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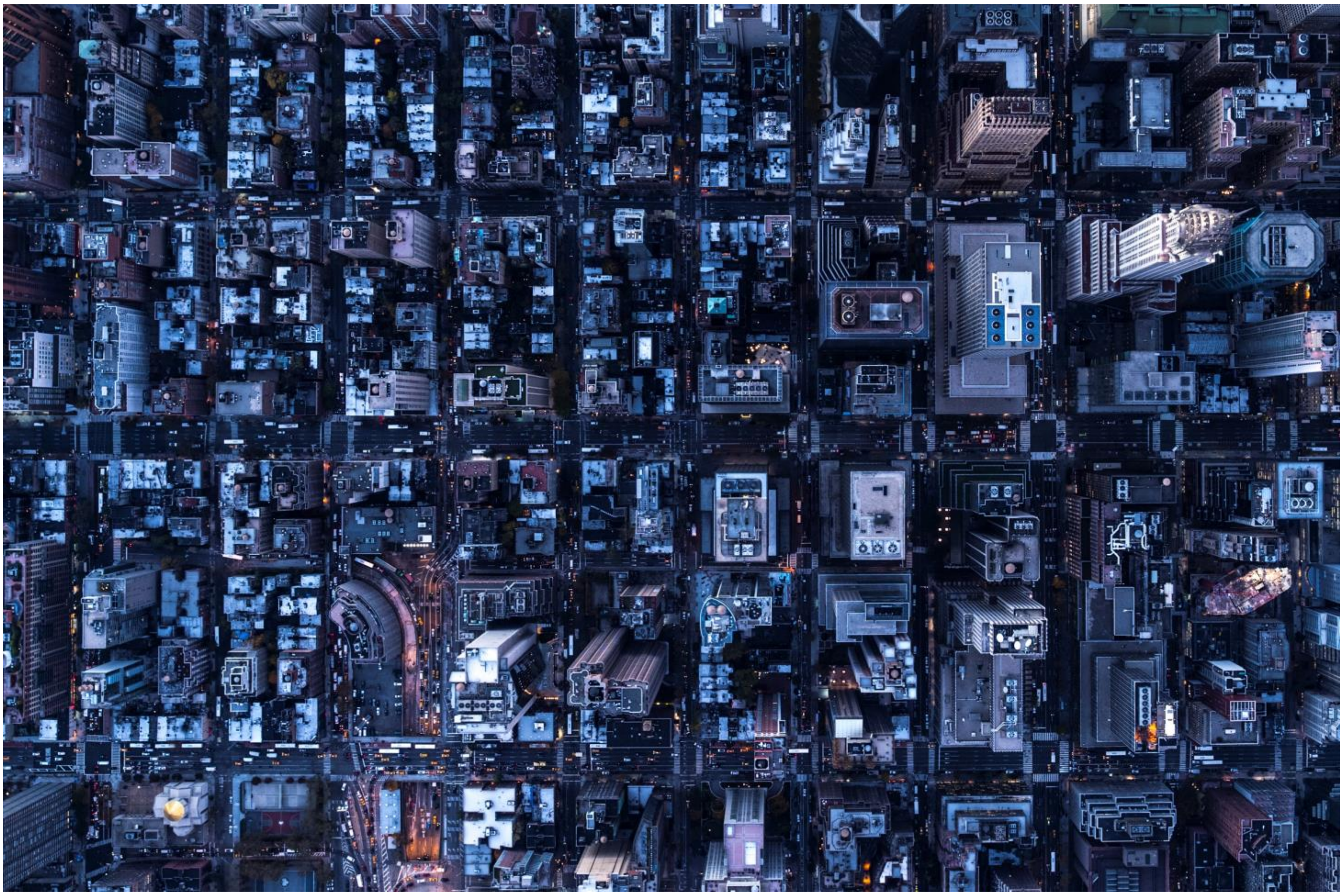
Generation Investment Management Global Equity Quarterly Investor Letter

January 2024



Dear fellow investors

In the past year markets staged an unsteady recovery. Despite considerable uncertainty, we believe this is a great environment for capital allocation.

In 2023 investors worried about geopolitics and the economy, but were excited by technological progress.

MARKET REVIEW OF 2023

According to a proverb from southern Africa, "Smooth seas do not make skilful sailors." Well, the past year has certainly not been smooth. Inflation remains well above target across much of the world.[1] Geopolitical uncertainty is unusually high, and spiked again after the beginning of the awful Israel-Hamas war.[2] There was a mini-financial crisis in March linked to troubles at Silicon Valley Bank. The release of GPT-4 in the same month showed the world the perils and the promise of generative artificial intelligence ("AI").

In part because of the excitement surrounding generative AI, markets performed decently in 2023. Yet the environment remains challenging. All asset classes seem risky: stocks, property, bonds and even cash (because of inflation). Don't bank on things calming down any time soon. In 2024 we have the US election, of course, but in fact it will be the biggest global election year in human history. Over three billion people, from India to Mexico to Taiwan, are going to cast their vote in 2024.[3] The potential consequences are impossible to predict.

We believe, though, that the rough seas are making us better sailors. The experience of the market turmoil of 2022 and 2023 presents us with an opportunity to update and improve our decision-making process. This covers everything from streamlining our techniques for assessing Business Quality ("BQ") and Management Quality ("MQ"), the building blocks for our investment process, to overcoming behavioural biases. Later in this letter we provide detail on our recent 'Hits and Misses' session, a yearly exercise where we discuss what we believe we are getting right, but also what we are getting wrong – and how we should improve. We also believe that periods of uncertainty can be an excellent environment for capital allocation.

PERFORMANCE

As always, in the past year some holdings have boosted returns, while others have dragged. To oversimplify a little: for Generation in 2023, consumer-facing and technology firms helped, while real estate and healthcare hindered. (There are, of course, exceptions on both sides.) On the positives, companies linked to the generative AI revolution have added to returns. These companies include Amazon, Microsoft and Applied Materials (which provides equipment, services and software for the manufacture of semiconductor chips).

