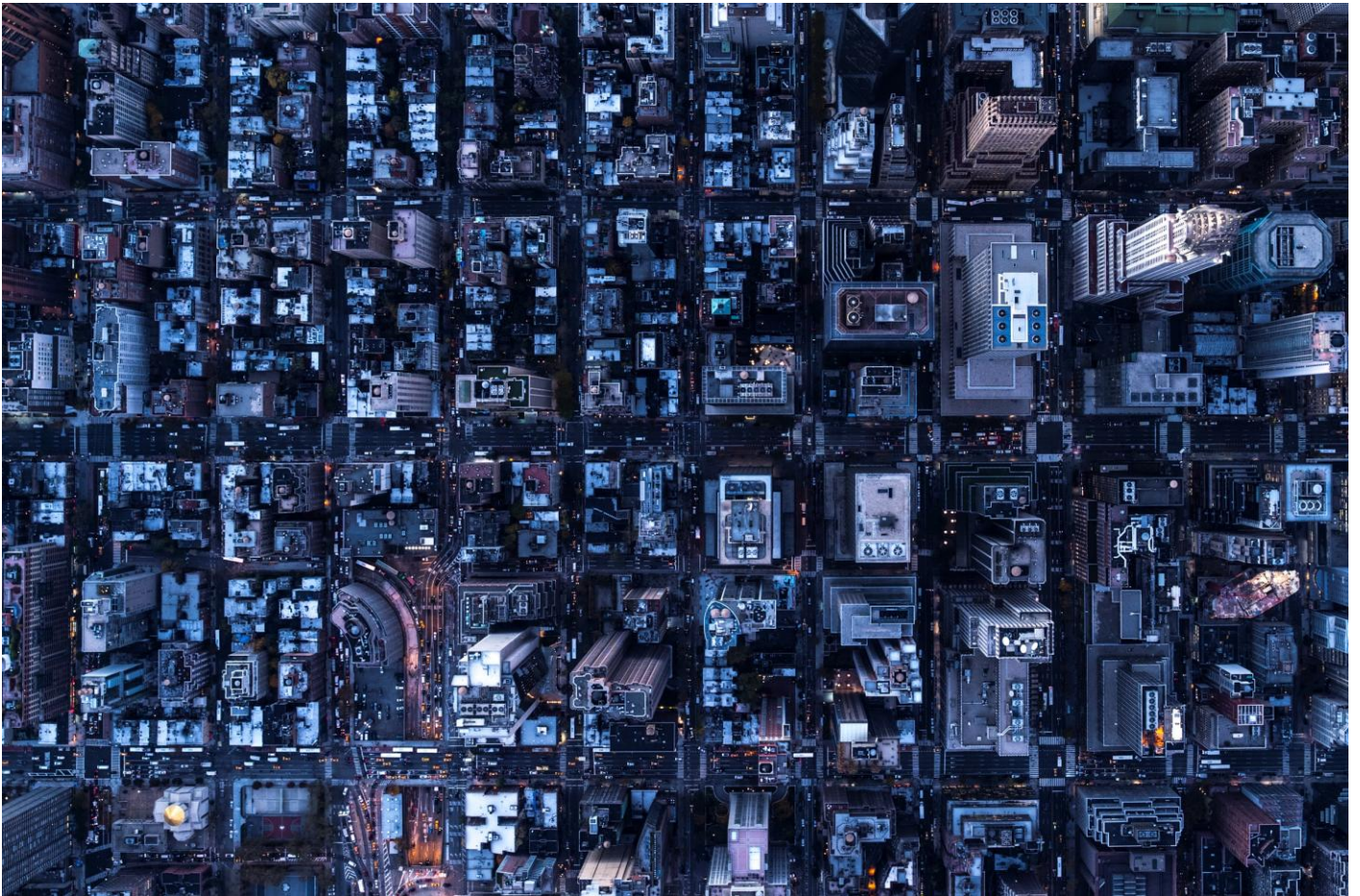


Generation Investment Management Global Equity Quarterly Investor Letter

October 2025



Dear fellow investors

In this quarterly letter, we examine market distortions from AI-driven momentum and lay out our conviction in long-term, quality-focused investing.

Our view is simple: at present, pricing in equity markets is radically dislocated. This dislocation is creating lots of short-term winners, and we are not currently one of them. This is because we are not investors who chase trends. Rather, we invest for the long term.

