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GENERATION IM GLOBAL EQUITY QUARTERLY INVESTOR LETTER

April 2022

DEAR FELLOW INVESTOR

"We need to imagine the unimaginable." That was the conclusion of this letter one year ago, as we reflected on the lessons of the COVID-19 pandemic. Russia's invasion of Ukraine shows just how important that idea truly is. Only a few months ago it was hard to imagine that bloody war would once again take place in the heart of Europe. Yet that is now the reality we face.

Once again we recognise how lucky we are to live in places free from war. Millions of Ukrainians have moved westwards in search of a better life, while millions more stay behind to defend their country. In the midst of this horror, though, we have been heartened by the huge response from nonprofits, humanitarian organisations – and ordinary people – to do what they can. Some are giving money, others are providing aid and some are driving hundreds of miles to pick up people at the border. The Generation Foundation has committed nearly £110,000 to charities supporting Ukraine.

Performance in the quarter was behind the market averages. During the quarter, around half of the underperformance was due to the strong showing of sectors we do not own, mainly fossil fuels and mining. The other half was driven by holdings which we believe are temporarily out of favour. Very unusually for the Generation portfolio, about 70% of our holdings underperformed in the quarter, indicating the unique nature of the headwinds we currently face.

There were 15 holdings which affected relative performance negatively by over 20bps. We have increased our exposure to these companies by the equivalent of 10% of the total portfolio. This was funded roughly equally from sales in assets which outperformed in the quarter and from sales in companies which underperformed where conviction is lower. In addition, cash dropped from 6% to about 3% during the quarter, reflecting a richer opportunity set for investing. At the end of the quarter our measure of portfolio 'upside' (the appreciation we expect should our assets trade at their fair value) was historically high.

Our approach to valuation relies heavily on our ability to find long-term 'anchors' for our analysis. Industry analysis (what we term 'Roadmaps') not only helps frame our assessment of business and management quality in the first stage of our process (the Focus List), but also sets the context for our expectations of sales growth and normalised margins/returns on capital in the second stage once the stock has been admitted to our Focus List.

Analysts at Generation usually cover no more than 12 stocks at one time. Since the turnover of the Focus List is about 10%, and many of our team have been with us for 10+ years, this allows analysts, sector teams and portfolio managers to benefit from the accumulation of knowledge from covering the company or similar peers in that sector over the years.

We use 'heuristics' such as price-to-earnings or price-to-sales with some caution in making decisions on individual stocks, but they can be an interesting window into a portfolio. Your portfolio today is valued higher than the broader market and versus our history. In our view this is a positive metric as good value comes from our conviction for these companies to grow earnings in the long term, but even in the medium term we see good reasons to be optimistic.

We also note that the vast majority of the companies in your portfolio have very strong balance sheets, high cash flow and return on capital employed (ROCE), so could benefit from optionality around capital deployment whether that be repurchasing shares or acquisitions.

We have often thought that share prices carry too great a burden in terms of the information load they are meant to bear. At one level share prices are merely the discounted value of all future dividends the company will generate. At another level they represent the hopes and fears of market participants with wildly differing time horizons, as well as their specific liquidity requirements at any point in time.

Share prices are thus massively influenced as the market pendulum swings between greed and fear. In our more than 25 years of investing we have witnessed 11 corrections and three bear markets.[1] Every correction has a different context and a different underlying narrative. Yet all of them have two features in common: as fear rises, people adopt a) shorter time horizons and b) tunnel vision. They look for easy answers and quick wins. People cast aside the rich complexity of the world as they scramble to become instant 'experts' on the topic causing the fear. Thus, a legion of armchair credit-default-swap experts formed in 2008, amateur epidemiologists in 2020 and military-strategy analysts today.

Short time horizons and tunnel vision are not conducive to thoughtful capital allocation. The upshot is that periods of turmoil and fear create opportunities for long-term investors. Warren Buffett was right when he said that "the market is a device for transferring money from the impatient to the patient."

