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GENERATION IM GLOBAL EQUITY QUARTERLY INVESTOR LETTER

July 2022

DEAR FELLOW INVESTOR

*"Bull markets are born on pessimism, grown on scepticism, mature on optimism and die on euphoria.
The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell."*
John Templeton

PORTFOLIO UPDATE

A great deal has changed since we last wrote to you. The war in Ukraine has ground on for close to six months, making it one of the longest and deadliest conflicts in modern history.[1] Energy prices continue to soar. Inflation has gone from bad to worse.[2] Barely a day goes by without a central banker pledging ever-higher interest rates to combat the inflationary threat. Economies around the world are slowing, and fears of recession have grown.

If that sobering reading of the financial press wasn't enough, unprecedented volatility is causing havoc on stock markets. The S&P 500 posted its worst first half in more than half a century, dropping by one-fifth during the first six months of 2022. America, and growth stocks, have suffered more than most. But global markets are more than 15% off their level at the beginning of 2022.[3] Higher interest rates have weighed on valuations, but now there are growing fears that a recession will hit companies' earnings.

Performance for the year to date was behind the market averages. During the first half of the year, around a quarter of the underperformance was due to the strong showing of sectors we do not own, mainly energy. The remaining 74% was driven by holdings which we believe were temporarily out of favour.

There were 27 holdings that negatively affected relative performance for the first part of the year by over 20bps each. We have increased our exposure to these companies by the equivalent of 20% of the total portfolio. In addition, cash dropped from 6% at the start of the year to about 1.5%, reflecting a richer opportunity set for investing. At the end of the quarter, our measure of portfolio 'upside' (the appreciation we expect should our assets trade at their fair value) was again historically high.

Generation has a clear investment strategy. We identify what we believe are outstanding companies with the potential to earn large excess returns over many years, and buy those companies at the right price. When the news is bad, our first reaction is to check our work. Is the business as good as we thought it was? Will it be able to earn the financial returns we expect? Is the management team focused on the right things? This period of reflection is essential for thoughtful contrarian capital allocation.

[1] https://www.economist.com/briefing/2022/06/30/does-a-protracted-conflict-favour-russia-or-ukraine
[2] https://data.oecd.org/price/inflation-cpi.htm
[3] https://www.msci.com/documents/10199/149ed7bc-316e-4b4c-8ea4-43fcb5bd6523

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If the answers to those questions are positive, we will selectively add to the most undervalued positions. This is done in the context of rigorous risk management. We avoid relying too heavily on a single stock. But we also avoid relying heavily on multiple stocks whose fortunes are in some important way correlated — whether that be because they are based in the same country, reliant on the same drivers of demand (such as demand for construction materials) or affected by the same type of regulations (such as tech regulation). For instance, we treat our holdings in JLL and CBRE, two real-estate-advisory firms, as a single holding.

We also remain focused on the long term. This inevitably becomes more difficult at times of financial stress. When news is bad, people's time horizons naturally compress. They lose the ability to think strategically. Fear takes over from rationality. News outlets magnify bad news as this feeds 'confirmation bias' that times are bad. Moments such as these, therefore, are precisely the time to fight those instincts, and instead to lay the groundwork for potential excess returns in future years.

To illustrate the point, imagine for a moment that a company in 2022 has a significant positive breakthrough, one which may take years to be reflected in the company's finances. How much airtime would this get as people focus on the most recent inflation print or the latest move in Putin's ghastly war? By the same token, at times such as these capital drains from weak to strong companies, allowing certain industries to consolidate. We think we are at the beginning of such a period. Some companies are becoming stronger in 2022, even though it doesn't appear that way.

Let's discuss some areas where we have been re-testing the quality of your portfolio.

We have discussed the challenges from inflation in past letters. In 2022 this has moved from a theoretical exercise to reality. Some companies can pass on higher costs immediately and in doing so preserve or improve their margins; some can do it only slowly; and others struggle to do it at all. Inflation thus becomes a brutal sorting mechanism — and one with which the market is not familiar, after experiencing a long period of ultra-low inflation.

We recently conducted a large-scale analysis to assess 'pricing power' across the portfolio. The results were encouraging. The great majority of the portfolio, we believe, can pass on additional costs to their customers. We also believe that more than half the portfolio can pass on additional costs very rapidly. Some of the companies that do not have pricing power have been sold.

