Generation Investment
Management LLP
20 Air Street
London W1B 5AN
United Kingdom

Tel: +44 (0)207 534 4700

generationim.com

GENERATION IM GLOBAL EQUITY QUARTERLY INVESTOR LETTER

January 2021

DEAR FELLOW INVESTOR

"I think you need to come off mute."
Generation Analyst, 2020

No phrase better captures the experience of Generation's Global Equity team during 2020. Despite our lexicon expanding, our ability as a firm to work together in 2020 remained as strong as ever. The team stayed safe, motivated and productive. And despite inevitable glitches, our IT team kept us on track heroically. As a firm, we were able to continue to strive towards investing excellence, as we slowly inch towards our 20-year track record in 2025.

2020 was also the year in which investors finally started to 'come off mute' on matters of climate change and social justice. The COVID-19 crisis has shone a light on what is truly important. We had a preview of what losing the world we cherish feels like. Psychologists have long believed that in times of fear our time horizons tend to compress: we worry about what is immediate. Yet despite all the fear we all experienced during 2020, our horizons may have actually lengthened. Sustainability goals were reinforced, and most companies raised their ambition on climate, gender equality and social justice. This augurs well for sustained action. In later sections we discuss in detail the steps Generation is taking, as we enter a critical decade for the climate crisis.

"There are two types of ballplayers: those who are humble and those who are about to be humbled."
Old baseball saying

There were two critical investment issues in 2020. Firstly, the volatility created by the emergence of COVID-19 presented us with an exceptional opportunity to buy outstanding companies at prices that hadn't been seen for years. Good execution in March and April wasn't the only factor driving performance for the year, but it was a significant contributor. For a review of how we acted during this period, please refer to our Q1 2020 letter.

The other key issue was the continued exuberance around the valuations of high-growth companies, particularly those whose goods and services have proven indispensable during the pandemic. Culminating a multi-year period of outperformance by "growth" over "value" stocks, the prices for certain fast-growing companies are now at levels which we don't recall seeing for a couple of decades. Twenty of these "high-flyer" companies represent about 20% of global market capitalisation, so their fate is highly material to markets. However, we believe there are still attractive returns available in high quality, long duration assets which are currently less popular.

We are satisfied with the performance of the Global Equity Fund in 2020. Over the past three years, the bulk of our outperformance has been generated by stock-picking, with geographical or sector tailwinds accounting for less than a fifth of our excess returns over the benchmark. We are delighted that each of our five industry groups has contributed to these excess returns, demonstrating the applicability of our process across different industries.

It has been another busy year for our analysts. Collectively, we held over 1,000 meetings with Focus List companies, their competitors and pipeline companies. We also conducted over 1,000 interactions with industry experts.

Our Research Strategy team, which focuses on making the research process more efficient and effective, continues to come up with fantastic tools to further our investigations. To list just a few examples, we have become better at figuring out new employee hiring and attrition in our companies, auditing key intellectual property in certain holdings, as well as conducting deep diligence of cyber-security vulnerabilities. In 2020, we added 13 companies to our Global Equity Focus List (whilst removing 13), bringing new ideas to our potential pool of investments.

"The stock market is a device for transferring money from the impatient to the patient."
Warren Buffett

In addition to COVID-19 and the Black Lives Matter movement, 2020 was packed with less-noticed yet still critical developments. Here is our list of some of these, in no particular order:

1. Liquid biopsy. At present, most cancers are only detected after people experience symptoms such as pain or bleeding. But it has long been known that before the onset of such symptoms, tumours shed genetic information which circulates in our blood. Researchers have dreamt of being able to identify this information as a means of early detection. This dream is inching towards reality. In 2020, GRAIL and other companies released data suggesting they can detect 67% of the 12 most lethal cancers.[1] We are watching these developments closely, as GRAIL is owned by our portfolio holding Illumina: if these results are confirmed, this early detection method offers the possibility of saving several hundred thousand lives a year and improving the quality of life of countless other individuals. Enticingly, when this approach is coupled with artificial intelligence, it can be used to detect other diseases beyond cancer.

2. China's 2060 carbon goal. The People's Republic of China is responsible for almost 30% of global emissions, more than the US and Europe combined.[2] For this reason, it was hugely significant that President Xi Jinping announced in September 2020 that China intends to achieve carbon neutrality before 2060, and peak emissions before 2030. There are some concerns around this goal (particularly when it comes to coal), but an optimist would say that this marks a turning point in our hopes of achieving the Paris climate goals.

3. The use of helicopter money. The 2008 financial crisis led to the use of quantitative easing and other novel forms of monetary policy. These actions were deemed temporary, and yet they are still in operation in many parts of the world. In 2020, we again witnessed the use of non-traditional fiscal policy tools. In the US, stimulus cheques of approximately USD 1,200 and USD 600 per person were announced in April 2020 and this month, respectively. At present, there is discussion of another round of these cheques. Critics argue this will ultimately lead to higher inflation; supporters say they are no different to a tax cut. We aren't smart enough to argue either case, but note that increasingly potent stimulants are being used to keep the economy growing.

[1] See press release by GRAIL
[2] See annual report from the Dutch Environment Agency PBL

4. Microsoft's goal to be carbon negative by 2030.[3] In January 2020 Microsoft pledged to become carbon negative by 2030, and to remove all the carbon it emitted since its founding in 1975 from the environment by 2050. In Microsoft's words: "Those of us who can afford to move faster and go further should do so." This goal sets a new benchmark for corporate ambitions and will hopefully influence the behaviour of other companies. Bravo Microsoft.

5. Messenger RNA (mRNA). Scientists have understood the huge potential of this technology for years. mRNA is like a USB stick that carries instructions to a computer – our DNA – to produce certain proteins. The Moderna vaccine is based on this technology, which enabled it to be designed within two days of decoding the genetic sequence of the virus. The focus will now shift to other remarkable advances we can achieve through mRNA. These range from new vaccines for diseases such as the flu or herpes to personalised cancer vaccines. The possibilities seem endless.

6. Board diversity rules. On 1st December, Nasdaq filed a proposal with the Securities and Exchange Commission to require their companies to have at least two diverse members on their boards. Companies that don't meet this standard will be required to justify their listing on Nasdaq. Yes, two diverse members is not a particularly ambitious target, but a US exchange following other geographies in setting guidelines for board diversity is unexpected. Incidentally, three quarters of US companies currently fall short of Nasdaq's two-person requirement.[4]

7. Trade like it's 1999. Private investors are back in the market *en masse*. Our best estimate is that the trading frequency for private investors is up to 4-5 times the average for the last decade. It is unclear whether this is a result of (i) a decade-old bull market; (ii) the lack of sporting activities on which to bet whilst homebound; or (iii) the growing availability of commission-free trading. In any case, seasoned market observers recognise active private investor participation as a potential warning sign for future returns.

