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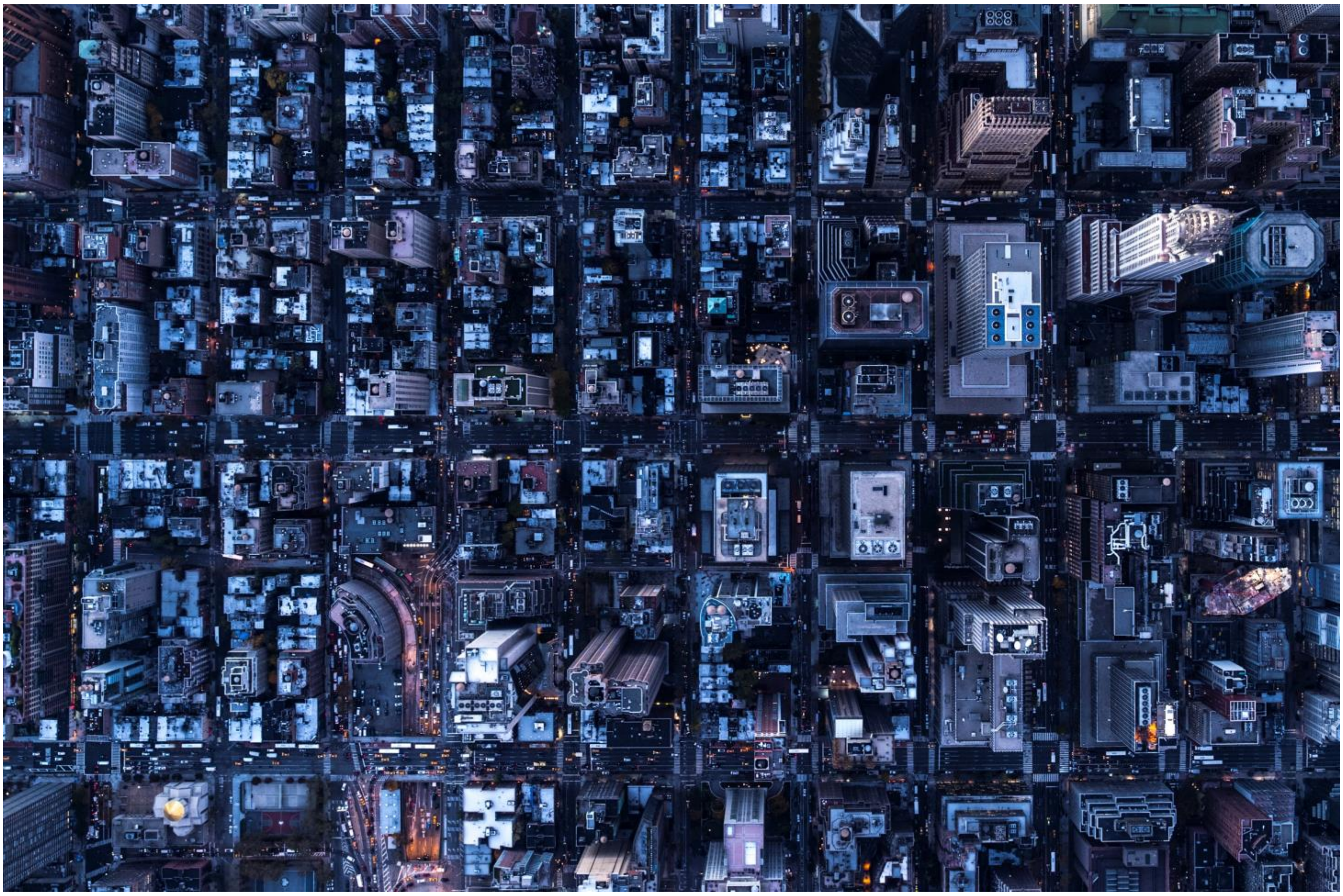
Generation Investment Management Global Equity Quarterly Investor Letter

October 2022



Dear fellow investors

In September we were both deeply honoured to host you at our Client Conference in San Francisco. It was, for many of us, the first time since 2018 that we were able to meet in person.

The quality of the discussion — including some tough questions — reminded us of quite what we have missed in recent years.

To those of you who came to our Conference: thank you. And to those of you who could not make it: you were missed.