Many consumer-facing companies had a tough 2022. After the 'spending spree' of the COVID-19 pandemic, sales growth was always going to slow. Households across the world also struggled against high inflation. But in 2023 some of the consumer-facing companies, including Mercado Libre, Amazon (again) and Adidas, have contributed to returns. The household consumer, especially in America but also elsewhere, has proven remarkably resilient even as inflation has persisted.[4]

On the flipside, some real-estate companies, including JLL, have detracted from returns. Contrary to many predictions, commercial real estate has not faced a bust. Many cities are still bouncing back. But, with higher interest rates and permanently higher levels of working from home, some parts of the real-estate sector are struggling. Healthcare stocks

[1] See the latest estimates of inflation: https://www.oecd.org/newsroom/consumer-prices-oecd-updated-7-november-2023.htm.

[2] See quantitative measures of geopolitical risk: https://www.matteoiacoviello.com/gpr.htm, and for Fed estimates of the impact of geopolitical risk on stock prices, GDP and inflation: https://www.federalreserve.gov/econres/notes/feds-notes/the-effect-of-the-war-in-ukraine-on-global-activity-and-inflation-20220527.html.

[3] https://www.economist.com/interactive/the-world-ahead/2023/11/13/2024-is-the-biggest-election-year-in-history.

[4] https://www.whitehouse.gov/cea/written-materials/2023/10/30/as-the-u-s-consumer-goes-so-goes-the-u-s-economy/.

such as Henry Schein and Baxter have also dragged on returns, in part as the healthcare industry faces a comedown from the high demand of the COVID pandemic.

In some cases, we have made investment mistakes. Yet in many other cases we believe that the market is mispricing stocks, leaving them temporarily out of favour. We have bought accordingly. It is important to understand that stocks often trade at foolish prices, both high and low. At any one time, therefore, markets can offer opportunities for great returns. Indeed, in the case of some recent purchases, including Geberit, Novozymes and Waters, we have waited patiently for years for the price to be right.

In the current environment, some investment strategies are difficult to execute. Some people in the market seek to trade on predicting movements in economics and geopolitics. We, however, plead ignorance and firmly believe that most forecasts are worse than useless – especially today. The pandemic messed up all sorts of data collection, meaning that economic statistics are prone to mislead.[5] Geopolitics is more unpredictable than ever. We also suspect that there is a wall of algorithmically-driven money in the market right now, meaning that markets respond in unpredictable ways to potentially misleading data releases.

INVESTMENT PROCESS

At times like these, therefore, we focus on our investment process. At Generation, this means backing companies with excellent products with wide moats – in our parlance, high BQ companies. It means backing companies with high MQ over the long term. It means buying at the right price. And it means buying companies that we believe are pushing the world in a more sustainable direction. To borrow a phrase from Warren Buffett and Charlie Munger: "We are not stock-pickers but business-pickers." We are confident that our process, with time, will succeed. With elections in 2024 on our mind, another great quotation springs to mind. Benjamin Graham, Buffett's hero, said this of stocks: "In the short run, the market is a voting machine but in the long run, it is a weighing machine." We firmly agree.

We are always on the lookout for ways to improve our investment process. At our recent annual 'Hits and Misses' session, led by Puja Jain and Brian Dineen, our Heads of Research, we considered these ideas in depth. Three big lessons emerged from the session.

The first is to continue to double down on quality. Since 2021 we have removed about 20 companies from our Focus List. The list now sits at 123 companies, in line with the historical average. We feel that 120-odd companies is about right, allowing analysts to devote sufficient time to each company. In the future we will return to a traditional cadence of roughly a 10% annual turnover of the Focus List (comprising additions and removals), allowing us to keep the list fresh.

The second lesson concerns our research outputs. We note that BQ is fairly predictive of performance – a pleasing result. However, MQ and our estimate of a stock's 'fair value' is less predictive than we would like. Our job in 2024 and beyond is to assess why this is so, and what can be done to improve these processes. We plan to hire a data-science expert, who will be able to help us in this task.

Third, we want to make improvements to our investment theses. We concluded that, at times, analysts do not sufficiently quantify their investment theses, making it difficult for others to challenge them on it. Of course, we are not a quant fund. We do not reify

[5] See, for instance: https://www.bls.gov/opub/mlr/2022/article/the-challenges-of-seasonal-adjustment-for-the-current-employment-statistics-survey-during-the-covid-19-pandemic.htm.

numbers. Nonetheless, when used judiciously, numbers can help to structure arguments (and thus counterarguments).

OUTLOOK

The year ahead is challenging. In some recent earnings announcements, companies have issued softer-than-expected results or have downgraded their guidance for the future (see, for instance, Analog Devices and Agilent). Where corporate America leads, the macroeconomy follows – indeed corporate profits are, with employee compensation, the two biggest building blocks of GDP.[6] So don't be surprised if economic growth slows in 2024, or even if the economy falls into recession. Even in that case, though, we believe that the portfolio is well placed to succeed.

We continue to believe that China has excellent potential, as well as some truly great companies and entrepreneurs. We were pleased by the apparent progress made between Joe Biden and Xi Jinping when in November they met in Generation's second city, San Francisco. Yet at present, many companies operating in China are dealing with the related problems of an uncertain political environment and structurally weak economic growth. For now, we are treating potential Chinese investments with particular caution, setting ourselves high hurdles before committing.

Elections, of course, bring changes – and big ones could be on the horizon when it comes to climate policy. We hope that politicians build on the modest progress made at the COP28 climate negotiations, which concluded in mid-December. But we also note that, even in the short term, legislation such as America's Inflation Reduction Act (IRA), which allocates up to USD 1.2 trillion[7] in the fight against climate change, is having an impact more slowly than many had predicted. We hope that the world will get more clarity on the IRA in early 2024.

2024 is a big year for another reason. It will mark 20 years since the founding of Generation, and thus 20 years of an important experiment: to show the world that sustainable investing works, not just for clients but also for society at large.

The total assets under management for the Global Equity strategy as at 31 December 2023 are USD 29.0 billion.

We wish you a prosperous new year.

[6] As measured by the income approach to GDP.

[7] https://www.goldmansachs.com/intelligence/pages/the-us-is-poised-for-an-energy-revolution.html.