We cannot know how long the current dislocation will last, or quite how patient we will need to be. As we show in the following discussion, the uncertainties of the present time are numerous and complex, possibly more so than in previous crises. Maintaining a long-term focus, a clear sense of the type of companies to invest in and stringent price discipline will be more important than ever.

In the remainder of this letter, we look beyond the headlines to focus on three big themes. The first is that we are moving from a unipolar world to a multipolar one – not just in political terms, but in economic, financial and technological terms too. The second relates to inflation, both in terms of the war's short- and long-term effects. The third relates to the end of the 'growth' stock party. We also refer you to the 2022 Senior Partner Letter, which discusses the net-zero transition.

A CHANGING WORLD ORDER

Take geopolitics first. In the 1990s and 2000s the world seemed to be coming together, as globalisation took off. Famously, Russia opened its first McDonald's in the heart of Moscow in 1990 – and the queues stretched for miles. The financial world was becoming ever more integrated. Buying a share was much the same thing wherever you did it – in Lima, Stockholm or Shanghai.

The events of recent weeks show that the world is moving in a different direction. The West's sanctions on Russia's central bank, as necessary as they may be, could have important consequences for the dollar, the global reserve currency. America has in effect abolished the dollars that Russia owns, while other countries in the alliance have followed. Some other countries may now be nervous about holding dollars. They may look to get hold of other currencies instead.

The global trading system is fracturing. Russia is turning its attention away from the West and toward other trading partners, whether that be India, Turkey or China. China's role in the Russia-Ukraine war remains unclear: are they trying to stop the violence, or fomenting Western division?

[1] A correction is defined as a 10% drop in the market. A bear market is defined as a 20% drop. Based on S&P 500 data.

These events are part of a broader shift from a 'unipolar' world, where America alone calls the shots. China's adoption in 2020 of 'dual circulation' is another important part of this trend. You will be hearing this term a lot more frequently in the coming years. Dual circulation is an attempt to release China's rivals' grip on 'chokehold' industries, such as chip-making equipment, which it fears could be used to strangle its rise. Over time, expect China to be less interested in playing a global role, and instead more interested in what is going on in its backyard in Asia. Annual flows of long-term investment between America and China have already fallen by three quarters from their 2016 high.[2]

Financial markets are also becoming less integrated. The latest wrangles between America's Securities and Exchange Commission (SEC), and certain Chinese issuers listed in America, are just the latest example. At the same time the launch of Stock Connect in 2014 has strengthened Hong Kong's financial links with the Chinese mainland.

The shift to a multipolar world would have profound consequences – including for the net-zero transition. The world needs China to stick to its 2060 goal for net zero (and hopefully improve upon it), and the world needs China's solar panels and lithium-ion batteries, amongst other goods, in order to meet their own targets. Our willingness to collaborate in this multipolar world will be absolutely critical.

It also has implications for your portfolio. Chinese stocks make up 5% of the holdings. These holdings are often domestic leaders in industries such as e-commerce, cloud computing, sportswear and lodging. They have attractive growth profiles and are well run. Increasingly they also recognise the importance of sustainability. For instance, companies such as Alibaba and Tencent were once behind the curve when it came to carbon reporting. But recently they have leapfrogged Western peers by announcing ambitious plans to become net zero by 2030. Generation has been engaging with both companies on this topic for a number of years.

Separate to the geopolitical situation, Chinese companies have been facing some temporary headwinds. These include rising regulation (especially in the internet companies), a challenging economic environment and COVID lockdowns. All in all, China exposure has dragged on our overall performance in the past year or so. At the same time, though, we believe that our Chinese holdings have significantly higher upside than the portfolio average.

In summary, at present we believe that China continues to offer opportunities for capital allocation in high-quality sustainable companies. And globalisation is not 'over,' even if the trend towards ever-closer global integration is weakening. It is also important that we remain engaged with China in terms of tackling climate change. We have already made considerable progress on sustainability questions with the management teams of a number of our holdings, including Anta, Alibaba and Tencent. That said, the present geopolitical set-up, and how it might change, needs to be analysed with an open mind. As in all areas we invest in, we reserve the right to change our mind.