THE SITUATION TODAY

The market is currently in an unusual mood. Partly because of AI, it is excited about the future. Hypergrowth companies are therefore doing well. So are companies with highly volatile earnings, with investors believing that now is these companies' moment to shine. Optimism is feeding on optimism, with the result that there is currently a lot of 'momentum' (rising share prices today lead to rising share prices tomorrow). But at the same time, the market is offsetting risks by crowding into the very safest, defensive stocks.

Here is the crucial point. When these four 'factors' – hypergrowth, high volatility, momentum and 'low controversy' defensives – outperform, our portfolio tends to underperform.

This is because we buy companies that we believe have solid growth prospects for years to come, rather than companies that have hypergrowth prospects in the coming quarters alone. We buy companies that tend to durably compound over time, rather than demonstrating volatile performance from one year to the next. We buy companies that we expect the market will reward for fundamental reasons, not because people are chasing a rising stock price. And we buy companies based on our differentiated research process, not those that everyone already thinks are great. We note that companies that we believe have first-class Business Quality typically outperform the benchmark by some margin. Yet today they are underperforming by a record amount. The market, quite simply, is not paying for moat or quality.

Aside from the above factors, the market's high level of concentration has reduced our portfolio's relative performance. A very small number of winners are driving recent market returns. The S&P 500's largest stock, Nvidia, makes up more than 7.9% of the index – the largest share on record. Indeed, during the third quarter of 2025, the market capitalisation of Nvidia was very close to that of the entire US healthcare sector, which includes biotech, pharma, insurers, providers, medical supplies, medical devices and companies

producing tools for research and production.¹ Rising market concentration explains a sizable portion of recent underperformance.

To be clear, we cover some of these very large companies on our Focus List. When we feel there is a sufficient degree of undervaluation and compensation for risks, we will own them. Our research process continues to identify great companies. But the costs of not picking what today's market deems to be the very best companies are, currently, higher than ever.

WHY HAS THE MARKET CHANGED?

We point to recent, and radical, changes to market structure. Passive equity funds now represent nearly 60% of the US market, up from around 30% in 2012.² Flows into passive products remain strong. In addition, the recent rise of 'pod shops' (essentially turbo-charged hedge funds) and retail investors has further changed market structure. These days retail investors regularly account for a tenth or more of money moving into the S&P 500.³

We believe that these changes upend the normal functioning of financial markets – at least in the short term. In normal times, rising prices are a negative signal for investors (all else equal). They are an incentive to sell the stock, bringing the price down again. 'Mean reversion,' however, is less powerful in today's market. Because passive investing by design mirrors the index, this investment strategy *adds* money to shares whose prices are rising. We direct you to some academic literature on this question, especially the paper by Xavier Gabaix and Ralph Koijen.⁴ Pod shops and retail investors may have the same market effects. Many of them are implicitly momentum investors.

There are other changes layered on top. We note that, perhaps due to the rise of social media, market narratives are both more powerful and more volatile than in the past. During the COVID-19 pandemic, every investor believed that they were an epidemiologist. Following Russia's invasion of Ukraine in 2022, everybody played armchair military strategist. Today, everyone claims to be an expert in AI. We believe that these

¹ Nvidia's market capitalisation is USD 4.7 trillion and the market capitalisation of the MSCI USA Health Care Index is USD 5.2 trillion as at 30 September 2025.

² See Exhibit 4 in this report: <https://www.apolloacademy.com/wp-content/uploads/2024/11/Passive-Investing-Paper>

³ See article here: <https://www.reuters.com/markets/us/retail-replaces-smart-money-wall-street-rocket-fuel-2025-07-29>

⁴ Gabaix, Xavier, and Ralph SJ Koijen. *In search of the origins of financial fluctuations: The inelastic markets hypothesis*. No. w28967. National Bureau of Economic Research, 2021; Haddad, Valentin, Paul Huebner, and Erik Loualiche. "How competitive is the stock market? Theory, evidence from portfolios, and implications for the rise of passive investing." *American Economic Review* 115, no. 3 (2025): 975-1018; Höfler, Philipp, Christian Schlag, and Maik Schmeling. "Passive investing and market quality." *SSRN Work. Pap* 4567751 (2023).

strong narrative swings reinforce the focus on the short term, turbocharging momentum strategies.