The second issue relates to multiples. In previous investor letters we warned that many 'growth stocks' — i.e., those with high but uncertain future expected profits — looked expensive. With the benefit of hindsight, in some circumstances we didn't listen enough to our own advice. Some positions were bought at too high a price.

Despite these qualifications, we strongly believe in the quality of companies in the portfolio. They have robust, fast and sustainable growth prospects — and are also delivering positive social and environmental impacts. We expect these companies to grow in 2022 — even in 2023, a year when we pencil in a recession (on which more below).

REFLECTIONS ON THE TEAM

At times such as these, it is even more important to understand long-term trends in financial markets. In 2010, following a previous bear market, we conducted a large-scale historical study on how businesses cope with inflation. We believe that such efforts are helping us today in choosing firms with impressive pricing power (see above). In 2021 we examined the tech bust of 2000-02, drawing parallels with today. The run-up to the dotcom boom was in some respects similar to the bull market that has just ended: growing concentration, derating of multiples, and overly optimistic short-term assumptions about the power of technology.

We are also using this bear market as an opportunity to reflect on our decision-making process. More than ever we recognise the benefits of an investment team with an extremely low turnover. Our analysts think for the long term because they are with Generation for the long term. We also recognise our team's humility. In periods of outperformance we believe we did not become smug. The flipside of that applies during a period of underperformance: we are disappointed but not discouraged.

An important maxim at Generation is: "you are not your idea". If a company is struggling, that does not mean the relevant analyst has failed. We believe in our ability to generate attractive returns in the future, as the narrative around a particular company or a broader industry shifts in a more positive direction.

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REFLECTIONS ON THE GLOBAL LANDSCAPE

As a team we remain focused on long-term economic and geopolitical trends over daily news. The past quarter has revealed three important themes. The first relates to China's place in the world; the second is about the underlying strength of the global economy, and the third is about the role of businesses and investors in delivering sustainable outcomes.

Take China first. In our conversations with companies, we are forming a clearer idea of 'what China wants'. We summarise it thus: 'stable independence'.

We strongly believe that China desires global *stability*. Their economy remains highly dependent on exports to power economic growth, so it suffers when the global economy slows. It also remains highly dependent on foreign expertise.

Perhaps President Xi Jinping knew about Russia's invasion of Ukraine in advance. But he will not have anticipated, and we suspect he will not welcome, how long the war is dragging on, because of its effect on energy prices and global confidence. We would not be surprised if, before long, China is called on to mediate some sort of peace settlement.

Yet it is inaccurate, we believe, to see China as a 'global citizen'. As part of its much-touted but frequently misunderstood 'dual circulation' strategy, it also seeks to become a more *independent* country. This means changing the terms of globalisation: localising supply chains, ideally within China but also within friendly allies. It means relying less on the dollar, both for international trade and in terms of its foreign-exchange reserves.

The global economy is thus fracturing. Some Chinese companies are talking about splitting into China and ex-China operations. Rumours are swirling about the semiconductor industry. America reportedly wants to ban some Western companies from selling to China basic technology essential to chip-making — adding to bans already in place for sales of ultra-high-tech chip equipment. We watch these trends closely: a Chinese economy without access to Western technology would be in a tight spot, to put it mildly. Western markets with less access to Chinese-made goods and services, in turn, might suffer even more.

China's drive for 'stable independence' remains at an early stage. But the implications for our strategy are profound. On the one hand, certain companies have become riskier investments — especially those, such as tech firms, which have been strong-armed by the Chinese government into delivering on its independence strategy. On the other hand, it is clear that China is an indispensable partner for delivering on global net-zero goals — as we argued in a recent Insights piece.[4] The question is not 'whether or not' to engage with China, but 'on what terms'.

The second big theme of the quarter relates to the global economy. With a pandemic and a global energy crisis, we are in uncharted waters. Frankly, no one knows what will happen next. A recent paper by a researcher at the Federal Reserve summed up our view of economic forecasting: "Our understanding of how the economy works — as well as our ability to predict the effects of shocks and policy actions — is in my view no better today than it was in the 1960s".[5]

In that spirit, we offer our assessment of the economic situation as it stands. So far only a limited number of companies have made profit warnings. Until fairly recently earnings expectations were rising, not falling. At the same time, there is clearly evidence of slowing economic growth.[6] Inflation is a big concern. There are now clear signs that the inflation expectations of households are becoming 'deanchored', meaning that people are coming to expect higher inflation for a long time to come.[7] We bake in a recession in 2023.