The conference reminded us of two critical points. First, we are lucky to work with such engaged clients, who, like us, are driven to create a more sustainable world. Second, despite unprecedented uncertainty, there are many excellent companies out there. Some of them appeared on stage in San Francisco. Our role as portfolio managers is to find such companies and buy them at a good price — often working against consensus.

Performance for the year to date was behind the market averages. During the first nine months of the year, around a quarter of the underperformance was due to the strong showing of sectors we do not own or have limited exposure to — mainly energy. The remaining three quarters was driven by holdings that we believe are temporarily out of favour. We have seen an unusually large number of companies making negative contributions to returns, and an unusually small number of companies making positive contributions.

We live at a time of heightened stress. It is at these times when thoughtful capital allocation can have the biggest impacts. As John Templeton once said, "The time of maximum pessimism is the best time to buy." But it is also particularly difficult. When news is bad, people's time horizons compress. They lose the ability to think for the long term. We hope to fight that tendency.

The portfolio upside — what we believe the fair value of your portfolio to be, relative to its current value — is at a historical high. In general, in recent months we have added to our positions in negative contributors and sold positions in positive contributors. This has not come at the expense of buying lower-quality companies. Our assessment of the management and business quality of your portfolio is near a historical high. We have companies with solid moats, high and sustainable margins, and strong organic revenue growth.

In the past quarter we have refined our thinking on three big market themes. The first relates to recession. Internally we are calling it 'the most expected recession in history.' Cyclical companies have underperformed relative to defensives. A growing number of firms are reporting earnings misses. And, indeed, we have pencilled in a recession for 2023.

We believe that central banks, up to a point, are willing to endure pain in order to squash inflation. No governor wants to be known as the Arthur Burns of the 2020s, and everyone wants to be known as the Paul Volcker. This, however, creates a bigger potential downside in the form of higher unemployment and weaker spending. The history of 'soft landings' is not encouraging.[1] We also understand that it would be difficult for the Federal Reserve to openly predict a recession, given the poor 'optics' of such a move. We cannot know what they truly think.

That said, there is some cause for optimism. Your portfolio companies have strong balance sheets. They have low debt, and we believe will be able to weather a storm. We keep a close eye on the short term, but our focus remains long-termist: looking at 2023, 2024 and beyond.

We also believe that your portfolio is well positioned to benefit from new secular trends, even if short-term cyclical trends are not positive. In particular, the impact of America's Inflation Reduction Act (IRA) on the renewable-energy sector will be, we believe, profound.[2] This is the first time in US climate legislation that we are seeing more carrots than sticks: encouraging consumption of cleaner energy rather than simply punishing consumption of the dirty kind. This is important for us because most companies we cover in industrials are demand-side solutions, e.g., HVAC, insulation, lighting, roofing and electric vehicles. Some of our portfolio companies believe the legislation to be a game-changer.

[1] See Economist article, April 2022.
[2] See article from Princeton University, May 2022.

We also believe that the IRA signals a crucially important shift in the politics of environmentalism. As Princeton's Jesse Jenkins has argued, for a long time environmentalism was a movement that sought to stop things from happening. The new environmentalism is about the opposite: to start building things that will push us to a more sustainable world, such as clean-energy grids, public transportation and net-zero housing. Joe Biden and the IRA are clearly pushing the world in this direction — alongside other leaders such as Emmanuel Macron, who wants to massively expand France's wind farms. As Jenkins says:[3]

"You can't actually build a clean economy by standing in front of bulldozers."

[3] https://twitter.com/JesseJenkins/status/1562106558443667456

The second theme relates to geopolitics — and what they tell us about capital allocation. The experience of Russia's invasion of Ukraine shows that almost nobody has true insight into what is going on. In early 2022 most pundits dismissed the idea that Russia would invade. That was incorrect. Then they said that Russia would overrun Kyiv in a matter of days. That was incorrect. Then they said that sanctions would quickly destroy the Russian economy, forcing Vladimir Putin to the negotiating table. That was incorrect. Then they said that Ukraine's attempt to retake Kharkiv would fail. That was incorrect.

Who knows what else the hive mind is getting wrong? We are, naturally, concerned with potential events in Taiwan, and keep an eye on other situations such as those in Brazil and Pakistan. In these circumstances we need to prepare for the worst and be nimble. This means stress-testing your portfolio to see how resilient it would be to more geopolitical unrest — a particularly important question for companies in certain geographies (such as China) and for certain industries (such as semiconductors). It also means avoiding overreliance on a single stock or multiple stocks whose fortunes are in some important way correlated.