HIGH AND UNEXPECTED INFLATION

The second big theme is inflation. This is a topic we began discussing in our Q1 2020 letter, in particular regarding the 'helicopter money' response of central banks. Even before the war inflation across advanced economies was at a 30-year high of 7% year-on-year.[3] Surging inflation is in part the result of a 'good' outcome: a faster-than-expected economic bounce-back from lockdowns in the West. But in large part it was the product of new lockdowns in much of East Asia, which have wrecked supply chains, and also possibly the impact of large stimulus programmes in the US.[4] By early 2022 some economists were worrying that central banks had lost control of inflation, necessitating sharp rises in interest rates.

The war makes all of this worse. For one, it has provoked a big rise in energy prices. Food may be an even bigger concern. Russia and Ukraine export 12% of the calories traded globally.[5] Now Russia is battening down the hatches, while as much as a third of the Ukrainian

[2] https://www.economist.com/finance-and-economics/2022/03/19/globalisation-and-autocracy-are-locked-together-for-how-much-longer
[3] https://data.oecd.org/price/inflation-cpi.htm
[4] https://www.frbsf.org/economic-research/publications/economic-letter/2022/march/why-is-us-inflation-higher-than-in-other-countries/
[5] https://www.ifpri.org/blog/how-will-russias-invasion-ukraine-affect-global-food-security

wheat crop will not be planted this year because of the war.[6] Global food prices are soaring.[7] The costs of pricier fuel and food will be felt most keenly by people in poor countries, and by poor people in rich countries. Governments must step up to cushion the blow.

What does inflation mean for your holdings? We have spent a significant amount of time assessing how companies are exposed. Starting with the input side, we consider the reliance of each company on raw materials, freight and labour costs. So far inflation has mostly been seen in the first two.

What we are learning on wages is more nuanced. There is clearly upward pressure in relatively low-paid jobs, which we think is ultimately helpful to reduce income inequality.[8] In higher-paid jobs, where there has been some wage inflation for a number of years, wage growth is actually moderating. Many companies are embracing remote work, which allows them to access a broader talent pool.

The next question is about outputs. To what extent are companies able to pass on higher costs? Here, the critical factors are: the competitive environment, customer concentration, the length of agreements with customers and the strength of customer demand. But companies' agility also matters. The pre-pandemic world was one of low and steady inflation. Many companies could use the same pricing strategy year after year. As inflation takes off, though, companies have to rediscover their pricing muscle. Some are better at this than others.

Our tentative conclusion is as follows: high and unexpected inflation may reduce companies' profit margins in the aggregate.[9] However, in our view, your portfolio is relatively well-positioned. It is made up of well-run companies which have a median gross margin of over 50%, as well as significant capacity to reinvest in the business.

THE GROWTH STOCK PARTY

The final theme relates to 'growth' stocks. In plain English, this term describes companies which have the potential to see large profits in the future. Growth stocks powered markets for years, but of late they have had a tough time. In part this is related to our second point, above. As central banks increase interest rates in an attempt to reduce inflation, this increases the rate used to discount growth stocks' future earnings, and thus reduces the value of the shares.

But it is our belief that the growth stock party would have ended even without the inflation surprise. During the pandemic some of these companies acquired absurdly high valuations, in part the product of an exaggerated belief in just how digitised the world would truly become.[10] We also note the high level of 'lock-up' expirations, where founders and early investors are allowed to sell their shares after an IPO. In 2021 25% of IPOs included early lock-up releases.[11] A *Journal of Finance* article in 2003 linked the large-scale expiration of lock-ups with the dotcom bust.[12]

We have been concerned about this 'irrational exuberance' in the valuation of some growth companies for some time (consider, for instance, our Q4 2020 letter). In recent years we have maintained discipline around the price paid for growth assets. We have tried to maintain exposure to high-growth stocks at no more than 10% of your portfolio.