It is another question whether a *deep* recession is on the way. We think two factors give some cause for comfort. The first relates to economy-wide balance sheets. In America, for example, household debt is worth 80% of GDP, compared with 101% on the eve of the financial crisis.[8] We note greater concerns about corporate debt.[9] But we emphasise that your portfolio companies do not fit this general

[4] https://www.generationim.com/our-thinking/insights/china-s-progress-towards-a-net-zero-future/
[5] https://www.federalreserve.gov/econres/feds/files/2022029pap.pdf
[6] https://www.oecd.org/economy/weekly-tracker-of-gdp-growth/
[7] https://www.imf.org/en/News/Articles/2022/05/17/sp05172022-are-household-inflation-expectations-deanchoring
[8] https://fred.stlouisfed.org/series/HDTGPDUSQ163N. We note, too, that household debt in the euro area and the UK is well below its peak in the late-2000s.
[9] https://fredblog.stlouisfed.org/2020/04/household-debt-meets-corporate-debt/?utm_source=twitter&utm_medium=SM&utm_content=stlouisfed&utm_campaign=1972c7a8-80ab-44ea-a9d3-4ae522b3701f

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pattern, carrying net cash on average. The second factor is that the world experienced a deep recession only two years ago. This means that, especially in some industries such as travel and hospitality, there is still plenty of 'catch-up' growth to come.

The third big theme of the past quarter relates to the role of business in society. We note that in recent months, socially responsible businesses and sustainable investing more broadly have come under fire. The critics charge that efforts by corporations and investors to behave in a sustainable way are self-defeating, confused or even fraudulent. Critics have been emboldened by recent stories about poor quality control over ESG investments at some financial institutions.

We believe that ESG as currently practised is imperfect. There is plenty of 'greenwashing.' Many investment companies have in recent years launched 'sustainable' products in an attempt to attract new clients, even though they have little to no knowledge of sustainability. We also note that financial markets have done a better job of depriving hydrocarbon companies of funding than they have at channelling extra capital to renewable-energy providers. The current controversies will, we believe, trim the fat and focus minds.

Yet at the same time the past quarter has also shown that governments cannot by themselves be trusted to deliver on net-zero commitments. Governments the world over have scrambled to boost delivery of fossil-fuel energy production in order to deal with high inflation. Many of the leading contenders for Britain's next prime minister are openly hostile to the idea of a net-zero world. And in America the Supreme Court recently ruled against Environmental Protection Agency rules for the coal industry.

In this context, it is clear that critics of sustainability have it the wrong way round. We believe that, over time, investors who are truly committed to sustainability — rather than those using it largely as marketing — will outperform, especially as the market becomes more sophisticated. The scale of the climate crisis is also becoming apparent. The very foundations of high returns — economic growth and stable regulation, for instance — are increasingly threatened by rising sea levels, more frequent natural disasters and damaging heatwaves. Businesses with long time horizons, backed by equally committed investors, must take the lead in pushing the world to a more sustainable future.

We look forward to reporting our progress in coming quarters, and thank you for your continued support.

The total assets under management for the Global Equity strategy as at 30 June 2022 are USD 23.8 billion.[10]

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

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COMPANY EXAMPLE

2008 was a year of unprecedented difficulty for the retail sector. Retail sales across advanced economies fell by 1.5% over twelve months – the biggest fall on record.[11] Yet some companies rose from the ashes. One of them is Zalando, founded in Berlin in 2008, which has grown to become a prominent multi-brand Softlines marketplace in Europe.[12]

Zalando started life as a pure online wholesaler of third-party brands. Since then, however, it has evolved to offer enhanced third-party selling options, as well as value-added services, such as fulfilment and retail-media marketing.

It has thus gone a long way to establishing itself as a true partner to the more than 5,000 Softline brands and retailers it works with in Europe. We believe Zalando's completeness of vision, partnership mentality and focus on sustainability sets it apart from other operators.