Indeed, we are now in a world where many investors seem to believe that value no longer matters. A recent op-ed in the *Financial Times* argued that “valuation is unlikely to be effective for stock selection.”⁵ What matters, instead, is picking hot companies, especially those poised to benefit from AI. The market likes volatility now because it is tied to stories that feel exciting, scalable and future-shaping.

OUR APPROACH

At times like these, it is important to keep a cool head. Our favourite phrase is: “in the short term the market is a voting machine but in the long run it is a weighing machine.” Over the long run, this is undoubtedly true – as our long-term track record shows. Great companies, with strong earnings growth, eventually see strong growth in their share prices. But the changes to market structure outlined above, we believe, could make the ‘voting phase’ last longer, postponing the ‘weighing phase.’

Could the ‘voting phase’ last forever, meaning that today’s market *never* rewards quality companies? We need to consider that possibility, and then ‘steelman’ it. Following JS Mill: “He who knows only his own side of the case knows little of that.” It is possible that enthusiasm over AI will continue for some time. The equity market could receive another jolt as the Federal Reserve cuts interest rates. The continued move into passive strategies could continue to bid up the prices of hot companies, making the market even more concentrated than it is today. The market could choose to pay a permanently lower multiple for the quality companies we love because AI or some other disruption impairs their prospects.

Ultimately, we do not find such arguments convincing. Flows into passive funds may not continue at such a clip. What will happen, for instance, at the next recession, whenever it comes? The world has not had a ‘proper’ recession since 2008 (the one in 2020 was exceptional and lasted all of a few weeks). Many in the market therefore have no experience of a downturn. We do. Indeed, 2009, the worst year of the last recession, was one of our best-performing years on record against the benchmark.

We would also add that ‘momentum reversals,’ where repeat winners turn into losers, are common.⁶ Over the past 100 years there have been close to 30 reversals, with their frequency rising during the 1990s and 2000s. Momentum reversals usually happen after a period when market concentration has reached a high. It would seem hubristic to assume that ‘this time is

different,’ and that momentum will continue to be a winning strategy indefinitely.

When today’s market starts believing in the long-term potential of a company, the shift in value can be very rapid. We have seen extremely rapid positive sentiment change in some of our companies as news has improved and the market has become less fearful. Veeva and Idexx are two examples that come to mind.⁷ More than ever, significant positions in high-quality companies need to be built up during times of uncertainty. Once the momentum shifts, it is too late to buy.

We spend so much time building our Focus List because we are identifying businesses that have withstood and we think will continue to withstand multiple profound disruptions. Some franchises will no doubt be destroyed by AI in the long term. We are focused on avoiding those and investing in the ones that will be made stronger.

So, we stress: we believe that the weighing machine will eventually crank up. This will, we believe, bring our period of short-term underperformance to a close, and improve further our long-term outperformance. Even the *Financial Times* op-ed noted that valuation-based approaches “could still be valuable in longer horizons, such as five to 10 years.” That, of course, is exactly the horizon over which we invest (indeed we invest over even longer horizons).

CASE STUDIES⁷

We have narrowed our portfolio to what we believe are only the very best companies. As late as 2022 the portfolio contained 56 names. Today, following many removals (and a few additions) it has 36. Our portfolio is far more concentrated than the benchmark. We know these companies very well. On average, we have owned them for six years. We are confident that they are well placed for future success. If the market rewards them, we believe our returns will benefit disproportionately.

We believe that today’s environment is well suited to investing behind a number of key industries, including healthcare, the built environment and enterprise software. Consider healthcare first. Recent performance in this sector is poor. Sentiment is fragile. There is little if any price momentum. But in our view healthcare’s secular drivers remain compelling. These include ageing populations and growing chronic disease, as well as politicians who are desperate to improve efficiency. We believe this is fertile ground for patient capital.

So far this year we have made substantial net purchases of healthcare firms. As chronic disease rises and regulation tightens, we think Agilent’s

⁵ See article [here](#)

⁶ Goldman Sachs, “100 years of US equity market concentration and momentum.”