8. Polio. In August, the World Health Organization certified Africa as being free from wild polio. This advance brings the world a step closer to eradicating polio worldwide, and it represents a triumph for smart philanthropy, global collaboration and perseverance.

9. ExxonMobil's removal from the Dow Jones Industrial Average (DJIA). The DJIA's oldest member joined the venerable index in 1928. In August 2020 it was dropped and replaced by Salesforce.com to "add new types of businesses that better reflect the American economy." This marks another milestone in the rising cost of capital for polluting industries. Chevron is the sole remaining oil and gas company in the DJIA.

10. Launch of GPT3. In June 2020, OpenAI launched its latest language-based deep learning model: generative pre-trained transformer 3 (GPT3). This model is a significant evolution in the tasks machines can perform. GPT3 is able to compose music, generate computer code from human instructions and write a piece of prose in the style of British author Jerome K. Jerome.[5] Aside from being slightly terrifying, models such as these are likely to produce a significant number of life-changing applications in the future.

11. Protein folding. Google's artificial intelligence arm, DeepMind, recently announced it may have partially solved one of biology's biggest challenges – how proteins fold. Proteins are the basic building blocks of life, responsible for much of what happens inside cells. Their effectiveness is largely dictated by their three-dimensional shape. For decades, the only way to determine protein structures conclusively was through sophisticated analytical techniques such as crystallography and cryo-electron microscopy. These methods are onerous, time-consuming and expensive. DeepMind used deep learning techniques with a unique 'attention algorithm' to accurately predict protein structures based on a given set of amino acid sequences. In the words of DeepMind founder Demis Hassabis, "This is the most significant thing we've done, in terms of real-world impact."[6] DeepMind's advances have the potential to radically change the process of drug discovery and lead to a better understanding of how proteins interact with each other. Equally important is that DeepMind has agreed to reveal sufficient details about its work for other groups to recreate and improve it, marking a new 'open-source' era in the life sciences.

---

[3] It is worth reading this blog post from Microsoft explaining its approach
[4] See article in Wall Street Journal
[5] See this tweet by Mario Klingemann
[6] Nature (2020). News article: "'It will change everything': DeepMind's AI makes gigantic leap in solving protein structures". See article

12. RCEP. In November, Asian leaders signed the Regional Comprehensive Economic Partnership (RCEP), a significant regional trade deal which included all Association of Southeast Asian Nations (ASEAN) members, plus China, Japan, South Korea, Australia and New Zealand. This deal, which is meant to eliminate a range of tariffs on imports and provide intellectual property protection, further cements ties in the region. Many consider this agreement as a China-backed alternative to the troubled Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which included some ASEAN countries but excluded China. However, India is conspicuously absent from the list of countries participating in the RCEP. Tensions between India and China are growing, as illustrated by recent border disputes and India's forced deletion of 60 popular Chinese apps. The lines seem to be drawn for future battles of global trading standards.

13. Ant Group IPO. The Ant Group IPO was meant to be the largest IPO in history at over USD 30 billion; it would have created the fourth most valuable financial company in the world. In early November, days before pricing, Chinese regulators pulled the IPO, days after founder Jack Ma criticised the government for regulation he believes is holding back technological development. There could be no more powerful reminder of the perils of investing in regulated businesses in China.

14. The beginning of the end for greenwashing? The technical report on the EU taxonomy was published in March 2020. It provides a standardised tool by which all investors can measure how much their companies contribute to environmental goals or detract from them. The taxonomy requires all European companies to report their environmental impact beginning in 2022. And crucially, European fund managers will be required to report on their investments. When taken together with the European Green New Deal, and the climate focus of the European Central Bank, it seems almost certain that European regulation will meaningfully tilt the cost of capital in favour of green industry. If the General Data Protection Regulation (GDPR) is anything to go by, the EU taxonomy could also set the scene for other regions and countries to enact similar legislation.

15. Human-made mass. In December, a study found that in 2020 human-generated mass (anthropogenic mass) exceeded the Earth's overall living biomass for the first time.[7] Another alarming reminder, if we needed one, of the fragility of the world we inhabit.

"The fool doth think he is wise, but the wise man knows himself to be a fool."
Shakespeare, As You Like It, Act 5, Scene 1

As we do every year, we recently held our annual "hits and misses" meeting with the entire investment team. This is where we take a look back at our successes and failures over the past year, and invite every possible challenge or improvement to our process. This year the discussion was especially broad, and led to ideas such as the use of technology to encourage wider participation in team debate, the systematic use of forensic accounting, as well as the creation of a dashboard to more consistently track our engagement with companies.

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

The Global Equity strategy AUM as at 31 December 2020 total USD 27.4 billion.[8]

Thank you for the continued support and trust you have placed in us.

Mark Ferguson and Miguel Nogales, Co-CIOs

[7] Elhacham et al (2020), 'Global human-made mass exceeds all living biomass'. See paper
[8] Assets under management include subscriptions and redemptions received by the last business day of the quarter-end but applied the first business day after the quarter-end.

SECTOR UPDATE: QUANTUM COMPUTING

Our team recently had a fascinating discussion on quantum computing. Although this is a very early stage technology, there are some potentially huge implications that we wanted to share with you.

Quantum computers work in a completely different way to classical machines. As you probably know, each bit in a classical computer is set to either 1 or 0. In a quantum computer we are dealing with qubits. Rather than just being on or off, qubits can also be in 'superposition' – where they're both on and off at the same time, or somewhere on a spectrum between the two.

If a classical computer is asked to find a way out of a maze, it will try different branches in turn, ruling out each path individually until it finds the right one. A quantum computer can go down every path of the maze at once. It can hold uncertainty 'in its head'.[9] This will allow quantum computers to solve problems that are in practice impossible to answer on a classical machine – even with another lifetime of Moore's Law improvements.

Quantum computing could help to unlock some of the biggest sustainability challenges we face, by simulating the world better and optimising complex systems. For instance, it could help us to design better batteries, identify new pharmaceutical compounds, optimise the efficiency of our logistics networks, create new fertilisers and zero carbon materials, improve financial analytics and more accurately model the climate. In short, there are hugely exciting possibilities in all the sectors we cover.

As with every technological advance, there are also major areas of concern. The most obvious is information and financial security. Traditional encryption, for instance, will be easily broken by a quantum computer. This would be even more destabilising if only some countries have access to the technology, putting them at a huge military and commercial advantage. The race for quantum supremacy can be seen in recent public investments by major economies such as the US (USD 1.3 billion), China (USD 3 billion) and EU (USD 1.2 billion).