Review of the year

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

In each quarterly letter we share examples from the portfolio that bring our investment process to life. This quarter we focus on Thermo Fisher Scientific, a provider of healthcare products.

Company example

ThermoFisher SCIENTIFIC

We believe that we are living in the age of biology. Just as a few centuries ago our knowledge of physical processes leapt forward, today we are on the cusp of profound changes in our understanding of biological ones.

In recent years advances have accelerated. The large-scale use of mRNA vaccines during the COVID pandemic – the first major application of these vaccines – is just one example. Similar advances in drug development have allowed medicines to be developed for hard-to-treat diseases like Alzheimer's, as well as to treat and perhaps cure diseases that previously eluded treatment.

To push innovation forward, researchers need tools to ask the right questions, run experiments to test hypotheses and in turn draw insights. These tools encompass high-specification instruments, high-purity reagents, powerful software and a variety of specialised services. An ecosystem has developed of companies that specialise in providing these tools. We often think of them as providing the 'picks-and-shovels' to researchers who are mining for the gold once obscured by nature.

This ecosystem has been fertile hunting ground for Generation. The largest company in this space is Thermo Fisher Scientific, a core portfolio holding in Global Equity for the past seven years. At year-end it accounted for 3.2% of the portfolio.

OUR INVESTMENT THESIS

Aspects of our investment thesis have evolved over time. However, four factors stand out: the attractive end markets the company serves; Thermo Fisher's position as the market leader in its major product segments; the reorientation of the business to more attractive areas; and the ability of management to add shareholder value through thoughtful capital deployment. In this case study we discuss these pillars of our investment case.

The quality of a business is often linked with the attractiveness of its end markets. Thermo Fisher is exposed to a variety of end markets, with the largest being pharma and biotech. The pharmaceutical industry benefits from the innovation tailwinds mentioned above. Furthermore, to improve efficiency and address a rising regulatory burden, pharma companies have outsourced more of their operations over time to specialised vendors, the largest being Thermo Fisher. To take one notable example: during the COVID pandemic, Moderna entered into an agreement with Thermo Fisher to manufacture and package its vaccine.

Thermo Fisher's business has evolved over the past 20 years. The business has leveraged its expertise in high-end research-grade instrumentation, adapting it for the pharmaceutical market. It has also developed, partly via acquisitions, additional capabilities to serve these customers. Today the business generates around 60% of its revenues from its pharmaceutical customers, up from 25% a decade ago.[8] The breadth of competencies available under one roof has allowed these customers to grow their spend with Thermo Fisher. In turn, Thermo Fisher has used that greater scale to innovate and, by solving key customer challenges, deepen its relationships with pharmaceutical customers. In effect, the company has earned a 'trusted partner' status.

In our opinion, the management team at Thermo Fisher is excellent. CEO Marc Casper has led the company for the past 13 years, surrounded by a stable and experienced senior leadership team. The company also deploys capital judiciously. Under Marc's leadership the company has redeployed the significant cash generated by its operations into acquisitions to further its strategic objectives. Every dollar retained in the business has proven to be worth more than a dollar for shareholders over time. This track record and the underlying industrial logic regarding potential acquisitions gives us confidence in the company's future opportunities.

[8] Thermo Fisher Scientific.

SUSTAINABILITY

The company has a clear track record of purpose-driven sustainability that is aligned with its mission to help make the world healthier, cleaner and safer. In recent years the company has increased its level of ambition on key sustainability measures, creating a best-in-class benchmark for other companies in the space to follow.

The most pronounced improvement is on the environmental side. The company has committed to net zero by 2050. It has joined the Business Ambition for 1.5°C campaign, led by the Science Based Targets initiative (SBTi). An intermediate goal to reduce Scopes 1 and 2 emissions by 50% before 2030, from a 2018 baseline, remains on track (emissions are already down 25%). A commitment to derive 80% of its global electricity consumption from renewable sources by 2030 (and 100% of US and European sites by 2026) will help in this goal. Lastly, the company has set a goal requiring 90% of its suppliers to set science-based targets by 2027. Given its position as the largest distributor for other companies in the life sciences space, we think this is likely to act as a stimulus for climate ambition.

Thermo Fisher has long championed diversity and STEM awareness. The company has run STEM awareness campaigns in middle schools and centres of higher education for decades, including STEM scholarships tailored to women. We think these actions partly reflect self-interest: these students may well become the company's employees or customers in the future. Women make up half of the US employee base as well as occupying nearly half of leadership roles.

These encouraging sustainability metrics notwithstanding, the company's biggest impact on the world is likely to come indirectly. Given the scale of its operations, Thermo Fisher can play an important role in accelerating innovation in medicines from the lab-bench to the bedside. This was most visible during the COVID pandemic where the company's support of both testing and vaccine production helped save millions of lives.

Stewardship and engagement

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

We were pleased to be accepted again in 2023 by the Financial Reporting Council as signatories to the UK Stewardship Code, based on our Stewardship Report for 2022.

ENGAGEMENT OVERVIEW

In 2023 we undertook **517** meetings with Global Equity Focus List companies. Our meetings have one of two fundamental objectives. The first is 'monitoring,' to ensure that our investment thesis remains intact. The second is 'engagement,' where we talk with the company about it achieving a specific outcome. In 2023, **132** of our meetings included engagement in relation to a specific outcome. We engaged on environmental issues in **105** meetings, social issues in **34** meetings and governance issues in **43** meetings.

We will provide a complete picture of our engagement in 2023, and the engagement outcomes, in our upcoming Stewardship Report. For now, we will share an overview of our activities over the past year.

Climate change

The climate crisis remains the issue on which we engage most. We seek to align the portfolio with net-zero emissions by 2040. In total, climate action was discussed in **91** engagement meetings in 2023.

In 2023 we used proxy voting more robustly than in any prior year. We seek to underline our expectation that all companies in the Global Equity portfolio set emissions-reduction targets, validated by the Science Based Targets initiative, which are in line with a 1.5°C pathway.

In total, we exercised votes against the Chair, or other responsible non-executive directors, at **ten** companies on climate grounds.

Our sustained engagement is bearing fruit. The percentage of the portfolio covered by validated science-based targets (SBTs) is now, for the first time, over 50% (on a portfolio-weighted basis).

