager to drive to a net-zero, prosperous, equitable, healthy and safe society.

[21] Although Generation seeks to deliver superior performance, there can be no guarantee this goal will be achieved.

ADVOCACY UPDATE

Last year we penned our Q4 Investor Letter in the wake of COP26, writing that after the net-zero commitments on the road to Glasgow, the road from Glasgow would be one of net-zero implementation.

Little did we know what 2022 would have in store. The crippling energy crisis provoked by Russia's invasion of Ukraine, and the efforts of some in the US to cast sustainable investing as a political campaign, have created challenging headwinds for net-zero implementation.

Nonetheless, the process has continued at pace, and has been at the heart of Generation's advocacy work.

Our annual Sustainability Trends Report, published in September, made the case for the EU, following Russia's invasion of Ukraine, to lead the world in a faster transition to clean energy.

Throughout the year, Generation has led the workstream within the Glasgow Financial Alliance for Net Zero (GFANZ) on how to measure the alignment of financial portfolios with the goals of the Paris Agreement. The workstream report published on the eve of COP27 builds on the work of the Portfolio Alignment Team that Generation led in 2020-2021 and seeks to drive enhancement, convergence and adoption of portfolio alignment measurement by GFANZ members.

Generation has consistently made the case in 2022 for financial institutions to address deforestation as an intrinsic part of their net-zero implementation. This Insights piece, published in November, sets out our thinking.

Addressing the ESG backlash head-on, our Chairman Al Gore and Senior Partner David Blood wrote a piece for The Wall Street Journal,[22] also in November, arguing that barring consideration of ESG factors would not only lead to poor investment outcomes, but also constitute a clear dereliction of fiduciary duty. Sustainable capitalism, they wrote, "is the only way the planet, its people and their investments can thrive. Sustainable investing is capitalism at its best". This is an advocacy battle that we will need to continue to fight in 2023.

The **Generation Foundation** continues to pursue its shared mission with Generation Investment Management: to create a net-zero, prosperous, equitable, healthy and safe society. Since its founding in 2004, the Generation Foundation has made grants to non-profit organisations that work to promote sustainable development and socio-economic equality.

New partnerships in 2022

The Foundation deployed 11 new strategic grants in 2022 under the dual pillars of its strategy: climate and fairness. New partnerships include a multi-year partnership with the World Benchmarking Alliance to build a new Gender Benchmark that includes metrics on the Care Economy and a major partnership with the Global Commons Alliance, supporting their Accountability Accelerator.

Engaging colleagues

Employee programmes, including matched giving, reached a new record in 2022 of over GBP 2 million deployed. The Foundation also launched a new format for employee-led grant-making that engaged colleagues from across Generation and Just Climate to deploy grants across all four strategic focus areas, encouraging colleagues to troubleshoot climate and equality issues and decide the highest-impact use of philanthropic capital.

[22] Subscription may be required.

EUROPEAN SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)

2022 has been a busy year as we prepare for the next stage of the EU's Sustainable Finance Disclosure Regulation (SFDR) from 1 January 2023.

A quick reminder – especially for clients outside Europe – of what SFDR is. The regulation was agreed in 2019. It seeks to prevent greenwashing by establishing a common definition for 'sustainable investment' in Europe and laying out harmonised disclosure requirements for asset managers on sustainability.

We welcome the regulation and the intent to drive to high and consistent standards for sustainable investment in Europe. We agree that sustainable investment has been too lightly regulated.

SFDR establishes three kinds of investment funds:

- 'Article 6' funds, which do not integrate sustainability into their investment process;
- 'Article 8' funds, which promote environmental or social characteristics; and
- 'Article 9' funds, which have sustainable investments as their objective.

We have classified Global Equity as an Article 8 fund, alongside Asia Equity and our Long-term Equity Fund. We have classified our Growth Equity strategy and Just Climate as Article 9 funds.

The toughest element of SFDR for Global Equity has been the requirement to state whether, as an Article 8 fund, the fund makes a minimum commitment to sustainable investments as defined under SFDR.[23] On the face of it, one would not think that this would be tricky – Generation is a pure-play sustainable investment manager.

Generation's investment process, driven by roadmaps and research, is designed to help analysts identify the impact of a company on sustainability objectives, and to unearth, for a given sector or company, material sustainability-related opportunities and risks. This empowers our analysts to take a deeply researched view on what is driving, and will drive, greater sustainability. Our resolute focus will always be on 'sustainable investing': the practice of investing in businesses driving toward a sustainable future for all.

We believe that Generation's view of what defines a sustainable business is aligned, in spirit, with the definition of a sustainable investment under SFDR. That said, the regulation is unclear in many ways, and there are still a number of elements that the European regulatory and supervisory authorities themselves are continuing to discuss with each other. As one example, none of the 14 discrete social and environmental objectives listed by SFDR is fully defined. There are also some omissions that seem strange to us. The advancement of human health, for example, is not explicitly listed as a social objective (we understand it to be part of the 'investment in human capital' objective).