[6] https://www.lancasterfarming.com/farming/war-sows-uncertainty-for-ukraine-s-crucial-winter-wheat-crop/article_aa77c7c4-a216-11ec-933c-030690defbab.html
[7] https://www.fao.org/worldfoodsituation/foodpricesindex/en/
[8] This is consistent with the official data from the US https://www.atlantafed.org/chcs/wage-growth-tracker
[9] There is already some tentative evidence that this is starting to happen https://fred.stlouisfed.org/graph/?g=1Pik
[10] Recent research from the IMF casts some doubt on the thesis that the pandemic has led to a permanent increase in digitisation. https://www.imf.org/en/Publications/WP/Issues/2022/01/28/E-commerce-During-Covid-Stylized-Facts-from-47-Economies-512014?utm_medium=email&utm_source=govdelivery
[11] https://www.renaissancecapital.com/IPO-Center/News/89910/The-erosion-of-the-IPO-lock-up
[12] Ofek, Eli, and Matthew Richardson. "Dotcom mania: The rise and fall of internet stock prices." The Journal of Finance 58, no. 3 (2003): 1113-1137.

That said, the recent weakness in areas such as e-commerce, enterprise software and healthcare has given us the opportunity to selectively add to this group. In addition, there are a number of assets which we have followed for years, but not bought, which are now starting to look more interesting.

POSITIONING

The team remains stable and focused on identifying attractive long-term investment opportunities. Volatile markets offer excellent opportunities to deploy cash and to upgrade further the quality of your portfolio.

At present your portfolio has attractive characteristics. We believe that the discount to intrinsic value sits significantly above its long-term average.

The total assets under management for the Global Equity strategy as at 31 March 2022 are USD 30.4 billion.[13]

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

COMPANY EXAMPLE

In each quarterly letter, we share examples from our portfolio which bring our investment process to life. This quarter we focus on Vestas, a manufacturer and servicer of wind turbines.

Historically, renewable energy has not been a strong focus for our team. No one doubts that the world requires enormous growth in renewable-energy generation in order to remain below 1.5C above pre-industrial levels. But the supplier value chain has long suffered from low business quality and unfavourable economics. This has been particularly evident in the case of solar power, where the relatively low barriers to entry, little differentiation in component performance, highly automated manufacturing and easy transportability of components have resulted in a migration towards low-cost manufacturing hubs in Asia. Today, China dominates the world's photovoltaic solar-panel production. Between 2010 and 2020, its share of global polysilicon production increased from 26% to 82%.[14]

Wind power is different. Our "Energy Roadmap" work at the end of 2020 highlighted that the supply chain for wind power has more favourable dynamics than solar. This is primarily due to the higher level of complexity required to manufacture and assemble wind turbines relative to solar panels, differentiation in business models, and local-content requirements. This makes Chinese competition a lot less threatening: the market is in effect split between China (~50%) and the rest of the world (~50%). Foreign players capture only 1-3% market share in each other's geographies.[15]

We have identified wind turbines (and Vestas) as an area of focus – not only because of the dynamics of the industry as a whole, but also because we believe that original equipment manufacturers (OEMs) are significantly improving the quality of their businesses.

Vestas is the largest wind-turbine OEM globally. It has a market share of ~40% (ex-China), a #1 position in onshore wind and a strong #2 position in offshore wind. Vestas also has by far the largest installed fleet of turbines of any OEM, as well as the largest number of turbines under service.

We strongly believe that several elements will change the nature of Vestas's business over the coming years:

1. The increasing importance and attractive characteristics of its 'Services' business (providing on-going servicing and maintenance of wind turbines after installation)
2. A growing fleet of older turbines requiring replacement, providing a base level of demand
3. Market consolidation, leading over time to potentially better pricing discipline
4. Modularisation of production (creating common platforms that allow for easier customisation of products, similar to how auto OEM manufacturing has evolved), possibly leading to more efficient and flexible manufacturing and servicing

We take each of these four factors in turn. First, the Services business is an often overlooked part of Vestas. Swings in profits from sales of original equipment (OE) still largely define the company's fortunes. In 2021 Services represented only 16% of revenue. But the segment comes with margins in the mid-to-high 20s, so it was more than 100% of EBIT due to temporarily suppressed profitability in OE. On a unit economic basis (i.e. considering the income from an individual turbine), services are ~33-50% of revenue and ~70-85% of profits.[16] Over the very long run, the overall mix will trend in that direction.