The third topic is inflation. Across developed markets inflation is now running at about 10% a year.[4] Inflation in Europe is, almost without doubt in our opinion, going to get worse before it gets better. The price of fuels has jumped — and winter is just around the corner. We believe that the market may be underestimating the political consequences of a brutally cold winter. Europe, it is estimated, will pay in the region of USD 1- 2 trillion extra next year for energy.[5] Some businesses may go to the wall. Rationing may need to be introduced.

After that, nobody knows the future path of inflation. So, again, we need to be nimble. This means assessing the pricing power of your portfolio, not just in terms of passing prices on once, but passing them on again and again. At the macro level there is now clear evidence that businesses are feeling less confident about passing prices on, even as inflation continues to be high.[6] We have stress-tested your portfolio, however, and believe that we have chosen companies that are well positioned in this regard.

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 September 2022 are USD 21.8 billion.

[4] https://www.oecd.org/newsroom/consumer-prices-oecd-updated-6-september-2022.htm
[5] See, for example, Bloomberg article, September 2022.
[6] NFIB: Small Business Economic Trends, August 2022.

In each quarterly letter, we share examples from your portfolio that bring our investment process to life. This quarter we focus on Ocado, the online technology provider to third-party grocers.

Company example

It is often said that Britain is a nation of shopkeepers. True to form, a British retailer is spearheading revolutionary change in the industry. We have been covering Ocado since 2009 when our Climate Solutions Fund I invested in the company. Our Global Equity fund invested in 2010 and Ocado has been on our Focus List ever since.

Traditionally, range and price have been the critical determinants of success or failure in the retail sector. However, these are now table stakes. Amazon and the internet have brought the 'endless aisle' and almost complete price transparency. We believe that Ocado is, and will continue to be, at the centre of a new trifecta, which will shape the retail industry over the long term:

1. For consumers, convenience has dramatically risen up the agenda.
2. For retailers, facing labour shortages and inflation, reliability and cost-efficiency are the new watchwords.
3. For the planet, carbon efficiency is critical.

WHAT IS OCADO?

Ocado has put in over 20 years of investment (with no dividend payouts) into honing its technology for fulfilling online grocery orders and delivery. Its UK retail operations, now a joint venture with Marks and Spencer, have provided the test-bed and the proof-case for its solutions, including its large Central Fulfilment Centres ('CFCs'), with their cubic 'grid' and many hundreds of picking 'bots' (as can be seen in the image on page 9).

Since 2013 Ocado has sold its solutions to third-party grocers, including Kroger in the US, Aeon in Japan, and Auchan in Spain and Poland. These contracts typically involve Ocado committing only to supply that business within that country, in exchange for the partner committing to growth objectives. Ocado carries most of the capex burden, and then customers pay Ocado primarily a fee based on how much capacity they have ordered, which roughly equates to c.5% of sales in that country.

HOW IS OCADO SOLVING PROBLEMS IN RETAIL?

Convenience

Nobody doubts that people like to shop online. Yet while demand is high, online penetration in grocery has lagged non-food categories such as electronics. This is because the supply side of online grocery faces unique challenges.

Large incumbents, with existing store estates, resist change. In addition, fulfilling online grocery orders entails high complexity. Food is a much bigger challenge than non-food for multiple reasons: it has a very low average item price (c.GBP 2.50 in the UK); thin category gross margins; poor ratios of item price to weight and space; and perishability and breakability of products.[7]

We believe that Ocado can help solve many of these problems. It is a leader in convenience and customer experience. It enables an enormous range of 50,000+ items (double even a mega hypermarket); provides excellent availability as well as 99% order accuracy, and offers next- and same-day delivery within one-hour windows as standard.

Reliability and cost efficiency

There are different models for fulfilling online grocery orders. The most common today is 'store pick,' where an employee walks around a store and picks items for each order individually. This has clear limitations. There is a limit to how fast someone can walk and pick, and there is high potential for human error.

Ocado does things differently, relying more on automation. Their model involves the movement of 'goods-to-person,' which enables higher pick-speeds and requires fewer labour hours. We believe that Ocado's solutions combine cost efficiency with excellent reliability. In an industry with an average item EBIT contribution of 10 pence or less, seconds saved really matter.[8]

[7] Generation internal analysis.
[8] Generation internal analysis.