As a firm, our interim target as signatories of the Net Zero Asset Managers initiative is to reach 60% SBT coverage in 2025.

Diversity

Diversity was the issue on which we engaged next most commonly, in **38** meetings. In line with our equity, diversity and inclusion (EDI) framework, we ask that companies disclose comprehensive EDI data and ambitious plans for improvement.

Our vision of good is a plan that includes:

- targets to achieve gender parity on the Board, executive committee and throughout the organisation
- racial and ethnic representation on the Board, executive committee and throughout the organisation that reflects the societies from which the company recruits and the customers that the company serves
- no structural differences in the roles performed by women and minority candidates.

Our Stewardship Report will set out the companies with which we have had the most in-depth dialogue, and where we are seeing the most exciting corporate programmes.

In 2024 we plan to focus engagement on companies that are making insufficient progress. Analysts will focus on one to three priority companies, selected because they need to improve their performance the most.

Deforestation

As members of the Finance Sector Deforestation Action initiative (FSDA), we are executing an intensive engagement programme to encourage urgent corporate action on deforestation.

Our goal is to eliminate agricultural commodity-driven deforestation activities at companies in our investment portfolios by 2025.

In 2023 this programme has involved **15** meetings with companies at material risk of exposure to agricultural commodity-driven deforestation.

While we are seeing progress from almost all Focus List companies covered by the programme, 2025 is now around the corner. In 2024 we will start to use proxy voting to underline our expectations.

PROXY VOTING

When voting the proxies of the companies they cover, analysts draw on Generation's Proxy Voting Principles, their own analysis and the support of the engagement team. They have access to research from Institutional Shareholder Services (ISS), but do not automatically adopt its recommendations. These are the headlines from our voting activity during 2023:

- There were **654** resolutions at portfolio companies on which we qualified to vote.[9]
- We voted **100**% of these proxies.
- For management proposals, we chose not to support management (either voting against or abstaining) on **39** occasions (**6**% of voting on management proposals).
- **7**% of proposals were filed by shareholders.
- We voted in favour of **34**% of shareholder proposals.

2023 GLOBAL EQUITY PROXY VOTING SUMMARY

		For	Against / withhold	Abstain	Total	% against management
Management resolutions	Board election & structure	355	20	2	377	6%
	Compensation-related	92	11	0	103	11%
	Auditor-related	43	1	0	44	2%
	Routine business	62	4	0	66	6%
	Other business	16	1	0	17	6%
	Total	**568**	**37**	**2**	**607**	**6%**
Shareholder resolutions[10]	Governance	6	8	0	14	43%
	Environmental	1	3	1	5	20%
	Social	9	18	1	28	32%
	Total	**16**	**29**	**2**	**47**	**34%**

[9] In a limited number of cases, due to registration requirements that lock up shares or other legal reasons, we are sometimes unable to vote. This is a consideration in security selection.

[10] Votes for shareholder resolutions are recorded as votes against management, unless management recommends voting in favour of a shareholder resolution.

Portfolio metrics[11]

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 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.

As well as measuring the portfolio against a benchmark, we now measure it against thresholds too. This is because on one or more criteria the portfolio might beat the benchmark, but still be inadequate for achieving a truly sustainable society. For example: the portfolio has a lower gender pay gap score than the benchmark, but ideally the portfolio, and society more broadly, would eliminate the gender pay gap completely. Therefore, in this situation, our threshold for success would be zero.

E

	Portfolio	Benchmark	Threshold
Carbon intensity, Scopes 1 & 2 (tCO_2e/\$m)[12]	22	108	
Carbon intensity, Scopes 1–3 (tCO_2e/Eur m)[12]	510	919	
SBTi target validated (portfolio weight %)[13]	53%	41%	100%
SBTi committed but target not set (portfolio weight %)[13]	19%	11%	
Implied temperature rise (Scopes 1–3, degrees Celsius)[14]	1.7	2.4	1.5

S

	Portfolio	Benchmark	Threshold
Percentage of employees would recommend the company to friend[15]	73%	72%	
Effective tax rate[16]	20%	23%	
Commitment to a living wage[17]	20%		100%
Gender – female Board % (weighted average)[18]	33%	34%	40–60%
Gender – female executives % (weighted average)[19]	22%	25%	40–60%
Gender pay gap (simple average)[20]	17%	19%	0%
Advanced total race/ethnicity score (weighted average)[21]	53	49	
Pay linked to diversity targets (simple average)[15]	6%	7%	

[11] As at 29 November 2023. 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.

[12] Source: MSCI, weighted average calculation. As at 29 November 2023.

[13] Generation analysis based on data from the Science Based Targets initiative.

[14] Source: MSCI. As at 29 November 2023.

[15] Source: Glassdoor.

[16] 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 November 2023 was 20.2%. This was calculated on the basis of data for 2022 from 77 jurisdictions.

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

[18] Source: Denominator.

[19] 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's.

[20] Source: Denominator. This metric is a simple average of gender pay gap data disclosed by companies. Coverage is poor and pay gaps are not measured in a consistent way. Nonetheless, we think it is important to show the data available on this metric.

[21] Source: Denominator. This metric is a score out of 100 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).

G

	Portfolio	Benchmark
Percentage of shares owned by executives (median)[22]	**0.18%**	0.09%
Independent Board (weighted average)[23]	**77%**	79%
Independent chairman or lead non-executive director (simple average)[23]	**94%**	72%
Board not entrenched (simple average)[23]	**78%**	82%
All non-executive Board members on no more than four public company Boards (simple average)[23]	**98%**	93%
Equal shareholder voting rights (simple average)[23]	**90%**	90%
Independent compensation committee (simple average)[23]	**90%**	70%
Companies with regular 'say on pay' votes (simple average)[23]	**98%**	79%
Fewer than 10% votes against executive pay (simple average)[23]	**59%**	72%
Pay linked to sustainability targets (simple average)[23]	**56%**	38%

F

Three-year revenue growth (weighted average)[22]	**16%**	13%
Gross margin (weighted average)[22]	**53%**	50%
Cash flow return on invested capital[24]	**13%**	8%

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

[22] Source: CapIQ.
[23] Source: MSCI. As at 29 November 2023.
[24] Source: Credit Suisse Holt.