Vestas signs very long-term contracts (up to 35 years) to provide maintenance for its turbines. These revenues are inflation-adjusted. They are also driven by the stock of installed turbines, rather than the flow of annual installations. As a result, these revenues are steady and predictable. They grow at a roughly double-digit rate every year. These contracts have very high attachment rates, as project financing from banks often comes with incentives to procure servicing directly from OEMs, rather than in-house or from third parties. As

[14] https://www.csis.org/analysis/dark-spot-solar-energy-industry-forced-labor-xinjiang
[15] Publicly available data sources including those from industry associations and wind turbine manufacturers
[16] Generation internal analysis

a result, Vestas currently services more than 80% of its installed fleet. This is very different from the Chinese market, where local state-owned utilities service their own turbines, and OEMs have little after-market capability as a result.

Second, the installed fleet of Vestas turbines is growing older by the day. There is an opportunity to provide the replacements. In 2020, only 10GW of turbines were 20-25 years old, but by 2025, 37GW will be that old and this will rise to 118GW by 2030. Installation of replacements provides a predictable revenue stream. It will naturally grow as a share of revenues as the wind industry matures. We are still in the early stages of this fundamental change.

Third, the industry has consolidated over the past decade. This is setting the scene for improved competitive dynamics. In the early 2010s there were 10 OEMs which together represented ~90% of market share (ex-China). Today, four control that same combined share. Consolidation is yet to bear fruit in terms of lower competitive dynamics or better pricing. But we believe that discipline will increase in the coming years, improving the economics for all OEMs and especially for Vestas.

Finally, the wind-turbine industry is in the early stages of implementing best practices from other industrial sectors – namely modularisation. Modularity creates a more flexible manufacturing process, leading to lower costs, higher efficiency and better after-market service support for customers. Vestas launched its first modular turbine platform in 2019, with the first installations taking place in 2020 and 2021. There are still opportunities to expand modularity to the entire turbine (currently it applies mostly to towers and blades, but not yet the nacelle or other smaller parts), as well as to the entire manufacturing process at plant level. As this happens over the coming years, we believe Vestas should see the efficiency benefits reflected in its own P&L.

These four positive changes are happening against the backdrop of an urgent need to accelerate the rollout of renewable energy. Industry estimates are that annual installations of wind capacity need to be at least four times higher than today if the world is to reach net zero by 2050.[17] Russia's invasion of Ukraine has also highlighted the importance of renewable energy in the context of energy independence. The EU's REPowerEU plan published earlier this month targets 480GW of wind power by 2030 – which would require annual installations to be at least double the current rate until then. Germany's new governing coalition has laid out plans to support renewables, including dedicating 2% of federal land area to the development of wind resources. The direction of travel is clear, which should be supportive factors for our investment in Vestas.

We are very aware that the investment journey with Vestas will almost certainly not be a straight line. The company has one of the most global supply chains under our coverage, so logistical disruptions have affected it negatively in recent months. We continue to monitor such developments closely. They inform our view of both the business quality and the management quality. However, we also remain focused on our long-term anchors that underpin our investment case – namely, the exciting top-line growth opportunity and the maturing profitability profile.

[17] https://gwec.net/global-wind-industry-manifesto-calls-on-governments-to-get-serious-ahead-of-cop26

STEWARDSHIP AND ENGAGEMENT

STEPPING UP OUR EXPECTATIONS ON CLIMATE CHANGE

At the turn of 2020-21 we wrote to companies on the Global Equity Focus List about climate action. In order to maintain positions of business leadership, we said that all companies needed to press forward urgently on climate change. That meant disclosing their emissions; reporting in-line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD); setting Science Based Targets (SBTs); and committing to net-zero emissions by 2040 at the latest. We warned that, in our proxy voting from 2021, we would generally vote against the re-election of the chairs of portfolio companies which did not disclose their emissions either in company reporting or via CDP.