Moreover, Ocado's solution is continually improving. At its Re:Imagined innovation event in January this year, management announced a slew of new initiatives, which offer more flexibility, even better reliability, and an overall Return on Capital Employed (ROCE) improvement of, we judge, c.40%. For the future, we believe that Ocado's technology will produce further productivity gains, while, by contrast, labour-heavy models quickly hit a productivity ceiling. For the longer term, Ocado's work on autonomous delivery is an area we are watching with keen interest.

Carbon efficiency

Alongside housing and utilities, food is the largest area of household consumption worldwide. The global grocery market is enormous, with an annual spend in the region of USD 6 trillion.[9] With such a large category, even a small amount of carbon savings per item would be material.

According to our calculations, Ocado retail's physical estate has approximately 50% lower energy and hence carbon intensity (CO_2e per GBP of sales) than traditional grocery stores. This is a far bigger carbon saving than ecommerce firms in general merchandise might hope to achieve, because food requires significant energy to manage temperatures, and Ocado's large CFCs are better than stores in this regard.

In addition, while harder to calculate, we believe Ocado's model, which involves one van travelling from one central facility to multiple households, is more efficient than the alternative, where individual households travel back and forth to a store.

For the future, management have a plausible vision in which its CFCs are run entirely with renewable energy (likely solar), and in which its delivery fleet is fully electric.

THE PROBLEMS WITH OCADO

Supply-chain shortages around the world have led to Unilever experiencing shortages in two of its best-selling food items: mustard and Marmite. With Ocado, however, there is no shortage of Marmite — much like the famously 'take it or leave it' British food spread, this is a company that investors seem to either love or hate. Our view is that many of the critiques against Ocado are overstated or just not quite right, and are far outweighed by the positives. We address the two most common charges below.

"Ocado's solution requires heavy capital investments. Does this not undermine the returns that Ocado can earn in selling its solutions?"

Ocado's capital intensity is undoubtedly high, given the need for physical equipment, bots and vans. At Generation, we often steer clear of such businesses. However, we have found several very interesting companies that fit this mould, including TSMC, Ashtead, Vestas and Steris' Applied Sterilization Technologies division.

The key for such businesses is the ability to generate a healthy Net Present Value (NPV) and Internal Rate of Return (IRR) on their capital investments. If they do, then we would encourage them to deploy capital liberally. With Ocado, we believe its net IRR is north of 50%, and the NPV per new 'standard CFC' is approximately USD 100 million. We think these are healthy returns that justify investment.

"If Ocado's solutions are so good, then why are more customers not signing up?"

We, also, would like Ocado to sign up customers with more regularity. That said, we do not see this as indicating any major weaknesses, or a lack of interest.

Ocado now has customers in countries that account for two thirds of developed-market GDP. By anyone's standard, that is solid progress. Also, Ocado's existing customers are continuously signing up for more locations (aside from one exception, Casino in France, which is dealing with excess debt). So, we believe Ocado will sign up more customers in due course.

Precise timing of deals is harder to call. This is because of, first, the inherent reticence of grocers noted above, and second, the fact that choosing Ocado as your online partner is a major strategic decision, and so the sales cycle is long. The additional factor is that many grocers are still trialling 'quick fixes,' such as Instacart's store-pick solution. However, as noted above, we see store-pick as a bridging solution only. Indeed, Instacart themselves seem to agree with this, and reportedly have major plans to automate.[10] The clock is ticking, due to their reliance on 'gig workers,' an area that we see as problematic, and that consequently is facing increased regulatory scrutiny.

[9] Various government data sources.
[10] See Bloomberg article, June 2021.

There are other areas on which we engage with Ocado's management

The company's balance sheet is not as strong as we would like to see for its capital intensity. Management have made strong progress in developing their solutions, but this has come at the expense of near-term cashflows. We hope and believe this will change, not least as the cash generation from Ocado's international customers is expected to ramp up over the next few years. Beyond this, we see a good case for tweaking the monetisation model, from almost all recurring fees, towards a better balance of upfront payments and recurring fees.

We do somewhat worry that ongoing negative commentary and the weak share price may start to produce feedback effects, harming the operating performance. Ocado's long-term C-suite incentives are closely tied to the share price. In addition, the company has historically used equity raises to fund growth.

Therefore, we have been encouraging management to communicate more explicitly on some of their technical progress. The innovation event earlier this year was a good step here. We have also engaged with the Board on the attractions of a more balanced incentive framework.

Stewardship and engagement

BUILDING A NET-ZERO FINANCIAL SYSTEM

We are now close to the opening of COP27 in Sharm El-Sheikh, which runs from 6 -18 November. This is a good moment to take stock of Generation's broader stewardship work on climate change.