A common approach in the market seems to involve repurposing existing SDG alignment frameworks as proxies for contribution to SFDR's sustainability objectives. This process, while expedient, can result in omissions that seem thoroughly unsatisfactory to us. MSCI's sustainable-impact revenue framework, for example, does not identify as a sustainable investment 10X Genomics, a company that is transforming possibilities for human health outcomes, including in cancer treatment. Or TSMC, which is driving forward leading-edge semiconductor technology, delivering huge gains in computing power efficiency. Or Carlisle, whose building envelope products enable enhanced energy efficiency. This is notwithstanding MSCI identifying the latter two companies as EU Taxonomy-aligned. Instead of using these off-the-shelf assessments, we have conducted

[23] To be a sustainable investment under the regulation, an investee company must: (i) 'contribute' to one or more of a list of 14 social or environmental goals (ii) 'do no significant harm' to any of the other goals, including alignment with Minimum Social Safeguards, and (iii) follow 'good governance practices'.

a detailed review of all companies on our Focus List against the SFDR criteria, remaining true to our own bottom-up analytical process.

Even with these uncertainties and the need for further clarity on the determination of sustainable investments, European regulators have been clear that a minimum commitment to sustainable investments – should a manager choose to make it – is legally binding.

We have therefore reluctantly decided, for now, to make a 0% minimum commitment to SFDR sustainable investments for the Global Equity Fund. This means we can focus our efforts on retrospectively reporting the actual percentage of sustainable investments made by the Fund, while retaining the flexibility of our research-based approach. We think this is the best response while greater clarity develops within the industry.

OPERATIONS AND CONTROL 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 2022 the OC managed a series of cross-team initiatives, including the service provision changes to support our Information Security framework, our CRM application developer along with a new Security Operations Centre (SOC) service provider. The review of our operating model and associated processes and system enhancements took place throughout the year and will continue into 2023.

From a regulatory perspective, we have adopted the new Investment Firm Prudential Regime (IFPR) and remained focused on the deliverables for SFDR. In the US, the firm implemented the SEC's new Investment Adviser Marketing Rules, which are designed to provide greater clarity to investors on issues such as investment performance. For Generation, the changes required were relatively minor given our existing global approach to reporting.

For 2023 the OC and Infrastructure team will maintain its focus on the day-to-day implementation of the SFDR regulations. Alongside regulatory adherence, operational resilience remains core to our business. The team continues to focus on initiatives to improve our clients' experience and innovate with technology solutions to enhance the governance and control environment, as we scale our platform to support investment strategies.

PEOPLE UPDATE

As the pandemic restrictions eased fully in 2022, we returned to our offices and adjusted to hybrid working (three days in person, two days remote).

Internally we continued our work on our Equity, Diversity and Inclusion (EDI) Roadmap supported by a new group of EDI Champions. We started a series of learning workshops with Paradigm and we set up a new partnership with SEO in both the UK and US for 2023, an organisation supporting young people from underrepresented and underserved backgrounds.

With respect to our Global and Asia Equity teams, we were pleased to welcome Jessica Marker to the team during the fourth quarter as an Associate to work alongside our Director of Engagement Edward Mason. Jessica joins us from Columbia Threadneedle Investments, where she was a senior analyst in responsible investment. Jessica received a MSc in Environmental Technology and a BSc in Biology from Imperial College London.

Lastly, as we have said many times, the next five to 10 years will be the most important in our careers. Generation is well placed to continue to fulfil our dual mission of delivering strong risk adjusted investment results for our clients and promoting sustainable investing. Moreover, we expect to play a critical role in the net-zero and just transitions. As we consider the balance of the decade, it is also important to begin to plan for the next generation of our firm's leadership.

In the spirit of the long-term development of our senior leadership team, we have asked Clara Barby, Tom Hodges and Nick Kukrika to join the Management Committee (MC).[24] The MC is the senior governing body of the firm, and we will benefit from their insights. We expect to evolve our MC further in the coming years.

As at 31 December 2022, the Generation team comprises 114 people and assets under management and supervision total approximately USD 40.4 billion.[25,26] The Just Climate team comprises 23 permanent people.

Thank you for the trust you have placed in us.

Miguel Nogales,
co-CIO

Mark Ferguson,
co-CIO

[24] For reference the Management Committee membership as at 9 January 2023 is Al Gore, David Blood, Lisa Anderson, Clara Barby, Mark Ferguson, Esther Gilmore, Tom Hodges, Nick Kukrika, Miguel Nogales and Lila Preston; with Alex Marshall of counsel.

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

[26] Assets under management as at 31 December 2022 are USD 30.1 billion and assets under supervision (AUS) as at 30 September 2022 are USD 10.3 billion. AUS form part of our Long-term Equity strategy and include assets where Generation sourced, structured and/or negotiated the investment and in relation to which it provides certain ongoing advisory services for a fee.

Important information

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Notes to Metrics

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) CO2equivalent/$m (revs)	Weighted Average	Aggregate tonnes of carbon dioxide (CO2 equivalent) per $USDm revenue (not restricted to CO2, 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 water and resource use cost, both direct and indirect, either disclosed or modelled. Calculated as a percentage of revenues.
Waste & pollution - imputed cost (% revenues)	Weighted Average	Aggregate waste and pollution cost, both direct and indirect, either disclosed or modelled. Calculated as a percentage of revenues.
Average carbon-weighted disclosure percentage (Scope 1)	Percentage	Scope 1 GHG emissions disclosed by portfolio companies as a percentage of total portfolio Scope 1 GHG emissions either estimated by Trucost or partially estimated and partially disclosed. For the calculation all emissions are expressed in terms of Trucost damage costs for the relevant GHGs.
Percentage Companies in SBT initiative	Percentage	Percentage of companies that have joined the Science Based Targets initiative. Please refer to the Science Based Target 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.