CLIMATE METRICS

In addition to our quarterly portfolio metrics, we are presenting further climate metrics for the first time. We will provide this additional disclosure annually in our year-end investor letter. The idea is to give a richer picture of emissions trends in the portfolio and trends in Focus List companies' maturity on climate disclosure and action.

Top portfolio emitters	Total emissions in thousands of metric tonnes (Scopes 1–3)[25]	% of total portfolio emissions	SBTi status[26]	Year-on-year trend[27]
Trane Technologies	307,942	44%	Targets set	Down
Amazon	72,428	10%	Removed	Up
CBRE	65,104	9%	Targets set	Down
Schneider Electric	61,182	9%	Targets set	Down
Applied Materials	24,243	3%	Targets set	Down
JLL	20,832	3%	Targets set	Stable
Texas Instruments	19,047	3%	Not participating	Down
Thermo Fisher	13,175	2%	Targets set	Up
Microsoft	12,548	2%	Targets set	Down
Sika	9,462	1%	Committed	Up
Total top 10 emissions	**605,963**	**87%**		
Total portfolio emissions	**695,708**			
Share of total portfolio emissions accounted for by top 10 emitters that participate in SBTi	**74%**			

The portfolio's Scopes 1–3 emissions are concentrated in a small number of companies. Just ten holdings are responsible for 87% of emissions. Of these ten companies, six have reduced absolute emissions over the past year, three have seen emissions increase and one has kept emissions stable.

Trane Technologies has the highest Scopes 1–3 emissions in the portfolio. Trane manufactures heating, ventilation and air conditioning (HVAC) systems, including commercial real-estate heat pumps that are essential for the decarbonisation of the built environment. HVAC systems, however, all rely on electricity to operate, resulting in significant Scope 3 emissions in the 'use of sold product' category. These emissions fall both as Trane's products get ever more greenhouse-gas (GHG) emissions efficient and as grids decarbonise, in addition to the benefit Trane's heat pumps deliver in enabling customers to replace fossil-gas heating systems. Trane has set a goal to reduce one billion metric tons of GHG emissions from its customers' carbon footprints from 2019 to 2030, and reports on its progress annually.

Portfolio company Scopes 1 and 2 (market-based) emissions trends 2019–2022[28]

	Emissions intensity by revenue		Absolute emissions	
	Number	**Portfolio weight**	**Number**	**Portfolio weight**
Companies with decreasing emissions	23	57%	18	40%
Companies with increasing emissions	10	23%	14	37%
Companies with stable emissions (+/- 5%)	4	4%	7	16%
Insufficient data	10	16%	8	6%

[25] Source: CDP, 2022 emissions.

[26] Generation analysis based on data from the Science Based Targets initiative.

[27] Source: CDP, 2022 vs 2021 emissions.

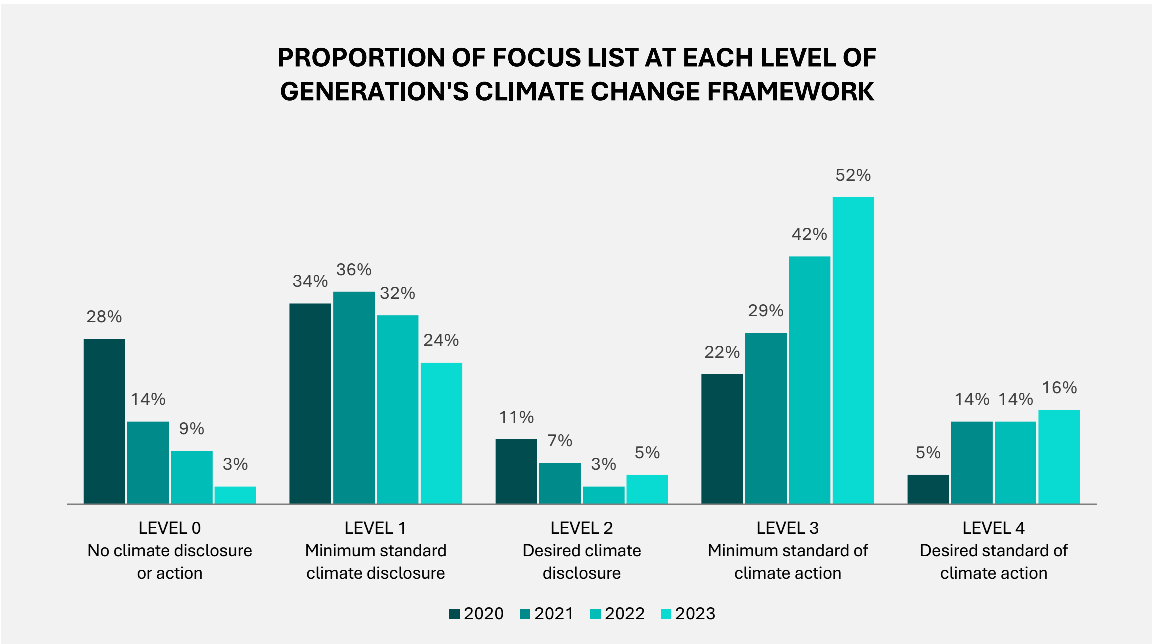
[28] Source: CDP.

Looking at the current portfolio as a whole over a three-year period, companies representing 40% of the portfolio have reduced their Scopes 1 and 2 emissions on an absolute basis, and 57% on an intensity basis, since 2019, whereas 37% have seen them increase, falling to 23% on an intensity basis. We take some encouragement from this. The portfolio contains many fast-growing companies, which makes it challenging to reduce emissions on an absolute basis. As companies implement their science-based targets for emissions reduction, we expect to see the portfolio increasingly populated with companies achieving absolute emissions reductions, even if they are growing strongly. In terms of emissions intensity, portfolio companies are making clearer progress. We have conducted this analysis on a Scopes 1 and 2 emissions basis only because of the lack of reliable Scope 3 data over this three-year period.