CONTEXT MATTERS

Softline retailers and brands face a number of challenges. The most critical dynamic is the ongoing rise of ecommerce, and the associated decline in physical footfall and portions of physical stores, including multi-brand department stores.

This has made it increasingly tough for some retailers and brands to access customers. It is especially hard for smaller brands, which mostly do not have enough individual 'clout' to attract customers to their own websites. This is a major consideration, as Softlines is a fragmented industry. Brands with less than EUR 200 million of annual turnover account for roughly half of European Softlines spend.[13]

Zalando offers these brands, as well as larger ones, easy access to 50 million active customers across most of Europe. In addition, through its marketing solutions service, Zalando allows brands to promote their products on the Zalando website and app, and also helps them to manage and enhance their advertising off-site.

In our opinion, Zalando is especially well placed to add value here. It is, in large part, a technology company. Of course, many companies claim this, but with Zalando we believe it is true. It has more than 2,500 employees across software engineering, research and data science, higher than we've seen at Zalando's peers.

Its investment in data collection and analysis, its large customer base, plus the fact that it manages its own payments, all mean that Zalando has data that is possibly the best within the Softlines industry. This enables close customer targeting and measurable ROI.

Beyond customer access and engagement, the rise of online results in extra cost and complexity, primarily with fulfilment (or delivery). Consumers are becoming more demanding around speed and convenience of delivery (and returns). This is making it increasingly hard for smaller players to compete head-to-head with 800lb gorillas like Amazon, which outgun in scale and in capital to invest in distribution infrastructure.

Zalando has made its own investments in fulfilment, and today has one of the largest warehousing and distribution networks in Europe. Since 2017, brands and retailers have utilised this network when selling on Zalando. Additionally, this year, it started to open up this network for brands when selling 'off platform', i.e., when selling on their own website, or even when selling via other third parties.

In ways like this, Zalando is increasingly partnering with brands, and further *embracing* the whole ecosystem.

SUSTAINABILITY

Critically, we also see Zalando as a powerful agent for positive sustainability change in its industry. Historically, we have been very selective within Softlines. Despite being in part a necessity product, the category generates substantial negative externalities, chiefly around waste and environmental impacts with water and carbon emissions.

As such, in this industry we have only invested in Nike and Adidas, two companies we see as leading actors on sustainability in Softlines. For instance, Adidas has committed that, by 2025, 90% of its sales will come from "significantly more environmentally preferred materials."

[11] https://fred.stlouisfed.org/series/OECDSLRTTO01GPSAQ#0
[12] Softlines being 'soft goods'. In Zalando's case this is mainly clothing, footwear and accessories.
[13] Kantar data.

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With Zalando, its core business model has a number of sustainability benefits. At the most basic level, selling Softlines online has an inherently lower carbon emissions intensity than selling via bricks-and-mortar stores. Note, this analysis factors in the higher-than-average online returns rate within clothing. One step further, the aggregation of fulfilment means lower average emissions per delivery, and also better inventory management, helping to reduce one of the key industry issues: overproduction.

Most critically though, we see Zalando as a blueprint for the power that a strong marketplace aggregator has for enhancing the sustainability of an industry. One area that we consider very interesting, both from a sustainability perspective and from a growth perspective, is the resale of second-hand items. One of the critical issues with the clothing industry is its linearity: today, the vast majority of clothing is sold, worn, then thrown away. This is an especially large issue with low-quality fast fashion, which Zalando purposefully avoids. We believe the shift to a circular 'recommerce' model will be a major industry trend over the next 10-20 years. We believe Zalando is one of the leaders in embracing and pushing this trend, along with companies like Vestiaire Collective, a holding in our Growth Equity strategy.

Zalando has set challenging sustainability targets for its own operations. It is also requiring the same of its suppliers and brands. One key objective is that 90% of its key suppliers (by emissions covering purchased goods and services sold on its platform, packaging and last-mile-delivery partners) will have science-based targets by 2025. This commitment is one of the most demanding requirements we have seen.

Additionally, Zalando is acting as a conduit and neutral player for Softline brands to collaborate in sustainability efforts. One of the most important areas of work is to formalise common definitions and a shared lexicon of what sustainability means within clothing and footwear. This will then potentially facilitate better target-setting, progress monitoring and, critically, better customer education.