⁷ This information may no longer be current. There is no warranty that these companies remain or will remain in the portfolio.

testing platforms become more critical. Governments' focus on pharmaceutical quality control reinforces demand. Siemens Healthineers is one of Europe's leading medtech companies. Ageing populations will demand more scans, more cancer care and more intervention. We think politicians under pressure to cut waiting lists will support imaging upgrades and automation. In our view Siemens Healthineers is the most innovative company in the global imaging market, yet it currently trades on the kind of multiple you might expect for a mature utility company. We also believe Danaher stands to benefit from a dramatic increase in biological drugs that are poised to help address those chronic diseases. Danaher helps produce over two thirds of all biotech drugs, regardless of the originator, and customers typically have very high switching costs. In our opinion the founding family behind Danaher has an exceptional long-term track record in capital allocation.

Next, the built environment. The economy is solid, and yet in recent months building products and construction technology companies have not performed well. Higher interest rates have hit new housing starts, renovations and capex plans. If we get a recession, these names can still take another leg down. But in our view, the infrastructure of decarbonisation is more important than ever. Buildings and industry drive a large share of global emissions. Tightening building codes are turning efficiency into the base case. We believe this is a strong tailwind for technologies such as HVAC, water systems and verification.

Companies servicing the built environment represent around 20% of the portfolio. Schneider Electric provides everything from electrical distribution and control systems to smart building technologies and industrial automation. Kingspan's insulation and envelope systems improve energy efficiency. Like Danaher, we think the key owners of Kingspan have an exceptional track record in capital allocation. Sika's admixtures, sealants and materials science improve lifetime performance. Its brands have been built over decades, and we hear from their peers how hard it is to compete against Sika. A former market darling, Sika currently trades at one of the lowest multiples it has ever recorded.

Finally, enterprise IT. We don't think that AI will prove to be a net negative for this sector. Rather, our view is it is likely to reallocate spending toward reliable vendors, including those that can organise messy internal data. AI adds new 'units' (including agents and copilots) that have to be deployed, monitored and governed. This tends to make enterprise IT more relevant, not irrelevant.

Accenture helps firms turn their model demos into system-wide change. Workday owns core records in HR and finance. We have also made an investment in Salesforce. Surrounding them,

Microsoft ties it all together. It is important to note that software companies have significantly improved their margins in recent years, and this has made them highly cash generative. They are trading at some of the lowest multiples we have seen.

We want to stress our conviction in our investment strategy. At times of market euphoria, it is crucial for us to remember what we do best: a research-intensive process to buy great companies at the right price. Today's momentum market is giving us the chance to find underappreciated assets.

The total assets under management for the Global Equity strategy as at 30 September 2025 are USD 22.2 billion.

Stewardship and engagement

At present, our foremost sustainability focus lies in understanding the implications of AI. Let's start with a provocative piece of philosophy that we recently read.

THE IMPLICATIONS OF AI

This summer Scottish philosopher William MacAskill published an important new paper on 'persistent path-dependence'.⁸ In it, MacAskill argues that there are events that are fairly likely to occur within our lifetimes that would result in extremely persistent path-dependent effects, one being Artificial General Intelligence (AGI). This has important sustainability implications.

MacAskill's key argument is that once AGI exists, it could be used by a dominant power – which could, but not necessarily, be a country – to lock in whatever state of affairs they wish to maintain. AGI could be tasked to enforce it.

If this sounds far-fetched, the basic premise is not. MacAskill argues that AI seems likely to result in a concentration of power because "an intelligence explosion would involve super-exponentially growing capability, such that even a small lead ... could soon turn into a decisive advantage."

MacAskill's conclusion is that "it seems fairly likely that very extensive control over the future will become possible this century ... We should appreciate that aspects of civilisation's trajectory may well get determined this century, *and appreciate the obligation that gives us to try to steer that trajectory in a positive direction,*" (emphasis added).

This paper steels us to remain focused on climate action. The approach we take to climate change today might cascade into the future in ways we have not yet imagined.

ENGAGEMENT WITH BIG TECH ON AI AND CLIMATE

We have been doing extensive work on the demand for AI, the supply implications and what AI means for sustainability. Our initial deep-dive on sustainability has been into AI and climate. This is one of the most serious current negative impacts from the AI boom, and we believe our portfolio is invested in the hyperscalers best placed to address it.

We have no doubt that AI offers tremendous climate opportunities. A paper from the London School of Economics published this summer, co-authored by Professor Nicholas Stern, estimates the potential for greenhouse gas emission reductions through AI applications in three key sectors – power, food and mobility – that collectively contribute nearly half of global emissions.^{9,10} The paper concludes that advancements in AI in these areas could reduce global emissions by 3.2 to 5.4 GtCO₂e annually by 2035.