Completely different hardware and software are needed for quantum computing. Two approaches are gaining particular traction with commercial players. Superconducting quantum computers are being developed by Google and IBM, among others. These use microwaves and magnets like those used in MRI machines. Trapped ion quantum computers are being pioneered by IonQ (funded by Amazon) and Honeywell. These involve controlling charged particles with lasers, using components common in mass spectrometry equipment.

This technology will not break out of the lab anytime soon. At present, quantum computers need to be cooled to near absolute zero. This helps make qubits more controllable and reduces interference that can lead to incorrect calculations. Scaling up the technology should help to produce more accurate and more powerful calculations. Today's most advanced quantum computers have less than 100 qubits. IBM believes its machines will reach 1,000 qubits by 2023.[10] But increases of several more orders of magnitude will be required before the technology reaches maturity.

Today, at least six major players are investing heavily in developing quantum computing – Focus List companies Alphabet, Microsoft, Alibaba and Amazon along with IBM and Honeywell. In addition, there are 180 venture-backed startups that have raised USD 1.3 billion, mostly series A and B funding rounds. 30+ companies are earning USD 1 million or more, with six earning USD 10 to 50 million.[11]

As with any major technological advance, quantum computing is likely to result in new companies emerging as leaders, with some incumbents fading into the background. We should expect to see real progress on quantum computing in the next five to ten years and continuing for decades to come. As long-term investors, this means we need to think about the impact of quantum today, well before the outlines of the new landscape become clear.

[9] See article in Wired
[10] See news article in Science
[11] Generation analysis of Crunchbase data

RESPONSIBLE OWNERSHIP: ENGAGEMENT & PROXY VOTING

At Generation, we are ever mindful of our role as stewards of our clients' assets. A key characteristic of our approach is that every analyst undertakes engagement and proxy voting as part of his or her ongoing coverage of companies. In addition, since June 2020, analysts have been able to draw on support from our new Director of Engagement, Edward Mason, for both engagements and proxy voting decisions. Edward has begun the process of reshaping our core engagement strategy, beginning with our climate change engagement programme.

COMPANY ENGAGEMENT

We invest in businesses that we believe are high quality and run by management teams focused on the long term. Analysts interact multiple times a year with all the holdings for which they are responsible. In 2020 we undertook 613 meetings with Global Equity Focus List companies. The purpose of meetings may be monitoring, to ensure that our investment thesis remains intact, or engagement, to advance changes that we would like to see at the business; in many cases, it is a combination of the two.

When we wish to communicate our market-wide expectations to companies, we write to all portfolio or Focus List companies.

COVID-19

We wrote to all 72 companies held in our Global and Asia Equity strategies in April 2020 once the extraordinary scale of the disruption caused by the COVID-19 pandemic became clear. We stressed our desire to be as supportive as possible of our companies through the crisis and offered three observations on the response that we felt would serve companies and their stakeholders the best.

First, we stated that the welfare of employees should be front and centre, and noted that where companies needed to make cuts in pay or staff numbers, it was important that the C-suite should take the largest cuts in total compensation.

Second, we urged companies to focus on the long-term strength and position of their businesses, and encouraged them to prioritise capital allocation that would produce results in 2021 and perhaps several years later, not to optimise for 2020 earnings per share.

Third, we asked companies to push ahead with climate action, pointing to the uncomfortable parallels between the pandemic and climate change – given that, for decades, experts had warned us about the consequences of climate change, with far too little action taken. We urged all our companies to set a Science Based Target (SBT) i.e., an emissions reduction target aligned with the goals of the Paris Agreement.

In short, we urged boards and management teams to see the crisis as a moment for their company, and its culture, to emerge stronger than it was before.

The letter received an overwhelmingly positive response, with comments including:

- "We are very much following the guidelines that you are proposing, safety and welfare comes first. We are taking action to further strengthen our competitiveness. We have even accelerated some of our longer term R&D investments."
- "We have been guided by our multi-stakeholder model, including a commitment to using our scale as a force for good in the community through the pandemic and beyond."
- "We will manage for the long run and come out of this stronger as a company."

Conversation on these issues has continued throughout the year. We have had detailed discussions with companies on how to approach pay fairly. We have used our expert network to diligence worker health and safety. And our advocacy of SBTs has of course been built into our new climate change engagement framework.

CLIMATE CHANGE

At year end, we wrote to all 133 Global Equity Focus List companies to introduce the new climate-related expectations that we set out in our Q3 2020 letter, and that we have been road-testing with companies since.[12] As you may recall, the expectations embrace both climate disclosure and action, including emissions disclosure, Task Force on Climate-related Financial Disclosures (TCFD) reporting, Science Based Targets and commitments to net zero emissions no later than 2040. The focus is on urgent, ambitious climate action.

Once again, we stressed that Generation stands ready to support our companies through their journeys on climate change, enclosing a detailed booklet with information and resources to guide companies, whether they are reinforcing their climate change actions or seeking to attain the very best level of practice. At the same time, we made clear that our expectations on climate change would increasingly impact our investment and voting decisions, given our conviction on the importance of sustainability factors to business performance and the commitment that Generation has made to net zero portfolio emissions no later than 2040.

Our letter sets the scene for engagement on climate change in 2021. We will follow up initially with our highest priority engagement targets – with a particular focus on portfolio companies which are non-disclosers, material emitters or businesses we believe have the greatest potential to be 'system positive' on climate change.

DIVERSITY AND INCLUSION

Gender diversity, at board and executive levels, remained a strategic priority in our engagement in 2020 and we pursued it across the portfolio. We saw progress on board-level gender diversity and, at those companies with poor female representation in their workforce, systematic action.

We have also seen companies, particularly in the US, sharpen their focus further on racial diversity at the board and executive levels in the wake of the continued evidence of deep racial inequalities and injustices. We have been pleased to see companies starting to identify a lack of racial diversity as a strategic gap to be filled in their board refreshment programmes.

We are looking forward to publishing our first stewardship report, against the requirements of the UK's newly updated Stewardship Code, in the first quarter of 2021. The report will give information about some of the main engagements we conducted in 2020 and the outcomes achieved, including on diversity and inclusion.

ENGAGEMENT WITH ASSET MANAGEMENT PEERS

The intensive work we noted in our Q3 2020 letter – to build a coalition of managers willing to make a collective commitment to the goal of net zero emissions by 2050 or sooner – bore fruit on 11 December with the launch of the Net Zero Asset Managers initiative. The initiative launched with 30 asset managers as founding signatories, responsible for over USD 9 trillion of assets under management and was profiled at the Climate Ambition Summit on 12 December, the fifth anniversary of the conclusion of the Paris Agreement.