This was all before COP26 in late 2021. In the Glasgow Climate Pact adopted at the conclusion of the summit, governments expressed their "alarm and utmost concern that human activities have caused around 1.1°C of global warming to date and that impacts are already being felt in every region." They recognised that "limiting global warming to 1.5°C requires rapid, deep and sustained reductions in global greenhouse gas emissions, including reducing global carbon dioxide emissions by 45 per cent by 2030 relative to the 2010 level."

In the wake of COP26, we are now writing to Focus List companies again. We are giving notice that, starting in 2023, we will generally vote against the re-election of the chairs of portfolio companies that have not formally committed to set SBTs with the Science Based Targets initiative (SBTi).

This is an important step in our efforts to steward the Global Equity Fund to net-zero emissions by 2040. At present, 48% of portfolio companies have committed to the SBTi. But emissions-reduction targets aligned with a 1.5C pathway must be the norm for every business. Across Generation's assets under management, we are seeking to achieve 60% SBT coverage by 2025, and 100% coverage by 2030.

In the meantime, for this proxy season, we have confirmed that, absent a compelling undertaking from management to rectify their non-disclosure, our general practice will remain to vote against the re-election of the chairs of any portfolio companies that do not disclose their emissions.

ENGAGEMENT WITH ANTA SPORTS

Sustainable investing can at times raise challenging issues, and we have recently been grappling with one at Anta Sports. Anta is China's largest domestic sportswear company. We like its successful brand platform, excellent management team and long runway for growth. The firm helps millions of Chinese consumers to live more active and healthy lifestyles.

Over this period the company has been willing to engage with us on learning from global best practice and reducing its carbon footprint. We were pleased to see that it recently committed to carbon neutrality by 2050 – one of the first Chinese consumer companies to do so. Its medium-term targets for 2030 include achieving 50% sustainable products and engaging on sustainability with 3,000 value-chain partners and 300 million consumers. However, Anta has potential exposure to Xinjiang and Uighur labour.

Xinjiang is a large, autonomous region in the north-west of China, home to about 12 million Uighurs, a mostly Muslim minority with a Central Asian culture. It is also China's principal cotton-growing area, producing over 80% of domestic cotton. In recent years there have been multiple credible reports of human-rights abuses in Xinjiang, including the detention of hundreds of thousands of Uighurs in re-education camps, and the deployment of detainees in factories both in Xinjiang and in other provinces. There have also been allegations of Uighurs being forced to work in cotton picking.

In March this year, the Norwegian Government Pension Fund Global announced that it had added a competitor of Anta, Li-Ning, to its ethical exclusion list, due to an unacceptable risk that the company was contributing to serious human-rights abuses in Xinjiang.

Needless to say, we have very carefully researched the risks of similar exposures at Anta. The company does not have any production facilities of its own in Xinjiang. Nor does it directly source from any factories in Xinjiang. It has answered our questions in good faith and has made clear that its supply chain policies firmly prohibit forced labour. But we are not yet fully reassured. Anta clearly still has significant room to improve on supply-chain transparency and accountability, as can be seen from the assessments of NGOs like KnowTheChain.

A key area for improvement is the traceability of cotton upstream in Anta's supply chain. Anta is four steps removed from the raw commodity and at present has limited traceability. Our research indicates that cotton production in Xinjiang is becoming increasingly mechanised, with nearly 80% now machine-picked. Wages paid to cotton pickers are significantly higher than the Xinjiang minimum wage, and domestic Chinese cotton is somewhat more expensive than imported cotton.

Labour standards in cotton picking in Xinjiang cannot currently be independently verified. International access to the region is impossible. The Better Cotton Initiative had to suspend certification of cotton from Xinjiang in 2020. As a result, international brands have typically instructed suppliers not to source yarn from Xinjiang. This is not realistic politically in China for a large domestic brand. While we understand this, we are pressing the company to find an alternative certification solution and to greatly improve its insight into its supply chain.