And yet, our research shows that the rapid buildout of data centres and associated infrastructure now underway could greatly raise carbon emissions in the coming years. In its base case, the International Energy Agency has forecast that by 2030 global data centre emissions will be on a par with the Scope 1-3 emissions of the world's largest oil and gas producer Saudi Aramco. By the same year, data centre emissions could account for 8% of the US 1.5C carbon budget.¹¹

While the big tech companies are at the forefront of corporate climate action, we have written to the hyperscalers in our portfolio – Alphabet, Amazon and Microsoft – to say that, frankly, because of the AI buildout, their efforts are no longer enough.

⁸ See report here: <https://www.forethought.org/research/persistent-path-dependence>

⁹ See research here: <https://www.lse.ac.uk/granthaminstitute/publication/green-and-intelligent-the-role-of-ai-in-the-climate-transition/>

¹⁰ In 2023 the sectors in scope for the study accounted for 27.2 billion tonnes of carbon-dioxide-equivalent or GtCO₂e.

¹¹ Generation IM internal analysis of UNEP emissions gap report [here](#) and International Energy Agency Energy and AI report [here](#).

Across the industry we have seen rising location-based Scope 2 emissions, challenges matching the consumption of electricity with procurement of carbon-free energy and the growth of upstream Scope 3 emissions, especially associated with capital goods. The US is a particular concern to us because its grid is seeing increasing fossil fuel-fired power generation.

In our letters, we wrote that the world's leading AI companies have a profound responsibility to ensure that the technology does not push the world away from a net-zero future and that there are specific areas where we believe the industry must go further. These are:

- Disclosing of the climate impact of AI model development and operations
- Aligning compute usage with times of lower electricity demand and greater availability of carbon-free energy
- Contributing to local communities by ensuring net-positive impact on grid performance and water stewardship
- Active public policy engagement, calling for no new unabated fossil fuel-fired power and a rapid transition to carbon-free energy
- 100% of power consumption to be covered by time- and grid-matched carbon-free energy by 2030 in developed markets, and 2035 in emerging markets
- Being in receipt of power from new or re-opened nuclear facilities, funded by the company and with no externalisation of risk, by 2032
- Stepping up activity to support, scale and report on AI applications that meaningfully accelerate the mitigation of, and adaptation to, climate change.

We look forward to continued dialogue with these companies over how to be climate leaders in the age of AI.

We will next be deepening our research into the potential social externalities that AI may impose on society – including emerging evidence of impacts on jobs and the risk of negative consequences from chatbot use, especially by children. We will also take heed of MacAskill's warnings on the severe long-term risk of extreme concentration and entrenchment of power.



Portfolio metrics¹²

We provide select Environmental, Social and Governance (ESG) as well as Financial (F) metrics, which we believe best represent the data we use to inform our Business and Management Quality process, out of those currently available for the majority of our portfolio and the benchmark. While they are best viewed as an output of our process rather than direct inputs, they also provide us with an additional lens through which to view the portfolio and stimulate internal discussion.

As well as measuring the portfolio against a benchmark, we measure it against thresholds too. This is because the portfolio might beat its benchmark in one of the criteria below, but this still might not achieve what is needed for a truly sustainable society. For example: the portfolio has a lower gender pay gap score than the benchmark, but really we want the portfolio, and society more broadly, to move towards eliminating the gender pay gap completely. Therefore, in this situation, our threshold for success would be zero.

E

	Portfolio	Benchmark	Threshold
Carbon intensity, Scope 1 & 2 (tCO ₂ e/\$m) ¹³	24	91	
Carbon intensity, Scope 1–3 (tCO ₂ e/Eur m) ¹³	446	817	
SBTi target validated (portfolio weight %) ¹⁴	68%	52%	100%
SBTi committed but target not set (portfolio weight %) ¹⁴	10%	4%	
Implied temperature rise (Scope 1–3, degrees Celsius) ¹⁵	2.0	2.9	1.5