We are delighted that Net Zero Asset Managers has been adopted as an initiative of The Investor Agenda and is joining the United Nations Framework Convention on Climate Change's 'Race to Zero' campaign. We look forward to helping to grow the initiative in 2021 in the run-up to the United Nations Climate Change Conference (COP26) in Glasgow in November.

[12] 132 separate letters were sent. Hindustan Unilever is covered by the letter to Unilever, which directs their sustainability strategy.

PROXY VOTING

We have developed internal voting principles which serve as a guide to analysts. However, analysts are responsible for applying their own research when voting the proxies of the companies they cover. While analysts have access to research from Institutional Shareholder Services (ISS) for context, they do not automatically adopt its recommendations.

We will provide further disclosure in our stewardship report, but below are the headlines from our voting activity during 2020:

- There were 698 resolutions at portfolio companies on which we qualified to vote.[13]
- We voted 100% of these proxies.
- For management proposals, we failed to support management (either voting against or abstaining) on 34 occasions (5% of voting on management proposals).
- 2% of proposals were filed by shareholders.
- We voted in favour of 71% of shareholder proposals.

2020 GLOBAL EQUITY PROXY VOTING SUMMARY

		Number of resolutions				
		For	Against	Abstain	Total	% Against Management
Management Resolutions	Board Election & Structure	404	18	3	425	5%
	Compensation Related	80	5	2	87	8%
	Auditor Related	54	5	0	59	8%
	Routine Business	91	0	0	91	0%
	Other Business	21	1	0	22	5%
	Total	**650**	**29**	**5**	**684**	**5%**
Shareholder Resolutions	Governance	7	3	0	10	70%
	GHG or other Environmental Reporting	1	0	0	1	100%
	Social	2	1	0	3	67%
	Total	**10**	**4**	**0**	**14**	**71%**

[13] 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.

PORTFOLIO METRICS

Below are select Environmental, Social and Governance (ESG) metrics alongside financial metrics for the portfolio.[14]

	FACTOR	PORTFOLIO	BENCHMARK
E	Carbon footprint - (tonnes) CO_2equivalent/$m (revs)[15]	60	264
	Greenhouse gas - imputed cost (% of revenues)[15]	0.5%	1.4%
	Water & resource use - imputed cost (% of revenues)[15]	0.6%	1.8%
	Waste & pollution - imputed cost (% of revenues)[15]	0.4%	0.9%
	Percentage companies in Carbon Disclosure Project[15]	70%	72%
	Percentage companies in SBT initiative[16]	27%	17%
S	Human capital development score[17]	5.6	5.0
	Data security score[17]	5.5	4.9
	% of employees would recommend company to friend[18]	71%	70%
G	Firm tenure of executive team[19]	12.6 years	NA
	Fewer than 10% shareholder votes against executive pay[17]	70%	80%
	Equal shareholder voting rights[17]	84%	90%
	CEO total pay less than 3x of median executive officer[17]	57%	77%
	Percentage of shares owned by executives[20]	0.18%	0.10%
	Female board directors[17]	28%	27%
	Board not entrenched[17]	70%	83%
	All non-executive board members on less than four boards[17]	45%	56%
	Independent compensation committee[17]	82%	69%
	Independent board[17]	76%	71%
	Independent chairman or lead non-executive director[17]	84%	63%
F	3yr revenue growth (annualised)[20]	9%	10%
	Gross margin[20]	54%	49%
	Cash flow return on invested capital (CFROI)[21]	17%	7%

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

[14] As at 18 November 2020. Portfolio referenced is the Generation IM Global Equity Fund and may not be representative of all client portfolios within the strategy. Referenced data may not be available across all portfolio companies and it is limited to the data received from the source provider. This information may no longer be current. To the extent not sourced from Generation, it is from sources believed reliable. However, Generation does not represent that it is accurate or complete and it should not be relied upon. It should not be deemed representative of future characteristics for the Portfolio. For definitions of each metric, please refer to the notes at the end of this letter. [15] TruCost Data, [16] Generation analysis based on data from the Science Based Target initiative and MSCI as at 18 November 2020, [17] MSCI ESG Data, [18] Glassdoor Data, [19] Generation in-house analysis prepared in December 2020, [20] CapiQ, [21] Credit Suisse Holt.

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

For the last two years, we have reported on the alignment of your portfolio with the UN Sustainable Development Goals (SDGs). We have done so based on our assessment of the extent to which companies' main revenue streams were consistent with achieving the targets underpinning the SDGs.

During this time, we have kept under review the appearance of new tools on the market that might enable us to undertake analysis of SDG alignment across more dimensions of impact, with the credibility that third-party analysis can bring.

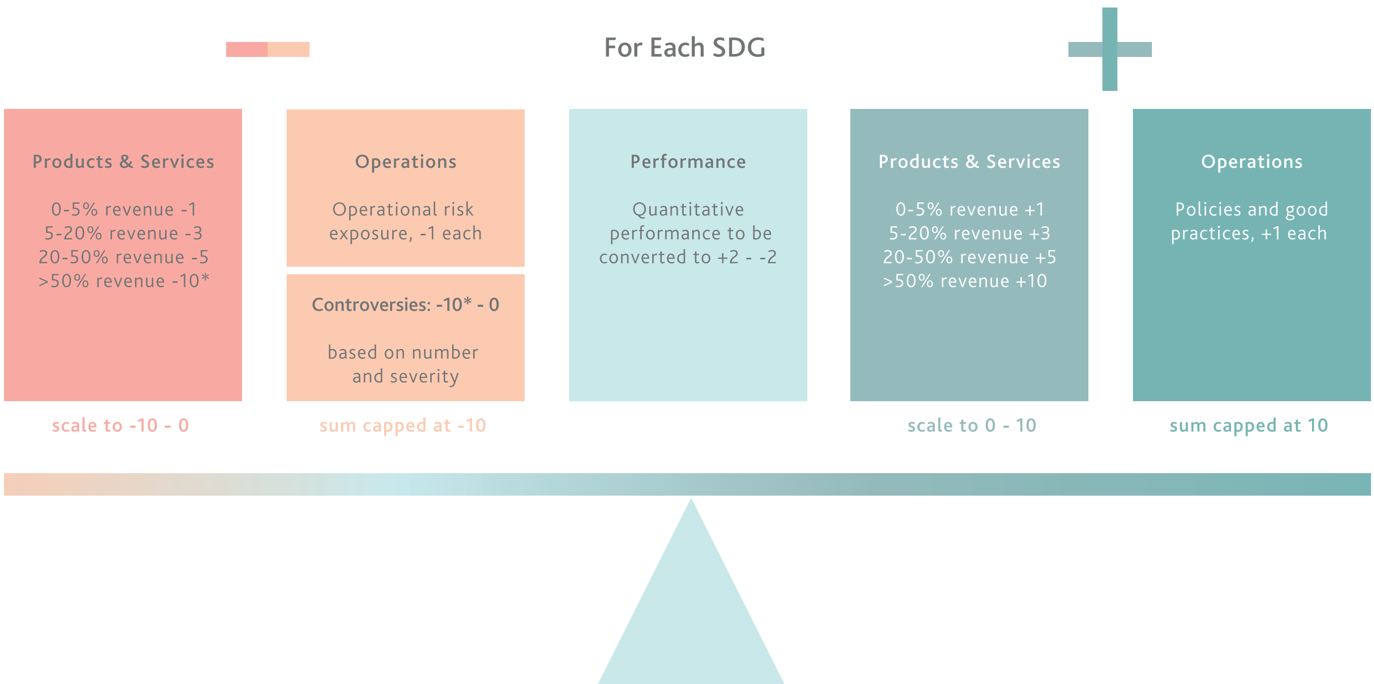
We are pleased to have found a new product to do this job, the MSCI SDG Alignment Tool, launched in September 2020.