NUMBERS

The share prices across the online/ecommerce ecosystem have suffered this year. This reflects near-term macro concerns around a recession, and the pressure on current year margins from high inflation, especially in fuel and energy. However, given the observations we share above, we are optimistic about Zalando's financial future.

We are aware, however, that for this to progress, Zalando needs to maintain its appeal both to end customers and to brands and retailers. In our ongoing work, this is our core area of diligence.

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STEWARDSHIP AND ENGAGEMENT

We were pleased to publish our 2021 Stewardship Report in Q2.[14] The report was again prepared in line with the UK's Stewardship Code, of which Generation is a signatory, and has been submitted to the Financial Reporting Council for review.

DEFORESTATION

In the Q4 2021 investor letter, we noted that Generation had become a founding signatory of the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation, which was launched at COP26 in Glasgow in November 2021.

Our planet's natural assets are being systematically degraded. Crises in climate and nature are linked. We cannot get to net zero without acting to protect, better manage and restore our natural systems, alongside supporting front-line communities. A critical step is to halt the obvious destruction of nature, notably deforestation.

As signatories of the Financial Sector Commitment Letter, we have committed to seek to eliminate, by 2025, agricultural commodity-driven deforestation activities associated with companies in our investment portfolios.

The first requirement of the commitment is to assess exposure to deforestation risk by the end of 2022, with a focus on the 'forest-risk' agricultural commodities – palm oil, soy, beef and leather, pulp and paper – that are understood to be tied to the most significant deforestation impacts. This is to be followed by engagement with the highest-risk holdings.

We have been busy in the first half of this year conducting our risk-exposure assessment. We have drawn heavily for this purpose on the Forest 500 analysis conducted by the NGO, Global Canopy.[15] This examines the 500 companies and financial institutions judged to have the greatest influence over the world's cattle, timber, soy, and palm oil supply chains. We have also found company disclosures in response to the CDP Forests questionnaire helpful as a further resource.[16]

There are eight companies on the Global Equity Focus List which feature in the Forest 500 assessment. We have created a set of 10 initial indicators against which we will monitor these companies' progress. The indicators cover commitment, disclosure and action, for example whether the company:

- Shares our commitment to the elimination of agricultural commodity-driven deforestation by 2025.
- Discloses relevant direct and indirect suppliers and their locations.
- Conducts commodity-specific risk assessments as part of its supply chain due diligence.

The next stage is to deepen our engagement, and we look forward to providing future updates on this critical stewardship programme.

As ever, we are mindful that we will only make meaningful progress if other investors – including larger asset managers – also make the urgent elimination of deforestation a top priority. Deforestation is a complex issue on which many companies, NGOs and others have been working for years. Ambitious commitments made in the past have not been wholly fulfilled. It is now essential that investors help drive progress, collaborating among themselves and with other stakeholders.

The COP26 commitment was signed by over 30 financial institutions representing USD 8.7 trillion in assets. This is a start but it is only a small fraction of the investors committed to net zero. We need investor commitments to broaden and deepen in the near future. We have been working with various parties on this topic and expect to continue to do so, alongside working to make progress on our own portfolio. Look out for an Insights piece on this issue that we will be publishing soon.

[14] Generation's 2021 Stewardship Report can be found on our website: https://www.generationim.com/media/j0weosxa/gim-stewardship-report-2021.pdf
[15] https://forest500.org/
[16] https://www.cdp.net/en/forests

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PORTFOLIO METRICS[17]