S

Percentage of employees would recommend the company to friend ¹⁶	73%	68%	
Effective tax rate ¹⁷	21%	23%	
Commitment to a living wage ¹⁸	34%		100%
Gender – female Board % (weighted average) ¹⁹	34%	34%	40–60%
Gender – female executives % (weighted average) ²⁰	25%	25%	40–60%
Gender pay gap (simple average) ²¹	11%	16%	0%
Advanced total race/ethnicity score (weighted average) ²²	67	66	
Pay linked to diversity targets (simple average) ²³	11%	10%	

¹² As at 18 September 2025. This information may no longer be current. To the extent not sourced from Generation, it is from sources believed reliable. However, Generation does not represent that it is accurate or complete and it should not be relied upon. It should not be deemed representative of future characteristics for the portfolio. For definitions of each metric, please refer to the appendix.

¹³ Source: MSCI, weighted average calculation.

¹⁴ Generation analysis based on data from the Science Based Targets initiative. Data as at 2 October 2025.

¹⁵ Source: MSCI. MSCI changed its methodology this quarter, which has altered the final figures. This data is therefore not directly comparable to last quarter.

¹⁶ Source: Glassdoor. This figure uses last quarter's data but applied to the current portfolio.

¹⁷ Source: CapIQ. This metric is not shown as above or below benchmark, as one cannot deduce from the number alone whether a company's effective tax rate is a positive or negative; company profits are taxed in a range of jurisdictions with a range of tax rates and permissible deductions. For comparison, the global average Effective Average Tax Rate (EATR) published by the OECD in July 2024 was 20.2%. This was calculated on the basis of data for 2023 from 90 jurisdictions.

¹⁸ Source: Denominator. Coverage is poor for this metric and not adequately representative of the benchmark, therefore no comparison is made.

¹⁹ Source: Denominator.

²⁰ Source: Denominator. This is a Denominator calculated data point because there is no universally agreed definition of an 'executive' and therefore without a standard method one company's disclosure might represent something significantly different to another.

²¹ Source: Denominator. This metric is a simple average of gender pay gap data disclosed by companies. We would note that coverage is poor for this metric. Pay gaps are not measured in a consistent way. Some data points reflect all full-time employees at a company and others only reflect the workforce in jurisdictions where reporting on gender pay gaps is mandatory. Nonetheless, we think it is important to show the data available on this metric and we expect data quality to improve over time.

²² Source: Denominator. This metric is a score out of 100 that measures the company's total performance on racial/ethnic diversity across the Board, executives and company as a whole. Comparison to background race/ethnicity is calibrated to the country of operations: a company with 100% Caucasian leadership in the US scores less than a company with same ratio in Denmark, due to the different race/ethnicity composition of the background population (higher % of Caucasian in Denmark).

²³ Source: MSCI.

G

	Portfolio	Benchmark
Percentage of shares owned by executives (median) ²⁴	0.07%	0.08%
Independent Board (weighted average) ²⁵	81%	80%
Independent chair or lead non-executive director (simple average) ²⁵	89%	76%
Board not entrenched (simple average) ²⁵	80%	82%
All non-executive Board members on no more than four public company Boards (simple average) ²⁵	91%	95%
Equal shareholder voting rights (simple average) ²⁵	89%	88%
Independent compensation committee (simple average) ²⁵	80%	73%
Companies with regular 'say on pay' votes (simple average) ²⁵	97%	82%
Fewer than 10% votes against executive pay (simple average) ²⁵	57%	73%
Pay linked to sustainability targets (simple average) ²⁵	71%	26%

F

Three-year revenue growth (weighted average) ²⁴	11%	12%
Gross margin (weighted average) ²⁴	60%	54%
Cash flow return on invested capital ²⁶	17%	9%

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

²⁴ Source: CapIQ.

²⁵ Source: MSCI.

²⁶ Source: UBS Holt.

The firm

Generation has ambitious impact initiatives in addition to our core investment work. We know that to bring about the transformative change required over this decade, we must also motivate others.



SUSTAINABILITY TRENDS REPORT

The [Sustainability Trends Report](#) is Generation's flagship annual report, which seeks to answer the question of where the world stands in the transition to a low-emissions economy. In September we published our ninth edition, which analyses the question: can ambitious global climate action survive the decision by the United States government to walk away? The report also reveals the shifts needed across the global economy, spanning the sectors and activities of Power; Transportation; Buildings & Industry; People, Land & Food; and Financing the Transition.