We like this tool for a number of reasons, including that it:

- takes account of all SDG-aligned revenues at a company, not just the main revenue streams, 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 in the previous three years
- leverages all of MSCI's data capabilities - Sustainable Impact Metrics, Controversies and 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 its net scores, it can be assessed as Strongly Aligned, Aligned, Neutral, Misaligned or Strongly Misaligned.

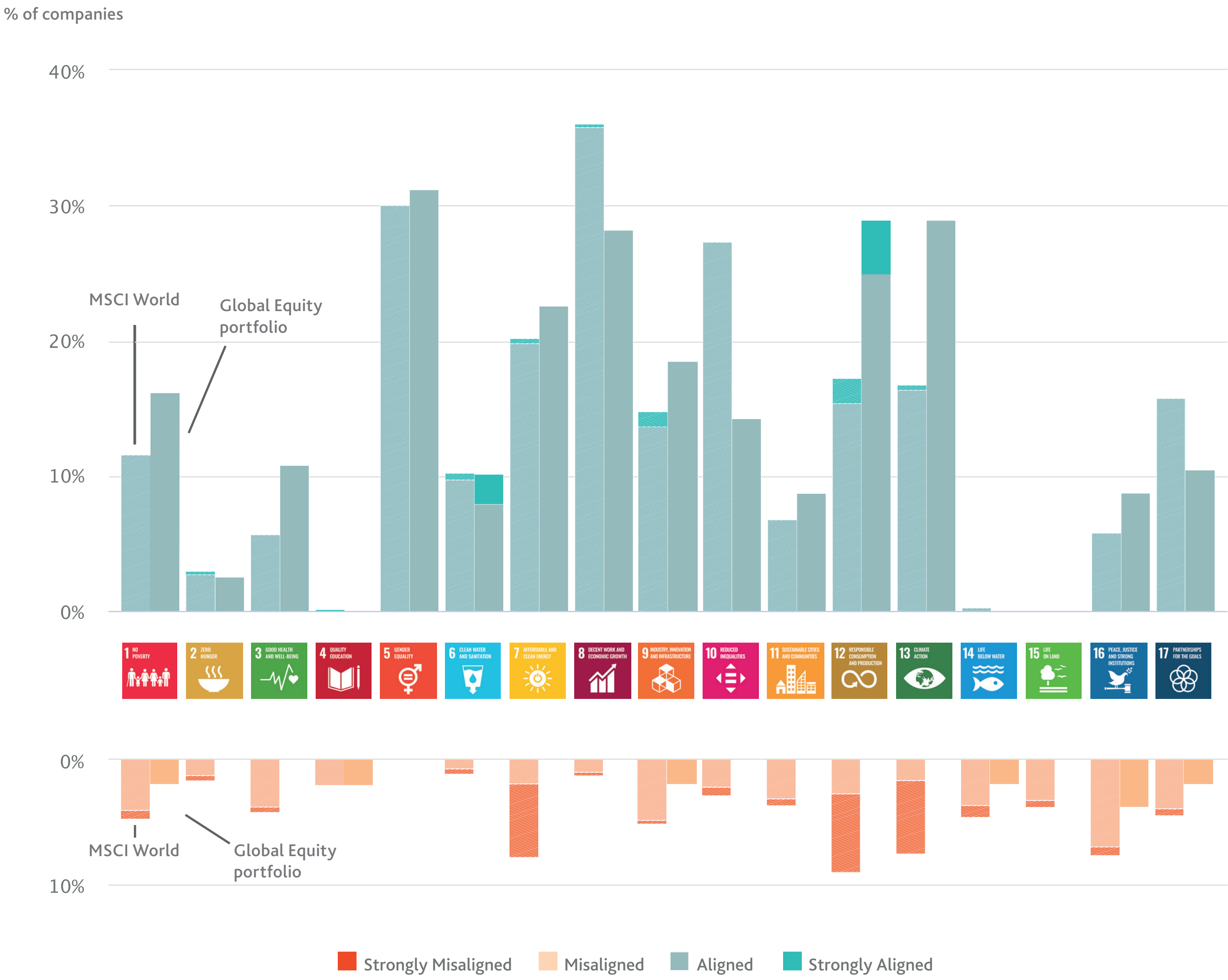
MEASURING COMPANY LEVEL GOAL ALIGNMENT



*Criteria signifying automatic classification as 'Strongly Misaligned'

The chart below shows how the Global Equity portfolio (as at 1 December 2020) comes out using the tool relative to the MSCI World benchmark, indicating the number of companies assessed by MSCI as Strongly Aligned, Aligned, Misaligned or Strongly Misaligned for each of the 17 SDGs (companies whose alignment with an SDG is assessed to be Neutral are not displayed).

MSCI WORLD VS GLOBAL EQUITY PORTFOLIO



We are pleased that your portfolio shows both more alignment and less misalignment with the SDGs than its benchmark, and that there are no companies in the Global Equity portfolio that are strongly misaligned with any of the SDGs, unlike in the benchmark.

The distribution of alignment is somewhat different from our own assessment last year. For example, last year we had no portfolio companies that we assessed as aligned with SDG 5 (gender equality) or SDG 13 (climate action). Under the MSCI methodology these are among the SDGs with which the greatest number of portfolio companies are aligned.