As David Blood has written in his Senior Partner Letters, it is our goal by 2025 to see commitments from all asset managers, asset owners, insurance companies and banks to net-zero emissions no later than 2050.

We are working towards this goal in a number of ways. In asset management, we worked with peers and partners to establish the Net Zero Asset Managers initiative (NZAM) in the second half of 2020. We never foresaw how quickly NZAM would grow. There are now over 270 signatories, with over USD 61 trillion in assets under management.[11]

Generation is also involved in the Glasgow Financial Alliance for Net Zero (GFANZ), which was launched under the chairmanship of Mark Carney in April 2021. GFANZ brings together net-zero alliances from the financial sector, including NZAM. At COP26 in Glasgow last year, GFANZ announced that it had amassed commitments to net zero from institutions responsible for over USD 130 trillion of private capital.

Generation sits on the Principals Group and Steering Group of GFANZ and leads one of the 'workstreams,' on the measurement of portfolio alignment. In plain English, the goal of this workstream is to help institutions show in a robust and scientifically credible way whether their financing activities are helping to meet the 1.5C goal of the Paris Agreement. Watch out for the final version of the 2022 GFANZ portfolio alignment measurement report, which will be published ahead of COP27.[12]

How, then, are we doing on the creation of a net-zero financial system? The environment today is very different from that of 2020 and 2021 when momentum on net zero was growing at both government and non-state actor levels. As we have noted in our Sustainability Trends Report this year, the fallout from Russia's invasion of Ukraine has required Europe to identify new sources of fossil fuels, including from the US.

In addition, political opposition to sustainable investing in the US appears to have shaken the resolve of some asset managers and banks. There is markedly lower support for shareholder proposals on climate change this proxy season; there are rumours of major US banks considering withdrawal from GFANZ.[13] We are disappointed by the proportion of assets some managers have committed to net zero via NZAM, and the weak way some targets have been expressed.

Nonetheless we do not approach COP27 disheartened. The GFANZ coalition appears to be holding and, before world leaders gather, GFANZ will put out a series of reports offering robust guidance to members, not least guidance on net-zero transition planning.

As David said at the Client Conference, we are often asked: are we optimistic about the future? Rather than choose between optimism and pessimism, we prefer to say we are determined.

We view sustainable investing as best practice — not to mention a requirement of fiduciary duty. We are determined to create the sustainable future we need. We will continue to push the global financial system towards a net-zero future.

[11] Figures are as at 31 May 2022. For more information see: https://www.netzeroassetmanagers.org/
[12] The draft report, which was released in August 2022, can be found here.
[13] See for example, article.

Portfolio metrics[14]

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.

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Factor	Portfolio	Benchmark
Carbon footprint – (tonnes) CO_2equivalent/$m (revs)[15]	**56**	233
Greenhouse gas – imputed cost (% of revenues)[15]	**0.5%**	1.3%
Water & resource use – imputed cost (% of revenues)[15]	**0.4%**	1.5%
Waste & pollution – imputed cost (% of revenues)[15]	**0.4%**	0.9%
Average carbon-weighted disclosure percentage (Scope 1)[15]	**83%**	77%
Percentage of companies in SBT initiative[16]	**55%**	40%

S

Human capital development score[17]	**5.9**	5.5
Data security score[17]	**5.9**	5.6
% of employees would recommend company to friend[18]	**78%**	74%

G

Firm tenure of executive team[19]	**13.8 years**	N/A
Fewer than 10% shareholder votes against executive pay[17]	**65%**	73%
Equal shareholder voting rights[17]	**88%**	89%
CEO total pay less than 3x of median executive officer[17]	**72%**	73%
Percentage of shares owned by executives[20]	**0.18%**	0.10%
Female Board directors[17]	**32%**	31%
Board not entrenched[17]	**70%**	80%
All non-executive Board members on fewer than four Boards[17]	**42%**	57%
Independent compensation committee[17]	**84%**	71%
Independent Board[17]	**78%**	75%
Independent chair or lead non-executive director[17]	**84%**	69%

F

Three-year revenue growth (annualised)[20]	**16%**	11%
Gross margin[20]	**55%**	50%
Cash flow return on invested capital (CFROI)[21]	**13%**	8%

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

[14] As at 8 September 2022. This information may no longer be current. To the extent not sourced from Generation, it is from sources believed reliable. However, Generation does not represent that it is accurate or complete and it should not be relied upon. It should not be deemed representative of future characteristics for the Portfolio. For definitions of each metric, please refer to the Notes to Metrics at the end of this report.
[15] Trucost data.
[16] Generation analysis based on data from the Science Based Targets initiative and MSCI as at September 2022.
[17] MSCI ESG data.
[18] Glassdoor data.
[19] Generation in-house analysis prepared in September 2022.
[20] CapIQ.
[21] Credit Suisse Holt as at 31 August 2022.