We provide select Environmental, Social and Governance (ESG) as well as financial metrics, which we believe best represent the data we use to inform our Business and Management Quality process, out of those currently available for the majority of the portfolio and benchmark. 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) CO2equivalent/$m (revs)[18]	55	238
	Greenhouse gas - imputed cost (% of revenues)[18]	0.5%	1.3%
	Water & resource use - imputed cost (% of revenues)[18]	0.4%	1.5%
	Waste & pollution - imputed cost (% of revenues)[18]	0.4%	0.8%
	Average carbon-weighted disclosure percentage (Scope 1)[18]	82%	76%
	Percentage of companies in SBT initiative[19]	53%	31%
S	Human capital development score[20]	6.0	5.5
	Data security score[20]	5.9	5.6
	% of employees would recommend company to friend[21]	79%	73%
G	Firm tenure of executive team[22]	12.8 years	N/A
	Fewer than 10% shareholder votes against executive pay[20]	59%	74%
	Equal shareholder voting rights[20]	89%	88%
	CEO total pay less than 3x of median executive officer[20]	73%	73%
	Percentage of shares owned by executives[23]	0.19%	0.10%
	Female board directors[20]	32%	31%
	Board not entrenched[20]	70%	81%
	All non-executive board members on less than 4 boards[20]	48%	57%
	Independent compensation committee[20]	84%	71%
	Independent board[20]	78%	74%
	Independent chair or lead non-executive director[20]	84%	68%
F	Three-year revenue growth (annualised)[23]	16%	11%
	Gross margin[23]	54%	51%
	Cash flow return on invested capital (CFROI)[24]	11%	7%

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

[17] As at 6 June 2022. Portfolio referenced is the Generation IM Global Equity Fund and may not be representative of all client portfolios within the strategy. Referenced data may not be available across all portfolio companies and it is limited to the data received from the source provider. This information may no longer be current. To the extent not sourced from Generation, it is from sources believed reliable. However, Generation does not represent that it is accurate or complete and it should not be relied upon. It should not be deemed representative of future characteristics for the portfolio. For definitions of each metric, please refer to the Note to Metrics included at the end of this letter.

[18] Trucost data.

[19] Generation analysis based on data from the Science Based Targets initiative and MSCI as at June 2022.

[20] MSCI ESG data.

[21] Glassdoor data.

[22] Generation in-house analysis prepared in June 2022.

[23] CapIQ.

[24] Credit Suisse Holt.

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THE FIRM

As a firm we have ambitious impact initiatives in addition to our core investment work. We know that to bring about the transformative change required over the next decade, we must motivate others. Two of our impact initiatives focus on *Investor Engagement* and publishing *Sustainability Insights*. We provide updates on both these workstreams below, and also note that our firm's response to the SEC consultation on climate-related disclosures is available on the SEC website.

INVESTOR ENGAGEMENT

In April we convened a virtual discussion around the topic of 'Integrating Climate in Portfolios: Practical Considerations for Investors'. Industry experts and colleagues from Generation and Just Climate shared perspectives on how they are integrating climate into capital-allocation decisions.

SUSTAINABILITY INSIGHTS

In recent months inflation has moved from a non-issue to the biggest economic problem facing the world. Across advanced economies inflation currently exceeds 8% year on year, the highest rate since the 1980s. High inflation has contributed to recent market turmoil, not to mention rapidly declining consumer confidence and rising poverty.

Now economists and investors are trying to answer a simple but crucial question: how long will high inflation last? To contribute to this debate, late last year we began to release a series of 'Insights pieces' assessing the link between sustainability objectives and inflation. A growing number of people are starting to question whether hitting goals related to sustainability and ESG will provoke structurally higher inflation. We question that assumption.

The first piece, for instance, considered the net-zero transition. One common argument is that efforts to reduce new investment in fossil fuels will prove inflationary. The logic is simple: lower supply of new oil and gas will raise its price and thus what consumers must pay. Some observers have used this argument as a stick with which to beat people who desire a net-zero transition.

However, it is equally likely that the net-zero transition will prove disinflationary. This is, in part, to do with the economics of renewable energy. All else being equal, the cost of producing fossil fuels is likely to grow over time. Production generally moves from the cheapest, easiest-to-extract sources first, to the more expensive ones later (as the first sources are depleted). By contrast, once installed, renewable energy never runs out (assuming the wind continues to blow and the sun continues to shine), meaning that producers do not have to keep looking for new and more expensive sources.

The other two Insights pieces in our series cover two other elements of the sustainability transition: improved life expectancy and quality of health, and financial inclusion. Observers have raised fears that both trends could prove inflationary over the long term. But we also provide evidence for a more sanguine view.

We do not pretend to have a crystal ball on the likely path of inflation over the coming months. But we question the attempts of some people to say that sustainability must prove inflationary.

FIRM AND TEAM UPDATE

As at 30 June 2022, the Generation team is 111 and assets under management total approximately USD 30.0 billion.[25] During the quarter there was one leaver from the Global and Asia Equity team, Felix Preston, who was Director of Sustainability Insights. We wish Felix well in his next endeavour.