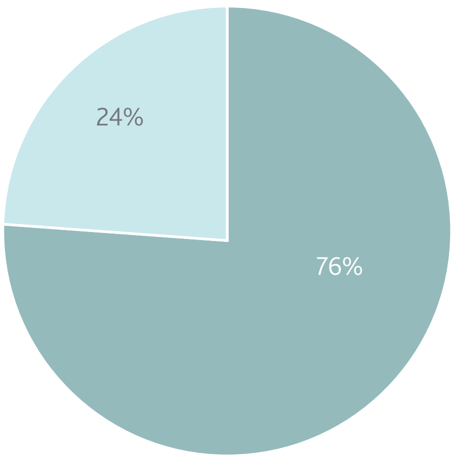
The primary reason for this is that the MSCI methodology takes account of how companies conduct their business, and not just what their business is. Workforce diversity policies and programmes, as well as positive board and workforce diversity outcomes and trends, are assessed for SDG 5. Carbon emissions reduction targets and trends are assessed for SDG 13. Any revenues from energy efficiency-related products and services are also picked up for SDG 13, whereas our own methodology required >35% of the company's revenues to be focused on climate action.

MSCI provides an overall assessment of the alignment with the SDGs of individual companies using the following methodology:

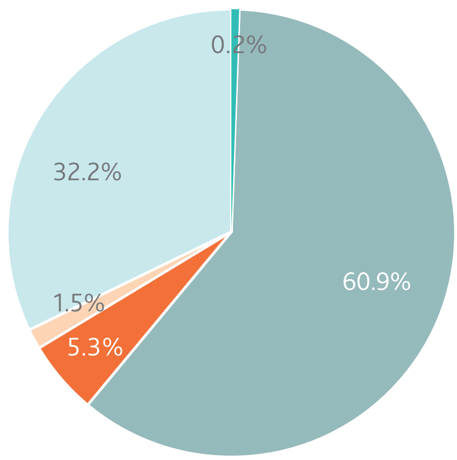
- Most Aligned: no strongly misaligned assessments on any SDGs, at least three SDGs identified as strongly aligned, higher overall number of aligned SDGs than misaligned
- Aligned: no strongly misaligned assessments on any SDGs, higher overall number of aligned SDGs than misaligned
- Misaligned: at least 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 described as Neutral.

Global Equity portfolio companies are rated Aligned (76%) and Neutral (24%), as shown in the pie chart on the left below. The assessment of MSCI World companies as a whole is shown in the pie chart to the right of it. Again your portfolio shows both more alignment and less misalignment with the SDGs than its benchmark; indeed it is good to see that there are no companies in the Global Equity portfolio that are assessed in aggregate as misaligned with the SDGs.

GLOBAL EQUITY PORTFOLIO



MSCI WORLD



Most Misaligned | Misaligned | Neutral | Aligned | Most Aligned

We would be delighted to explore the alignment of our portfolio with the SDGs in more detail with any of our clients.[22]

[22] Although Generation's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and /or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

FIRM UPDATE

"You can never have an impact on society if you have not changed yourself."
Nelson Mandela

In a year defined by suffering and challenge, Generation's long-standing mission anchored us with direction and hope. By focusing on seeking to deliver superior investment results and advocating for the broad adoption of sustainable investing, we were able to persevere on your behalf. We were pleased with the resilience of our colleagues who met unfamiliar conditions with resolve and effectiveness.

As we reflect upon the past several months, one truth stands out: time waits for no one. We are now one year into what we believe will be the most important decade of our careers. Yet absent further transformative action, the Paris Agreement target of limiting warming to 1.5 degrees Celsius is unlikely to be achieved, as are the transitions needed to bring about further justice and equity to vulnerable populations.

While tested mightily in 2020, we reaffirm our optimism to meet these challenges. As we wrote in the pages of The Wall Street Journal in June, we believe that businesses, governments and investors have the potential, and obligation, to effect real change. At Generation, we redoubled our efforts to bring about transformative change by investing throughout 2020 in what we call our "impact initiatives."

Each of these initiatives, taken individually, has the potential to bring about needed change. Collectively, we believe they have the promise to lead the way in delivering the profound impact that you rightly expect from Generation. To date, our impact initiatives are comprised of ten distinct efforts, listed below. In this letter, we provide you detailed updates on two of them: our engagement programme and the Generation Foundation. Throughout 2021, we will aim to update you on the other impact initiatives to give you a more complete look into this work.

IMPACT INITIATIVES

As a small firm with big aspirations, we must focus and collaborate with and motivate others. Our ten impact initiatives seek to leverage our core strengths of investment performance, differentiated research, 16 years of experience and our convening power.

1. Sustainability Trends Report (STR): drawing on more than 190 sources, we published our fourth annual STR in 2020 and believe it has become the "go-to" resource for those seeking information on sustainability developments. Our aim is to aggregate and share insights which governments, businesses and investors can use to ensure a healthier, safer and more equitable world.

2. Sustainability Insights: we launched our new Insights series to share lessons drawn from our investment work in the form of publicly available research papers. In 2020, we published two papers aimed at helping to raise the bar on sustainability: Ecommerce vs Bricks & Mortar and System Positive. We look forward to sharing further papers with you in the coming months.

3. Company Engagement: as previously noted in this letter, in 2020 we appointed our first Director of Engagement. This new role enables us to structure more ambitious engagement programs, use voting strategically in support of our investment objectives, collaborate more with other investors and escalate engagement where necessary.

4. Investor Engagement: we aim to leverage our client relationships and use our convening power to hold a series of asset owner gatherings to build momentum in the lead-up to COP26. In 2020, we hosted two gatherings with the aim of sharing information about portfolio alignment tools, company engagement and the case for urgent and transformational capital allocation to achieve net zero emissions. We intend also to continue to leverage our relationships with asset manager peers to grow the membership and impact of the Net Zero Asset Managers initiative.

5. Measuring Portfolio Alignment: to meet growing investor and lender interest in measuring the alignment of financial portfolios to the objectives of the Paris Agreement and to advance adoption of a consistent and robust approach, Generation led a private sector initiative to critically assess the range of approaches for measuring net zero alignment of companies and investment portfolios. In November 2020, the Portfolio Alignment Team published its findings in a report, available here on the TCFD Knowledge Hub.

6. The Generation Foundation: the Foundation has matured and developed since its inception 15 years ago. In earlier years, the Foundation's role was to introduce and explain sustainable investment to a wider audience. In 2020, the Foundation entered the next phase of its work with targeted action in areas that contribute to two related impact goals: limiting global warming to 1.5 degrees Celsius and creating fairer, inclusive economies. We detail their amazing work later in this letter.