The firm

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.[22] 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.

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

Generation has 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 ways we seek impact is through our annual Sustainability Trends Report and publishing Sustainability Insights. We provide updates on both these efforts below.

THE SUSTAINABILITY TRENDS REPORT

In September we published the sixth edition of The Sustainability Trends Report, a survey of what we call the 'sustainability revolution.' We believe this transition is still in its earliest stages. Accelerating it is essential for human welfare and for the preservation of the natural world. Each year, we take stock: where does the transition stand now, and where must it go next?

With this year's edition of the report, we introduce an important reorganisation. Our emphasis is on a deeper analysis of the core drivers of change. In addition, starting this year, we lead off with an essay that captures an of-the-moment set of issues regarding sustainability. For 2022, the essay focuses on the many ways in which the war in Ukraine has altered the energy discussion in Europe, raising the possibility that the European Union could lead the world in a faster transition to clean energy.

SUSTAINABILITY INSIGHTS

In the past quarter we have published a number of research pieces. The first focused on China's role in helping the world move to net zero. It takes on the argument, which is becoming more popular, that there is little point engaging with Beijing. The second focused on global efforts to harmonise sustainability standards for investors. This is a potentially transformative change for sustainable investing, comparable to the global effort to harmonise accounting standards in the 20th century.

In addition, we have launched a new series of book reviews. So far this year we have published reviews on books by William Nordhaus, Henry Shue and Helen Thompson.

FIRM AND TEAM UPDATES

As at 30 September 2022, the Generation team is 110 and assets under management total approximately USD 27.9 billion.[23] We welcomed one new joiner to the team during the quarter: Yasmin Yazdi joined as an Associate on our Research Strategy team. Prior to joining Generation, Yasmin worked as a counsellor at Sanctuary Centers, a mental-health non-profit servicing adults living with mental illness and co-occurring disorders. Yasmin has a BSc in Biopsychology from the University of California.

Thank you for the trust you have placed in us.

Miguel Nogales,
co-CIO

Mark Ferguson,
co-CIO

[23] In addition, the firm has USD 9.4 billion assets under supervision as part of its Long-term Equity strategy as at 30 June 2022.

Important information

Please note that this communication is for informational purposes only and describes our investment strategies. It is not and does not constitute a solicitation of any financial product in any jurisdiction. It is not intended to be, nor should be construed or used as, an offer to sell, or solicitation of any offer to buy units or interests in any Fund managed by Generation. The information contained herein is not complete, and does not represent all holdings, or material information about an investment in the Global Equity Fund, including important disclosures and risk factors. Units in Generation's Global Equity Fund are offered only on the basis of the Fund's prospectus. Specifically, units in the Global Equity Fund are only available for offer and sale in the United States or to US Persons (as that term is defined in Rule 902 of Regulation S promulgated under the Securities Act of 1933, as amended ("Securities Act"), that qualify as both (i) accredited investors and (ii) qualified purchasers (as such terms are respectively defined in Regulation D promulgated under the Securities Act and the Investment Company Act of 1940, as amended). In the European Union, Generation's Global Fund is only available in certain countries to Professional Investors as defined in the Alternative Investment Fund Managers Directive (2011/61/EU). Any reference to individual securities does not constitute a recommendation to purchase, sell or hold the investment. Details of the entire portfolios of the Global Equity strategy are available on request. Further, this communication does not constitute investment research. Opinions expressed are current opinions as of the date of appearing in this material. Any projections, market outlooks or estimates are forward-looking statements and are based upon internal analysis and certain assumptions that reflect the view of Generation, and which may not be indicative of actual events that could occur in the future. No assurances can be given that the Fund's investment objectives will be achieved. Past performance is not a guide to future performance and the value of investments may vary substantially from month to month, and can go down as well as up. Future returns are not guaranteed and a loss of principal investment may occur.

If you require more information, please contact Generation Client Service (clientservice@generationim.com or +44 (0)207 537 4700).

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