Thank you for the trust you have placed in us.

Miguel Nogales and Mark Ferguson, co-CIOs

[25] In addition, the firm has USD 10.3 billion assets under supervision as part of its Long-term Equity strategy as at 31 March 2022.

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FACTOR	METRIC	SUMMARY DESCRIPTION
Firm tenure of executive team	Median	Average tenure of the current executives at the company. In our view, longer is considered better.
Fewer than 10% shareholder votes against executive pay	Percentage	Percentage of companies that received less than 10% shareholder votes against executives pay (most recently reported shareholder meeting). Only applies to companies that have 'say on pay' vote.
Equal shareholder voting rights	Percentage	Percentage of companies that have equal voting rights. In our view, a higher number is considered positive.
CEO total pay less than 3x of median executive officer	Percentage	Percentage of companies where the CEO's total pay for the last reported period was no more than 3x the median pay for other named executives. In our view, a higher number is considered better.
Percentage of shares owned by executive	Median	Executive share holdings as a percentage of shares outstanding. We show the median for portfolio and benchmark, as the average may be impacted by some companies (often founder run) with large executive ownership stakes.
Female board directors	Average	Percentage of female board directors. In our view, a higher percentage is positive.
Board not entrenched	Percentage	Percentage of companies without an Entrenched Board. The Board Not Entrenchment is inferred only; it is assumed and based on the following criteria from MSCI where board tenure is long and/or there are a significant proportion of older board members. The criteria includes >35% board tenure >15 years, 5 or more directors tenure >15 years, 5 or more directors >70 years old.
All non-executive board members on fewer than four boards	Percentage	Percentage of companies with no overboarded non-executives. The threshold is where a board member serves on four or more public company boards.
Independent compensation committee	Percentage	Percentage of companies with independent compensation committee, where such a committee has been established. Please see below for the independence criteria used.
Independent Board	Average	The Independent Board is inferred only; it is assumed and based on the following criteria from MSCI where it excludes current & prior employees, those employed by predecessor companies, founders, those with family ties or close relationships to an executive, employees of an entity owned by an executive and those who provided services to a senior executive or company within the last 3 years. Non executive compensation must be proportionate with other non executives and less than half of the named executives. Where information is insufficient the director is assumed Non-Independent.
Independent chairman or lead non-executive director	Percentage	Percentage of companies which have an independent chair, or where the chair is not independent, an independent lead director. In our view, a higher proportion is considered better. As defined by MSCI, Independence is classified as independent of both management and other interests (employees, Government or major owners).
Human capital development score	Average	MSCI score (0-10) for motivating and engaging employees through variable compensation, work/life balance, training and Employee Share Ownership Programs (ESOPs). MSCI differentiates between labour management and human capital development based on educational attainment, but we aggregate.
Data security score	Average	MSCI score (0-10) for companies attempting to control and protect data through policies, audits, training and other programs.
% of employees would recommend company to friend	Average	Percentage of participating employees who would recommend company to a friend. This metric may warrant caution where a small percentage of the work force report.
Carbon footprint - (tonnes) CO_2equivalent/$m (revs)	Weighted Average	Aggregate tonnes of carbon dioxide (CO_2 equivalent) per $USDm revenue (not restricted to CO_2, includes a basket of emissions).
Green house gas - imputed cost (% of revenues)	Weighted Average	Aggregate green house gas cost (to society) of direct and indirect emissions, based either on disclosed or modelled emissions. Calculated as a percentage of revenues.
Water & resource use - imputed cost (% revenues)	Weighted Average	Aggregate 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 of companies in Science Based Targets initiative (SBTi)	Percentage	Percentage of companies that have joined the Science Based Targets initiative. Please refer to the Science Based Targets initiative website for further information.
Three-year revenue growth (annualised)	Weighted Average	Aggregate (weighted) three year revenue growth rate to the last reported fiscal year. Revenue growth is not adjusted for acquisitions and disposals.
Gross margin	Weighted Average	Aggregate (weighted) gross margin for the last fiscal year. Gross margin is the difference between revenue and cost of goods sold divided by revenue.
Cash flow return on invested capital (CFROI)	Weighted Average	CFROI (cash flow return on investment) a (trademarked) valuation metric.

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