Generation developed a listed equity climate change engagement framework in 2020. This climate 'levels' framework operates as follows. Level 1 companies disclose GHG emissions either to CDP or in their own reporting. At Level 2 they disclose on climate-related risk and opportunity, in line with the recommendations of TCFD. Level 3 means they participate in the Science Based Targets initiative. Companies at Level 4 are aligned with our goal of net-zero emissions no later than 2040 and are, in our opinion, showing leadership on climate action.

At the turn of 2020–21 we wrote to companies on the Global Equity Focus List, calling on them to disclose and act on climate change in line with the framework. We enclosed a detailed booklet with information and resources to guide companies.

As you can see, since the initiation of the framework, there has been significant progress across the Focus List. Non-disclosure of emissions has almost vanished. Companies have migrated up the climate levels with most companies now at Level 3 or Level 4. We will continue to engage with companies on the need for ambitious climate action as the sustainability revolution continues to accelerate.



Portfolio mapping to the UN Sustainable Development goals

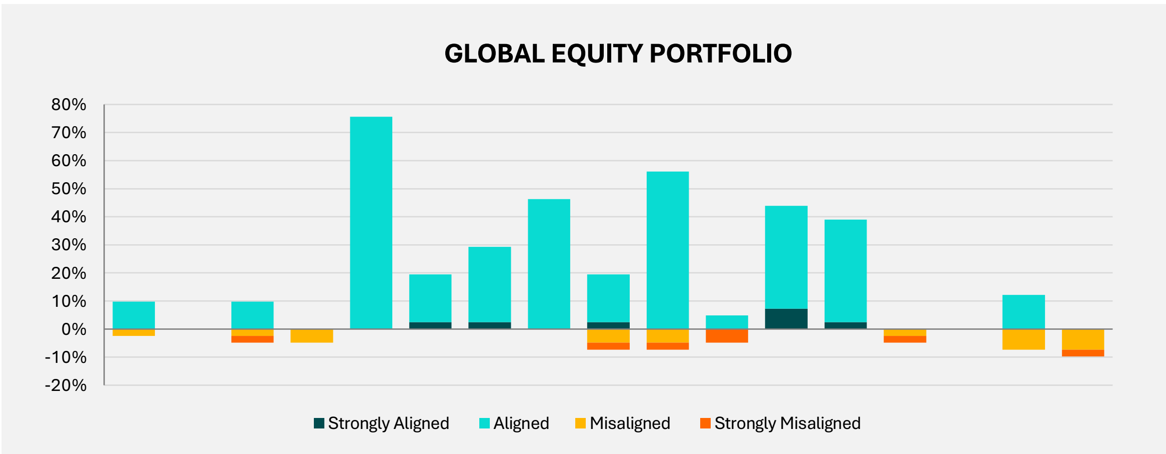
This is our fourth year of reporting the alignment of the portfolio with the UN Sustainable Development Goals (SDGs) using an external tool: the MSCI SDG Alignment Tool.

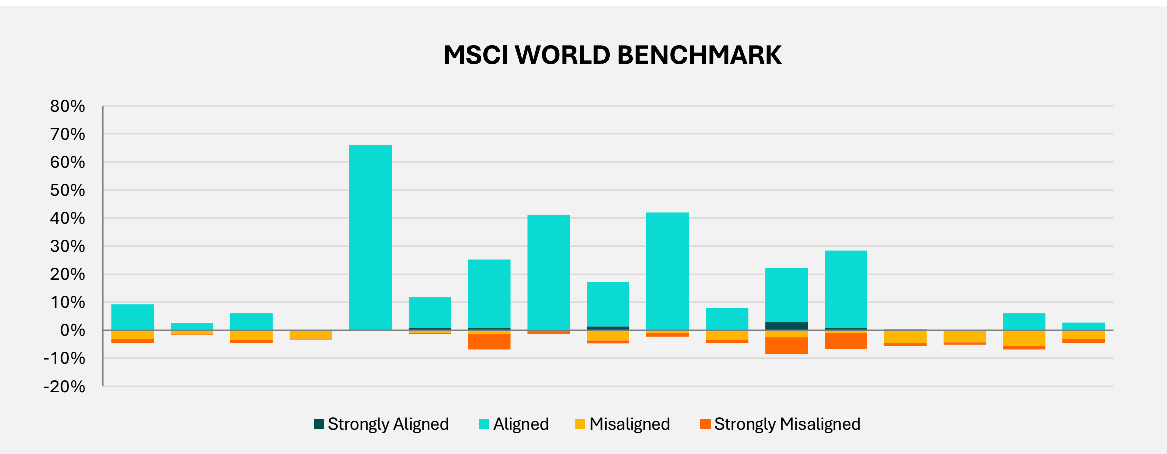
As a reminder, the tool:

- takes account of all SDG-aligned revenues at a company, awarding scores for alignment of products and services according to revenue bands
- takes account of the impact of companies' operations as well as their products and services
- assesses negative as well as positive impacts for both products and services, and operations
- looks at historical as well as current data to ascribe a performance score according to whether the company is on an improving or deteriorating trend, taking account of the previous three years
- leverages MSCI's relevant data capabilities, including Sustainable Impact Metrics, Controversies & ESG data points, as well as business involvement research to ensure that revenues from products and services with negative impacts are identified (e.g., tobacco, arms, fossil fuels).

