

THREAT OF GREENWASH ON THE RISE AS SUSTAINABILITY REACHES CRUCIAL TIPPING POINT FINDS ANNUAL TRENDS REPORT FROM GENERATION INVESTMENT MANAGEMENT

- Annual Sustainability Trends Report highlights a year of tipping points as governments, businesses and investors prepare for COP26.
- Sustainability-related financial volumes have tripled since 2015 and are now counted in the trillions, but greenwash poses a serious and growing threat.
- Social equity and justice must be linked with action on climate and nature to truly “Build Back Better”.

London and San Francisco, 14th July 2021 – Generation Investment Management, the sustainable investment management firm, today released its fifth annual assessment of the global state of sustainability. Drawing on more than 200 sources, the Sustainability Trends Report highlights key tipping points in the shift to sustainability – from the mainstreaming of net zero to action on diversity, equity & inclusion, and the rise of clean technologies and natural solutions. However, the report also highlights the mounting threat of greenwash that poses a significant and increasing risk to the success of a sustainable economic transition.

Al Gore, Chairman of Generation Investment Management, said: “In the most crucial decade of climate action in our lives, this report points to strong progress in many areas. Our challenge, however, remains vast and urgent. As the world works to contain and recover from the pandemic, we must harness the momentum of the global sustainability revolution to ensure that we do not fall back into our old patterns, but instead usher in a just and sustainable future.”

“There remains a yawning gap between long-term climate goals and near-term action plans. Large emitters must increase their climate ambitions with renewed credibility and urgency. Likewise, developing countries urgently need substantial support on vaccine access, climate finance and debt relief. A lack of progress on these fronts risks undermining progress in tackling the climate crisis and in facilitating a just and equitable recovery. We must be vigilant of the rising threat of greenwashing or risk derailing hard-won progress.”

A BANNER YEAR FOR ESG

Sustainability-related financial volumes are soaring as businesses and investors come to terms with the global imperative to cut greenhouse gas emissions in half by 2030. The Sustainability Trends Report estimates that sustainability-related financial volumes have tripled since 2015, with over six percent of

global market capitalisation volume now projected to come from the green economy, up from two percent in 2015.

Since 2015, the market has seen a ten-fold increase in flows to environmental, social and governance (ESG) funds; an eight-fold increase in sustainable debt issue; a doubling of private equity and venture capital deal flow in areas of sustainability; and a one-and-a-half increase in energy transition investment. Governments that represent three quarters of global gross domestic product (GDP) now have national-level commitments to net zero, but the report finds many governments and companies lacking when it comes to interim commitments and short-term action plans.

THE THREAT OF GREENWASH IS RISING

The last year has presented enormous opportunities for sustainable investing, but a failure to tackle greenwash poses a serious risk to the sustainable transition. There is growing unease at the low quality of some net zero commitments, the gap between goals and actions and the absence of guardrails for those utilising natural solutions, including as offsets. Consumers are faced with confusing and often misleading claims about sustainability benefits.

The report says that the time for celebrating vague, distant goals on net zero or 'nature positive' has long passed. Investors need clarity over how companies will turn goals to actions in the next few years.

SOCIAL JUSTICE AND EQUITY ARE MAINSTREAM

Social issues broke through to the boardroom for investors and companies this year. A renewed focus on the social aspect of ESG considerations is driving investment, as investors accept that social equity and justice must be in lockstep with action on climate and nature. This is what "building back better" really means, according to the report. The report details the exceptional amount of work that still must be done to solve deeply entrenched problems, and also highlights some reasons for optimism.

A BIG YEAR FOR NATURE

This year's report shows nature has never been under greater threat, but natural solutions are taking off. Venture capital funding of natural solutions has soared five-fold since 2016, reinforcing their importance for sustainable investing. However, guardrails and standards must keep pace with investment and innovation if natural solutions are to meaningfully address the serious risks to the planet.

The report shows the sustainable economy is taking shape, but urgent attention to greenwash and rapid acceleration is needed to keep sustainability goals within reach.