7. Natural Climate Solutions (NCS): scientists tell us that NCS have the potential to provide ten to 11 billion tons of annual carbon sequestration – about 30% of what is required for net zero carbon emissions[23] – but so far they attract only a small percentage of investor resources. In 2020, Generation started working with New Forests, a specialist in sustainable real asset investing, to convene an informal coalition aimed at attracting resources into NCS. You will hear more about our work in this promising area in the first quarter of 2021.

8. Climate TRACE: The Climate TRACE (Tracking Real-Time Atmospheric Carbon Emissions) coalition is building the world's first tool to identify, quantify and trace all significant human-caused greenhouse gas (GHG) emissions to their sources in real time, using space-based images and data from existing satellite constellations, data streams from land-, sea, and air-based sensors – combined with artificial intelligence and machine learning. When activated in the second quarter of 2021, this tool is designed to bring radical transparency to the global dialogue under the Paris Agreement. In 2020, Generation helped to launch Climate TRACE through a USD 3 million grant.

9. Climate Transition Investing: Generation is exploring the potential to establish a new, standalone, purpose-driven business with the mission to invest to achieve net zero carbon emissions via a Just Transition. This impact-first investment strategy would seek to avoid or remove one gigaton of carbon dioxide emissions per year by 2030. You will hear more about our work in this exciting area in the first quarter of 2021.

10. TED Countdown Pre-Conference: finally, we are partnering with TED Conferences to convene capital markets leaders in October 2021, a month before the COP26 UN Climate Change Conference, to mobilise commitment and action by our industry at the COP itself.

INFRASTRUCTURE TEAM

Our Investment and Client teams work hand in hand with our Infrastructure Team which is overseen by the firm's Operating Committee (OC). The OC is comprised of the heads of our infrastructure functions and is charged with delivering a controlled environment for the firm to conduct its business.

In 2020, the OC continued to manage a series of cross-team initiatives, including: design of our London office, our Brexit preparedness, core systems upgrades, technology cloud transition and, of course, pandemic planning and a transition to working from home for most of the year across both offices and all functions. The OC continues to prioritise sustaining a rigorous compliance environment and responding to the requirements of our regulators.

We would be remiss not to acknowledge the contributions of our colleagues, suppliers and indeed support from our clients throughout the pandemic. Thanks to their efforts, the firm continued to operate well amid sometimes unfamiliar, trying and changing conditions.

Like many people in office environments, we adapted quickly to new technology at home, innovated our modes of communication and stayed connected with our work, families and communities. Our Infrastructure Team was able to meet all of its objectives within

[23] See Griscom et al (2017). 'Natural Climate Solutions'. Article in PNAS.

original deadlines this year, including onboarding new colleagues and investors and implementing new systems and operational processes. We will continue to closely monitor the pandemic's impact to ensure our offices remain compliant with government health advice and restrictions. The health and safety of our staff remains paramount.

Effective on 9 December 2020, our firm, together with the asset management industry across the United Kingdom, implemented the Senior Managers and Certification Regime (SM&CR) which came into effect in 2019. The SM&CR aims to reduce harm to consumers and strengthen market integrity by making financial services professionals more accountable for their conduct and competence. At Generation, the certification of over 60 colleagues will be an annual process, and all staff will continue to adopt the regime as part of our ongoing business governance framework.

For 2021, the OC and Infrastructure Team will maintain its focus on implementing new regulations, including the European Union's Sustainable Finance Disclosure Regulation (SFDR) which sets out new transparency obligations and reporting requirements on investment management firms. We welcome this change as it will bring increased transparency as to how investment managers seek to achieve their sustainability goals – a development naturally aligned with Generation's mission.

PEOPLE

We believe 2020 served as a turning point to focus minds on the need for greater progress across diversity and inclusion initiatives. In particular, the disproportionate impact of COVID-19 on ethnic minority communities and the Black Lives Matter movement provided catalysts for further action.

At Generation, we recognise that we have much more work to undertake. As discussed earlier in this letter, our investment teams stepped-up their engagement work with companies on matters of racial and gender diversity this year. In our own work environment, we listened intensively to our colleagues as an important step of reflection. What we heard led us to take further action.

At a strategic level, we appointed our first-ever external expert to help us formulate an updated view of what best practice looks like across diversity and inclusion. This ongoing work has led to several changes, including new recruiting methods aimed at countering unconscious bias and our upcoming participation in #100BLACKINTERNS and the Impact Capital Managers Mosaic Fellowship, programmes that seek to increase participation of students from underrepresented backgrounds in the investment management industry. As a next step, the firm will finalise a diversity and inclusion roadmap in 2021 to ensure our actions are measurable and succeeding.

In addition, we welcomed three existing members of the firm to the partnership: Dave Easton and Lucia Rigo from our Growth Equity team, and Tom Hodges from our Long-term Equity team. During the year we saw the departure of Lilly Wollman. We would like to thank Lilly for her contributions and wish her well on her new endeavours.

As at 31 December 2020, the Generation team is 98 people and assets under management total approximately USD 30.7 billion.[24,25]

Finally, we look forward to hosting you at our virtual Global Client Conference 2021 which will be held in mid-March and feature updates from our Chairman, Senior Partner and investment teams. Further details will follow in February.

[24] Assets under management include subscriptions and redemptions received by the last business day of the quarter-end but applied the first business day after the quarter-end.
[25] In addition, the firm has USD 1.9 billion of assets under supervision as part of its Long-term Equity strategy as at 30 September 2020.

THE GENERATION FOUNDATION

The Generation Foundation (the Foundation) is the philanthropic initiative of Generation. It is a distinct charitable entity, entirely funded by a distribution of Generation Investment Management's profits each year. The Foundation's mission is to drive the urgent transition to an equitable society in which global temperatures do not exceed 1.5 degrees Celsius. The Foundation operates by identifying where its resources and expertise will be most effective in delivering transformation change. Through targeted interventions, it acts as a catalyst for realising immediate and long-term impact in four priority areas: investor climate action, carbon pricing, gender inclusion and empowerment, and action on economic inequality.

THE GENERATION FOUNDATION IN 2020

It has been a challenging and unusual year for everyone, but the experience of 2020 has served to strengthen our resolve that urgent action on climate and inequality is critical. This year, the Foundation met its targets and deployed over GBP 10 million in charitable funds – more than double the previous year.

The Foundation now has a portfolio of around 20 strategic partnerships, each contributing to our four impact goals. The Foundation is the largest donor to the COP26 Non-State Actor Champions office and supported their work to galvanise business and civil society efforts on climate and build a groundswell of ambition at the most important COP yet. The Foundation's work addressing inequality includes its partnership with the Social Mobility Foundation in the UK (SMF). The Foundation funded SMF's launch of the Department for Opportunities – driving practical systems change to ensure that young people from all socio-economic backgrounds have a fair chance in life.