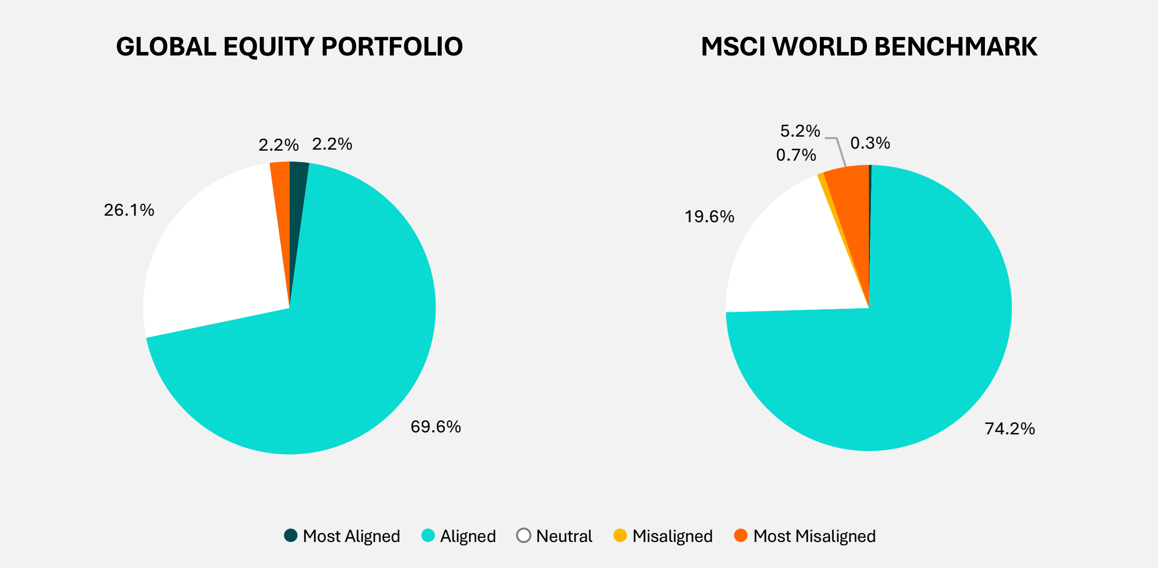
For each SDG, a company's contribution is weighed in the balance so that, based on their net scores, companies can be assessed as Strongly Aligned, Aligned, Neutral, Misaligned or Strongly Misaligned.

The charts below show how the Global Equity portfolio (as at 29 November 2023) comes out using the tool, relative to the MSCI World benchmark, for each of the 17 SDGs (companies whose alignment with an SDG is assessed to be Neutral are not displayed).





A pie chart showing the Global Equity portfolio is on the left below and another showing MSCI World companies as a whole is on the right. These are based on the same data as the bar charts (again unweighted), but the criteria used to assign companies to categories are different.[29]



We draw the following conclusions from the 2023 SDG alignment assessment:

- The portfolio shows markedly greater alignment than its benchmark with many of the SDGs, including SDG 5 (Gender Equality), SDG 8 (Decent Work and Economic Growth), SDG 10 (Reduced Inequalities), SDG 12 (Responsible Consumption and Production) and SDG 13 (Climate Action). There are no SDGs for which the benchmark shows markedly greater alignment than the portfolio.
- The portfolio continues to hold more Most Aligned and fewer Most Misaligned and Misaligned companies than its benchmark. However, more companies in the portfolio are Neutral than in the benchmark and fewer are Aligned. 98% of the companies in the portfolio are Most Aligned, Aligned or Neutral. This compares to 94% of the benchmark.
- Compared with last year, the portfolio is tilted more towards companies assessed as Aligned (70% Aligned vs 63% last year). New portfolio additions with Aligned ratings were: **Accenture**, a professional services firm; **Danaher**, a global life sciences and diagnostics innovator; **Geberit**, a European bathroom specialist excelling in efficient applications; **Novozymes**, a global manufacturer of bio-solutions; **Veeva Systems**, a specialist in cloud-based software for the life sciences industry; **Veralto**, a provider of water testing technologies; and **Waters**, an analytical laboratory instrument and software company.
- The company in the portfolio that scores best, as Most Aligned, is **Vestas**, which is assessed as Strongly Aligned on four SDGs and Aligned on three, with no misalignment.

[29] Criteria used for pie charts: Most Aligned: no Strongly Misaligned assessments on any SDGs; at least three SDGs identified as Strongly Aligned; higher overall number of Aligned SDGs than Misaligned. Aligned: no Strongly Misaligned assessments on any SDGs; higher overall number of Aligned SDGs than Misaligned. Misaligned: at least one SDG is assessed as Strongly Misaligned; higher overall number of Misaligned SDGs than Aligned. Most Misaligned: three or more SDGs identified as Strongly Misaligned; higher overall number of Misaligned SDGs than Aligned. Companies not fitting into these categories are assigned to Neutral. We exclude from these charts companies that are not assessed for SDG alignment by MSCI.

There are seven instances in the portfolio, affecting three firms, of a company being assessed as Strongly Misaligned with one of the SDGs. This is the same as last year:

- **Carlisle** was assessed as Strongly Misaligned with SDG 14 (Life Below Water) because of the plastic content of the building envelope products the company manufactures. We continue to see this as mechanistic. Carlisle's products have not, to our knowledge, been associated in any way with the scourge of plastic waste in water.
- **Kingspan** was assessed as Strongly Misaligned on: SDG 3 (Good Health and Wellbeing), SDG 9 (Industry, Innovation and Infrastructure) and SDG 11 (Sustainable Cities and Communities). This relates to the presence of Kingspan insulation boards on the Grenfell Tower in London which saw a catastrophic fire in 2017 resulting in the tragic deaths of 72 people. The Grenfell Tower Inquiry has established that the principal reason for the rapid spread of the fire was the cladding system fitted. In addition, Kingspan did not supply or recommend its insulation boards for the Grenfell refurbishment. Kingspan has, however, been the subject of controversy because of evidence that came to light at the Grenfell Inquiry of poor culture and controls in Kingspan's insulation boards business in the years prior to the fire. Generation has engaged extensively with Kingspan about these failings. The company has taken significant actions to address them. We continue to monitor effectiveness of the actions taken. The Inquiry's final report is expected to be published in 2024.
- **Thermo Fisher** was assessed as Strongly Misaligned on: SDG 10 (Reduced Inequalities), SDG 11 (Sustainable Cities and Communities) and SDG 17 (Partnerships for the Goals). This relates to a controversy that came to light in 2019 whereby it was revealed that Thermo Fisher's products were being used by officials in Xinjiang to collect DNA data on Uyghur Muslims. Generation engaged with the company shortly after these practices came to light. The company stopped selling its products in the region soon after the revelation.

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

Firm and Foundation update

Generation's vision is a sustainable world in which prosperity is shared broadly, in a society that achieves wellbeing for all, protects nature and preserves a habitable climate.

We seek to pursue our vision with urgency by:

- Delivering long-term, attractive, risk-adjusted investment returns and positive impact[30]
- Advocating for the adoption of sustainable investing by the wider market.