This year's report is intended to share a clear-eyed view of a world wrestling with the complexity of the energy transition – a moment when progress is real, but confidence is wavering. The climate and energy transition is the hardest collective task humanity has ever tried to pull off. The report acknowledges the political backsliding and policy reversals that threaten to slow momentum, yet bleak as the situation may seem right now, we refuse to surrender to the politics of fear and cynicism. The report aims to remind readers that even amid disruption and disillusionment, technological breakthroughs in solar, batteries and electrification continue to redefine what is possible.

Make no mistake: we will come out of this period having sustained damage to the cause of a cleaner future. But come out of it we will. The opponents of the energy transition can slow it down, but we do not believe they can stop it. While we are firmly convinced that society is still moving in the right direction overall, we know that so much depends on how quickly we can get to that cleaner future. Please join us in hoping that this dark time will prove to be short-lived.

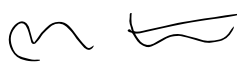
THE STATE OF CORPORATE CLIMATE ACTION

There is a lot of negative comment right now about sustainability being de-prioritised. We want to be clear that this is not what we are seeing in our portfolio, or in the businesses we interact with more broadly across Generation.

If we look at the statistics, Global Equity portfolio coverage by science-based targets (SBTs) is at a record high. 68% of the portfolio is covered by companies with validated SBTs. A further 10% of the portfolio is represented by companies who have committed to set SBTs. This is meaningfully ahead of our firmwide target to achieve 60% SBT coverage by the end of this year. We have not had a single portfolio company step away from their science-based target.

Last month, Generation hosted a Chief Sustainability Officer breakfast at Climate Week NYC, attended by sustainability leaders from our portfolio companies and across our network, including many globally significant businesses. This was the third time we have organised this event, and it was by some way the best yet. The determination of the company leaders present to press on with sustainability progress was palpable and energising, and we surfaced a host of ideas for future collaborative action.

As at 30 September 2025, the Generation team comprises 139 people and assets under management total approximately USD 31.4 billion.^{27,28} The Just Climate team comprises 53 permanent people and the Generation Foundation is six people.



Miguel Nogales,
co-Portfolio Manager



Nick Kukrika,
co-Portfolio Manager

²⁷ Includes subscriptions and redemptions received by the last business day of the quarter but applied the first business day after the quarter-end.

²⁸ Assets under management includes Growth Equity, Private Equity and Just Climate assets as at 30 June 2025. As reported in the prior investor letter, Generation no longer separately reports assets under supervision (AuS), which previously formed part of the Private Equity strategy. This follows the successful conclusion of Generation's advisory role in a long-standing joint venture arrangement in April 2025.