While we continue to recognise the power of funding research, raising ambition and building coalitions as tools for change, we know that work is most effective when combined with tangible, real-world impact. The Foundation funds projects with immediate benefits for communities and the environment. Examples include a project with Conservation International that aims to demonstrate best-in-class national Reducing Emissions from Deforestation and forest Degradation (REDD+) programmes in Kenya and our work with 350 Africa supporting grassroots NGOs working for a just transition to a more sustainable and equitable economic system in South Africa.

AN EXTRAORDINARY YEAR

We are incredibly proud of the Foundation's strategic partnerships, but we are not immune to the uncertainty and disruption this year has brought. The Foundation has been fortunate to have been able to help as countries around the world locked down and people faced hardship and illness because of the pandemic. We responded in two direct ways: firstly, by supporting existing partner organisations. In March and April, the Foundation reached out to every one of its strategic grant partners to offer support, flexibility and funding to fill gaps created by the pandemic. By allocating GBP 315,000 in additional funding, the Foundation ensured that work on climate and inequality was not delayed or abandoned in this crucial year.

The other way the Foundation responded was with a Pandemic Response Fund. Though not an emergency response funder, as a small, lean organisation, we had more flexibility than most to move quickly. The Foundation team contacted over 100 organisations in the space of three weeks and met with management teams of dozens of charities around the world. We identified 14 organisations, each working to help people who were most vulnerable to the economic and health impacts of COVID-19. A group of partners at Generation Investment Management decided to personally match the Foundation's fund, resulting in GBP 1.36 million in early response funding reaching great organisations around the world.

The pandemic was not the only challenge 2020 presented. With the murder of George Floyd and the resulting protests for racial justice in the US and across the globe, colleagues at Generation wanted to have important conversations about race and inequality and voiced a strong desire to act and make a positive change. The Foundation responded by developing a new employee programme, the Engagement Grant. The Engagement Grant offered employees the opportunity to join a small group and work together to identify an organisation tackling any element of racial injustice or inequality and write a proposal for a GBP 100,000 grant. We expected a half dozen people to sign up but were delighted when more than 20 people volunteered to participate. The teams worked with dedication and identified three excellent charities, allocating GBP 300,000 to projects tackling racial injustice. The pilot was so well received that the trustees agreed to make this a permanent feature of the Foundation's employee offerings, alongside the matched giving and sustainable community grants programmes.

Nothing about this year has gone as expected, but the difficult circumstances brought further recognition of the interconnected nature of environmental and social justice issues. We ended 2020 with more conviction than ever that urgent action on our climate crisis and inequalities is vital and that being flexible and responsive will serve us well as we seek to achieve an equitable transition to a net zero economy.

IMPORTANT INFORMATION

MSCI disclaimer:
Although Generation's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and /or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

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 (0)207 537 4700).

FACTOR	METRIC	SUMMARY DESCRIPTION
Average tenure of executives at the firm	Median	Average tenure of the current executives at the company. In our view, longer is considered better.
Fewer than 10% shareholder votes against executive pay	Percentage	Percentage of companies that received less than 10% shareholder votes against executives pay (most recently reported shareholder meeting). Only applies to companies that have 'say on pay' vote.
Equal shareholder voting rights	Percentage	Percentage of companies that have equal voting rights. In our view, a higher number is considered positive.
CEO total pay less than 3x of median executive officer	Percentage	Percentage of companies where the CEO's total pay for the last reported period was no more than 3x the median pay for other named executives. In our view, a higher number is considered better.
Percentage of shares owned by executive & board	Median	Executive share holdings as a percentage of shares outstanding. We show the median for portfolio and benchmark, as the average may be impacted by some companies (often founder run) with large executive ownership stakes.
Female board directors	Average	Percentage of female board directors. In our view, a higher percentage is positive.
Board not entrenched	Percentage	Percentage of companies without an Entrenched Board. The Board Not Entrenchment is inferred only; it is assumed and based on the following criteria from MSCI where board tenure is long and/or there are a significant proportion of older board members. The criteria includes >35% board tenure >15 years, 5 or more directors tenure >15 years, 5 or more directors >70 years old.
All non-executive board members on less than 4 boards	Percentage	Percentage of companies with no overboarded non-executives. The threshold is where a board member serves on four or more public company boards.
Independent compensation committee	Percentage	Percentage of companies with independent compensation committee, where such a committee has been established. Please see below for the independence criteria used.
Independent Board	Average	The Independent Board is inferred only; it is assumed and based on the following criteria from MSCI where it excludes current & prior employees, those employed by predecessor companies, founders, those with family ties or close relationships to an executive, employees of an entity owned by an executive and those who provided services to a senior executive or company within the last 3 years. Non executive compensation must be proportionate with other non executives and less than half of the named executives. Where information is insufficient the director is assumed Non-Independent.
Independent chairman or lead non executive director	Percentage	Percentage of companies which have an independent chair, or where the chair is not independent, an independent lead director. In our view, a higher proportion is considered better. As defined by MSCI, Independence is classified as independent of both management and other interests (employees, Government or major owners).
Human capital development score	Average	MSCI score (0-10) for motivating and engaging employees through variable compensation, work/life balance, training and Employee Share Ownership Programs (ESOPs). MSCI differentiates between labour management and human capital development based on educational attainment which we aggregate into a composite for presentation here.
Data security score	Average	MSCI score (0-10) for companies attempting to control and protect data through policies, audits, training and other programs.
% of employees would recommend company to friend	Average	Percentage of participating employees who would recommend company to a friend. This metric may warrant caution where a small percentage of the work force report.
Carbon footprint - (tonnes) CO_2equivalent/$m (revs)	Weighted Average	Aggregate tonnes of carbon dioxide (CO_2 equivalent) per $USDm revenue (not restricted to CO_2, includes a basket of emissions).
Green house gas - imputed cost (% of revenues)	Weighted Average	Aggregate green house gas cost (to society) of direct and indirect emissions, based either on disclosed or modelled emissions. Calculated as a percentage of revenues.
Water & resource use - imputed cost (% revenues)	Weighted Average	Aggregate waste and pollution cost, both direct and indirect, either disclosed or modelled. Calculated as a percentage of revenues.
Waste & pollution - imputed cost (% revenues)	Weighted Average	Aggregate water and resource use cost, both direct and indirect, either disclosed or modelled. Calculated as a percentage of revenues.
Percentage companies in 'Carbon Disclosure Project'	Percentage	Percentage of companies reporting to the Carbon Disclosure Project.
Percentage Companies in Science-based targets initiative (SBTi)	Percentage	Percentage of companies that have joined the Science Based Targets initiative. Please refer to the Science Based Target initiative website for further information.
3yr 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.