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

ADVOCACY UPDATE

Our annual Sustainability Trends Report, published in September, noted rising climate ambition in many parts of the world, especially in the US with the passing of the Inflation Reduction Act.

At the same time, fossil-fuel interests continue to create political headwinds, not only for global climate action but also for sustainable investing, particularly in the US. Generation's advocacy on sustainable investing has continued to draw heavily on the landmark report, A Legal Framework for Impact, the outcome of a joint effort by the Generation Foundation, the Principles for Responsible Investment (PRI), the United Nations Environment Programme Finance Initiative (UNEP FI) and the law firm Freshfields Bruckhaus Deringer.

The 2021 report provides a powerful counter-narrative to the 'anti-ESG campaign' by setting out investors' legal duties to help address systemic sustainability risks, including the climate crisis. Over the past year we have worked with the Generation Foundation to promote the findings, including with investor initiatives like the Net Zero Asset Managers initiative, institutional investors and investment lawyers. This will continue to be a priority for our advocacy efforts in 2024.

The forces for progress, and those for obstruction, were on display at the United Nations Climate Change Conference, COP28, held in Dubai at the end of 2023. Such was the uproar when fossil-fuel interests went all-out to control the outcome of the summit that the COP presidency, the United Arab Emirates, was left with no choice but to include language in the final text calling on countries to "transition away from fossil fuels."

On their own, words from a summit mean little. As our Chairman Al Gore said after the summit closed: "Whether this is a turning point that truly marks the beginning of the end of the fossil-fuel era depends on the actions that come next and the mobilisation of finance required to achieve them." We will continue to advocate for the actions and mobilisation of finance that are required.

A significant bright spot in the climate discourse in 2023 was the increasing recognition of the imperative to conserve and restore nature to achieve the Paris Agreement goals. We saw this at New York Climate Week in September 2023 and then at COP28, when the need to halt and reverse deforestation by 2030 was included in a COP final text for the first time. As participants in the Finance Sector Deforestation Action (FSDA) initiative, Generation has been making the case since COP26 in Glasgow in 2021 that investor climate action plans that do not include targets to eliminate deforestation are incomplete.

Generation has been encouraging the Glasgow Financial Alliance for Net Zero (GFANZ) to incorporate nature into its work. We were delighted to see the Alliance announce at COP28 that it would be exploring guidance for financial institutions in 2024 on how to integrate nature into net-zero transition planning. Generation will be an enthusiastic participant in this work.

GENERATION FOUNDATION

Generation Foundation continues to pursue its shared vision with Generation Investment Management through grant-making, research and partnerships. Since its founding in 2004, the Foundation has made grants to non-profit organisations that work to promote a more sustainable economic and financial system.

2023 Activities

Against the backdrop of increased ambition and challenging setbacks, the Foundation and its partners made important strides towards a more sustainable economic system in 2023. They sought to catalyse a shift in investment practice through policy and structural changes and the development of necessary tools and infrastructure for change.

The Foundation's A Legal Framework for Impact (LFI) project gained traction among policymakers and investors. As noted above, this is in part because it clarifies the legal position of investors with regards to sustainability.

The LFI research looked at 11 jurisdictions and found that if a sustainability factor is expected to pose a threat to their financial objectives, investors generally have a legal obligation to pursue impact. That could be in the form of asset allocation, stewardship and/or policy advocacy.[31] This comprehensive legal analysis has meaningful implications both for leaders who find their efforts are aligned with their legal duties, and laggards who may need a nudge to begin to pursue sustainability impact.

In addition to the policy and structural work, the Foundation funds initiatives that enable sustainable finance. One of those is the World Benchmarking Alliance, which launched its updated Gender Benchmark in 2023. The benchmark includes metrics on the care economy. We hope it will enable companies and investors to address the root causes of gender imbalances. 2023 saw the launch of the Climate and Nature Action Navigator for companies and investors. This resource, developed by the Accountability Accelerator and the UN Climate Champions team, facilitates impact by helping companies and investors navigate voluntary and mandatory nature and climate standards.

Additions to the Generation Foundation portfolio

The Foundation deployed over GBP 6.6 million and made five new multi-year strategic grants in 2023. Among them is a partnership with Cambridge University's Climate Governance Initiative to establish a new research and engagement workstream supporting board directors to discharge their legal duties with respect to climate impact.

[31] Read the full report, including jurisdiction-specific analysis: https://www.genfound.org/our-thinking-foundation/collaborative-publications/a-legal-framework-for-impact/. Summary findings can be found in the Executive Summary on page 13. The report from Freshfields finds that "[i]f an Asset Owner or investment manager concludes, or on the available evidence ought to conclude, that one or more sustainability factors poses a material risk to its ability to achieve its financial investment objectives, it will generally have a legal obligation to consider what, if anything, it can do to mitigate that risk (using some or all of investment powers, stewardship, policy engagement or otherwise) and to act accordingly."

As at 31 December 2023, the Generation team comprises 131 people and assets under management and supervision total approximately USD 47.0 billion.[32,33] The Just Climate team comprises 30 permanent people.

Miguel Nogales,
co-CIO

Mark Ferguson,
co-CIO

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

[33] Assets under management as at 31 December 2023 are USD 36.1 billion and assets under supervision ("AUS") as at 30 September 2023 are USD 10.9 billion. AUS form part of our Private Equity strategy and include assets where Generation sourced, structured and/or negotiated the investment and in relation to which it provides certain ongoing advisory services for a fee.

Appendix

Portfolio metrics: definitions

FACTOR	METRIC	SUMMARY DESCRIPTION
Carbon intensity, Scopes 1 & 2 (tCO_2e/$m)	Weighted average	Aggregate tonnes of GHG emissions (expressed as CO_2 equivalent) per USDm of company revenue.
Carbon intensity, Scopes 1–3 (tCO_2e/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 (Scopes 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 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, health care, 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. The pay gap data used is calculated by each company without any modifications applied. Calculation methods can vary between companies and jurisdictions.
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.
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.

FACTOR	METRIC	SUMMARY DESCRIPTION
Independent chairman 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.

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 Equity 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 +44 207 534 4700).

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