Appendix

Portfolio metrics: definitions

FACTOR	METRIC	SUMMARY DESCRIPTION
Carbon intensity, Scope 1 & 2 (tCO₂e/\$m)	Weighted average	Aggregate tonnes of GHG emissions (expressed as CO ₂ equivalent) per USDm of company revenue.
Carbon intensity, Scope 1–3 (tCO₂e/Eur m)	Weighted average	Aggregate tonnes of GHG emissions (expressed as CO ₂ equivalent) relative to the company's most recent sales in million euro. Scope 3 emissions are estimated.
SBTi target validated (portfolio weight %)	Percentage	The percentage of companies in the portfolio with a validated science-based target.
SBTi committed but target not set (portfolio weight %)	Percentage	The percentage of companies in the portfolio that have committed to setting a science-based target with the Science Based Targets initiative but have not yet had their target validated.
Implied temperature rise (Scope 1–3, degrees Celsius)	Degrees Celsius	A portfolio level number in degrees Celsius demonstrating how aligned the companies in the portfolio are to global temperature goals. This metric uses an aggregated budget approach: it compares the sum of 'owned' projected GHG emissions on a Scope 1–3 basis against the sum of 'owned' carbon budgets for underlying holdings. Scope 3 emissions are estimated.
Percentage of employees would recommend company to friend	Average	Percentage of participating employees who would recommend the company to a friend. This metric may warrant caution where only a small percentage of the workforce report.
Effective tax rate	Weighted average	The effective tax rate is calculated as the company income tax expense divided by earnings before interest and tax (EBIT) including unusual items. We show a three-year average for smoothing purposes and exclude significant outliers.
Commitment to a living wage	Percentage	The percentage of companies in the portfolio that have committed to a living wage. A living wage is defined by the Global Living Wage Coalition as the remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and their family. Elements of a decent standard of living include food, water, housing, education, healthcare, transportation, clothing and other essential needs including provision for unexpected events.
Gender – female Board	Weighted average	A weighted average calculation of the percentage of female Board directors on each of the Boards in the portfolio.
Gender – female executives	Weighted average	A weighted average calculation of the percentage of female executives at each of the companies in the portfolio. There is no standard definition of an executive, and companies can define the executive level in many different ways. Denominator, our data provider, works to calculate the data point based on standard definitions.
Gender pay gap	Average	The average salary gender pay gap across companies that disclose this metric within the portfolio. Calculation methods can vary between companies and jurisdictions. Some data points reflect all full-time employees at a company and others only reflect the workforce in jurisdictions where reporting on gender pay gaps is mandatory. Nonetheless, we think it is important to show the data available on this metric and we expect data quality to improve over time.
Advanced total race/ethnicity score	Weighted average	This metric is a score out of 100 calculated by our data provider that measures the company's total performance on racial/ethnic diversity across the Board, executive and company as a whole. Comparison to background race/ethnicity is calibrated to the country of operations: a company with 100% Caucasian leadership in the US scores less than a company with same ratio in Denmark, due to the different race/ethnicity composition of the background population (higher % of Caucasian in Denmark).
Pay linked to diversity targets	Percentage	The percentage of companies where there is evidence of a commitment to linking executive pay to diversity and inclusion targets. The metric is calculated as: number of companies where evidence exists divided by the total number of companies in the portfolio.
Percentage of shares owned by executive	Median	Executive share holdings as a percentage of shares outstanding. We show the median for portfolio and benchmark, as the average may be impacted by some companies (often founder-run) with large executive ownership stakes.

FACTOR	METRIC	SUMMARY DESCRIPTION
Independent Board	Weighted average	Board independence is inferred by MSCI. The following categories of director are not regarded as independent: current and prior employees, those employed by predecessor companies, founders, those with family ties or close relationships to an executive, employees of an entity owned by an executive and those who have provided services to a senior executive or the company within the last three years. The compensation of a non-executive Chair must not be excessive in comparison to that of other non-executives and must be less than half that of the named executives. Where information is insufficient, the director is assumed to be non-independent. For the Board to be classified as independent, a majority of the Board members must be classified as independent.
Independent Chair or lead non-executive director	Percentage	Percentage of companies that have an independent Chair or, where the Chair is not independent, an independent lead director.
Board not entrenched	Percentage	Percentage of companies without an entrenched Board. Board entrenchment is inferred by MSCI using a range of criteria including: >35% Board tenure of >15 years, five or more directors with tenure of >15 years, five or more directors >70 years old.
All non-executive Board members on no more than four public company Boards	Percentage	Percentage of companies with no over-boarded non-executives. The threshold is where a Board member serves on five or more public company Boards.
Equal shareholder voting rights	Percentage	Percentage of companies that have equal voting rights.
Independent compensation committee	Percentage	Percentage of companies with independent compensation committee. Please see above for the independence criteria used.
Companies with a regular 'say on pay' vote	Percentage	The percentage of companies in the portfolio that have a policy in place to ensure that a firm's shareholders have the right to vote on the remuneration of executives on a regular basis.
Fewer than 10% shareholder votes against executive pay	Percentage	Percentage of companies that received less than 10% shareholder votes against executive pay at the most recently reported annual shareholder meeting. Only applies to companies that have a 'say on pay' vote.
Pay linked to sustainability targets	Percentage	The percentage of companies where executive remuneration is linked to sustainability targets. This metric is based on the company's own reporting. It considers whether one or more sustainability metrics are used to determine annual and/or long-term incentive pay and does not consider the effectiveness of those metrics.
Three-year revenue growth (annualised)	Weighted average	Aggregate (weighted) three-year revenue growth rate to the last reported fiscal year. Revenue growth is not adjusted for acquisitions and disposals.
Gross margin	Weighted average	Aggregate (weighted) gross margin for the last fiscal year. Gross margin is the difference between revenue and cost of goods sold divided by revenue.
Cash flow return on invested capital (CFROI)	Weighted average	CFROI (cash flow return on investment), a (trademarked) valuation metric.

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