We have good access to management and have made clear that we expect Anta to make significant progress on supply-chain management and disclosure over the next 12-24 months, achieving specific milestones that will bring it closer to the standards of international brands.

In these situations, there can be a temptation to divest and move on. We believe this is the wrong thing to do with a management team that is engaged and well-intentioned, and where we feel our ownership can help to deliver change. We will be closely monitoring progress as a requirement for our continued investment.

PORTFOLIO METRICS[18]

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

	FACTOR	PORTFOLIO	BENCHMARK
E	Carbon footprint - (tonnes) CO2equivalent/$m (revs)[19]	58	235
	Greenhouse gas - imputed cost (% of revenues)[19]	0.5%	1.3%
	Water & resource use - imputed cost (% of revenues)[19]	0.4%	1.5%
	Waste & pollution - imputed cost (% of revenues)[19]	0.4%	0.9%
	Percentage of companies that disclose GHG emissions[19]	80%	75%
	Percentage of companies in SBT initiative[20]	48.1%	28.7%
S	Human capital development score[21]	6.0	5.4
	Data security score[21]	5.8	5.5
	% of employees would recommend company to friend[22]	75%	73%
G	Firm tenure of executive team[23]	12.6 years	N/A
	Fewer than 10% shareholder votes against executive pay[21]	64%	76%
	Equal shareholder voting rights[21]	89%	88%
	CEO total pay less than 3x of median executive officer[21]	68%	74%
	Percentage of shares owned by executives[24]	0.22%	0.10%
	Female board directors[21]	31%	29%
	Board not entrenched[21]	66%	81%
	All non-executive board members on less than 4 boards[21]	51%	55%
	Independent compensation committee[21]	83%	70%
	Independent board[21]	77%	73%
	Independent chair or lead non-executive director[21]	77%	67%
F	Three-year revenue growth (annualised)[24]	12%	11%
	Gross margin[24]	53%	50%
	Cash flow return on invested capital (CFROI)[25]	12%	8%

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

[18] As at 15 March 2022. 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 to Metrics at the end of this letter.
[19] Trucost data.
[20] Generation analysis based on data from the Science Based Targets initiative and MSCI as at March 2022.
[21] MSCI ESG data.
[22] Glassdoor data.
[23] Generation in-house analysis prepared in March 2022.
[24] CapIQ.
[25] Credit Suisse Holt.

THE FIRM

At Generation, our mission is two-fold. We seek to deliver superior, risk-adjusted investment results utilising a “systems view” to integrate sustainability and environmental, social and governance (ESG) factors into our investment framework.[26] As importantly, we share our experience and voice as a sustainable investment manager to drive to a net-zero, prosperous, equitable, healthy and safe society.

In our 2022 Senior Partner Letter, released in March, we proposed three pillars of action for how the investment industry can accelerate action to limit global temperature rise to 1.5C and ensure a just transition. We believe the next global crisis is upon us and that urgent action is required.

As at 31 March 2022, the Generation team is 113 and assets under management total approximately USD 37.0 billion.[27]

During the quarter we were pleased to welcome one joiner to the Global and Asia Equity team, Joel Li. Joel joined the team as an Associate within the Asia team to focus on the Chinese market. Previously, Joel was an Analyst with Marshall Wace Asset Management and Morgan Stanley Infrastructure Partners. Joel received a BA in Economics & Environmental Engineering from Yale University and speaks Swedish and Mandarin. In addition to his passion for investing, Joel brings with him a deep interest in sustainability built over the years. While at Yale, he wrote his thesis on the efficiency of carbon markets in China under the guidance of William Nordhaus, recipient of the Nobel Prize for Economic Sciences in 2018.

Thank you for the trust you have placed in us.

Miguel Nogales and Mark Ferguson, co-CIOs

[26] Although Generation seeks to deliver superior performance, there can be no guarantee this goal will be achieved.
[27] In addition, the firm has USD 5.4 billion assets under supervision as part of its Long-term Equity strategy as at 31 December 2021.

IMPORTANT INFORMATION

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