Key sector-specific accelerating trends cited in the Sustainability Trends Report include:

Economy & Finance: Sustainable investment has entered the mainstream, and with it the threat of greenwash

- Launched in 2020, the Net Zero Asset Managers initiative now has 128 signatories with USD 43 trillion of assets under management.
- By 2020 over a fifth of global emissions were covered by carbon-pricing initiatives, but there is wide variation in how these are implemented.
- The economic burden of COVID-19 has been unequally distributed, within and between rich and poor countries. COVID-19 stimulus spending per person in rich countries is over USD 8,500 but just USD 25 per person in poor countries.

Natural Solutions: Nature has never been under greater threat

- Over half of the world's GDP -- USD 44 trillion of economic value -- is at moderate or severe risk due to nature loss.

- Private investment is accelerating across several key segments of natural solutions, especially those related to the shift to plant-based diets.
- Nature based solutions could deliver one third of emissions reductions required by 2030, but over-dependence would have unsustainable impacts on land use.

Energy: The pace of the transition must accelerate five-fold to meet a 1.5-degree scenario

- Emissions have quickly rebounded to near pre-pandemic levels as economies have reopened.
- Estimates suggest that investment in renewables is at a tipping point and will surpass upstream oil and gas investment in 2021.
- Investment in the energy transition tipped USD 500 billion in 2020, but there are questions over whether developing countries are receiving sufficient investment.
- The UK is now halfway to net zero, compared with emissions in 1990, largely achieved via reduced coal consumption. UK CO2 emissions are now back to 1880 levels.

Health & Wellbeing: Ensuring vaccine availability in developing countries must be a global priority

- Globally, less than 45 vaccine doses have been administered per 100 people. Many poorer countries have much lower levels.
- While the pandemic has raged on in the last year, there are some bright spots when it comes to global health.
- Vaccines for COVID-19 were developed astonishingly quickly. There are nearly 300 COVID-19 vaccines in pre-clinical or clinical development and mRNA technology will have uses far beyond COVID-19, including cancer, rabies and HPV.
- Wild polio was eradicated in Africa in 2020.

Mobility & Buildings: Fundamental assumptions about how we live and work in cities were put to the test by COVID-19

- Building operations and building materials and construction present an urgent challenge, accounting for 40% of current global CO2 emissions.
- The pandemic has heightened the importance of air quality to people's health and wellbeing, as higher historical particulate matter (PM2.5) exposures are positively associated with higher COVID-19 mortality rates.
- Large-scale adoption of zero-emissions vehicles could reduce deaths by tens of thousands a year from improved air quality.

Value Chains & Circularity: Signs that the circular economy is finally taking shape

- According to one estimate, circular-economy business models could cut emissions by 31%.
- The pandemic has provoked consumers to think about product value chains. Demand for used goods could be on the cusp of taking off, as global search levels reached an all-time high in 2020.
- E-commerce has seen three years of growth in one. Generation's own research has shown that online shopping at large retailers in the United States is 17% more carbon-efficient than visiting traditional stores.

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About Generation's Sustainability Trends Report

Generation's Sustainability Trends Report (STR) is an annual publication that provides insights into the transition to a sustainable economy. The STR is primarily based on Generation's investment frameworks and focuses on how sustainability is manifesting across various sectors of the economy, notably Economy & Finance, Natural Solutions, Energy, Health & Wellbeing, Mobility & Buildings and Value Chains & Circularity. It should not be construed as investment research, advice or the making of any recommendation. While the data is from sources Generation

believes to be reliable, Generation makes no representation as to the completeness or accuracy of the data. The inaugural report was published in 2017.

About Generation

Generation Investment Management LLP is dedicated to long-term investing, integrated sustainability research and client alignment. It is an independent, private, owner-managed partnership established in 2004 and headquartered in London, with a US office in San Francisco. Generation Investment Management LLP is authorised and regulated in the United Kingdom by the Financial Conduct Authority. www.generationim.com

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