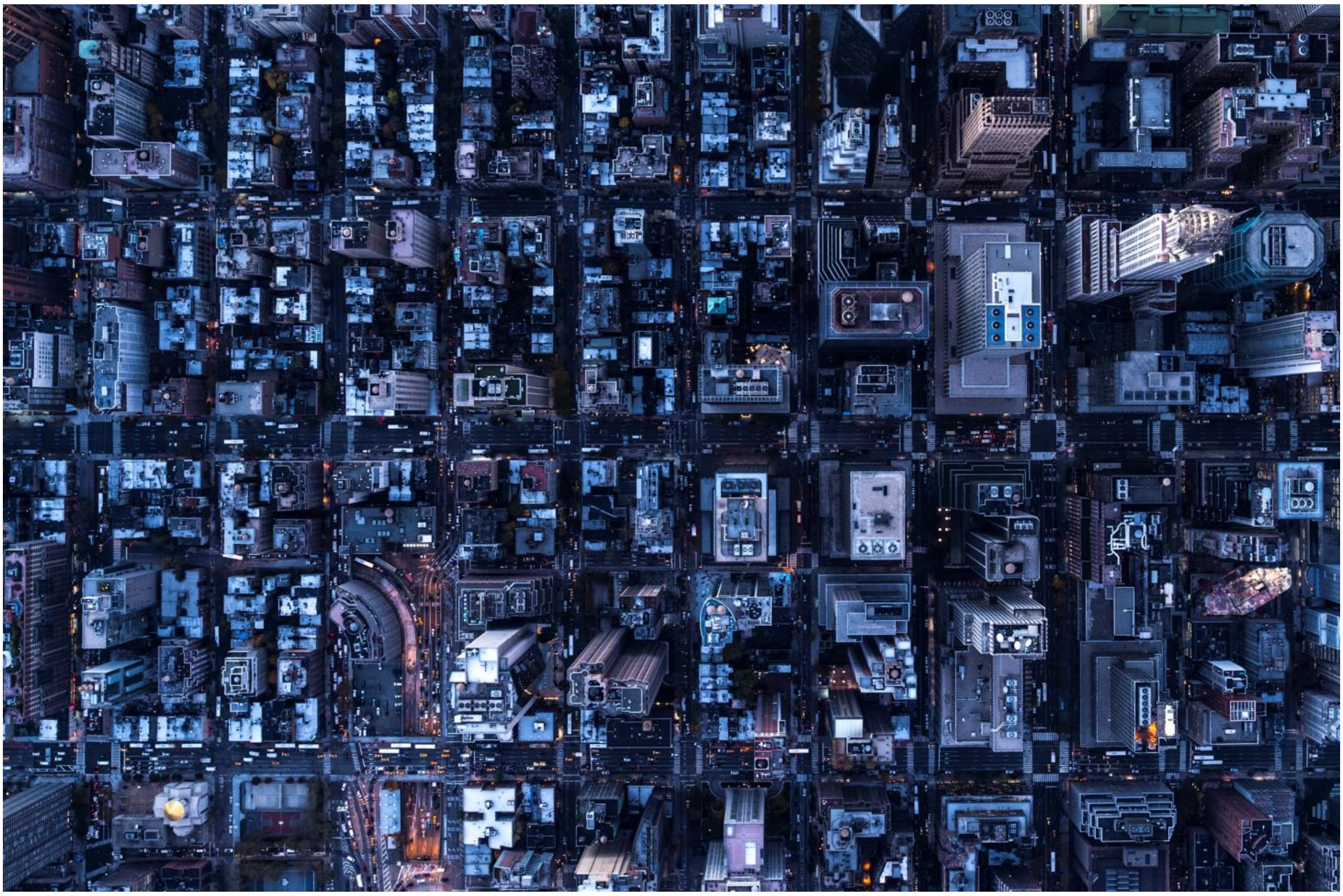
generation

Generation Investment Management Global Equity Quarterly Investor Letter

April 2023



Dear fellow investors

First we had Pestilence, in the form of COVID-19. Then we had War — Russia's invasion of Ukraine — and Famine (a spike in global food prices). Now we have Conquest. Many people worry that rising interest rates will overwhelm the financial system.

Yet while the four horsemen have arrived, in one form or another, we do not indulge talk of apocalypse.

True, the past year or so has been difficult for investors, including for us. We have learned a lot. As in the past, we are trying to improve our investment process — and in this letter we share some of our recent work on that front.

Despite all the bad news, our conviction is unshaken. We believe the world remains full of high-quality companies that will push the world in a more sustainable direction. Companies that will thrive in this new, volatile world need pricing power, flexible supply chains and limited geopolitical exposure. Our goal is to find these companies and then buy them at the right price.

PERFORMANCE

Let's start with performance. On a rolling five-year net basis, the Global Equity strategy has performed roughly in-line with the benchmark. On a rolling three-year net basis, it is about 1.3% below.[1] There are three main explanations for recent underperformance. **First,** in some cases we overestimated the quality of the businesses we bought. Baked into our long-term track record is what we call internally our 'mistake rate.'[2] In an average year the rate is about 2.5%. It is currently running at about 4%. We put our investments in Alibaba and IndusInd Bank — both now sold — in the 'mistake' bucket.

Second, the external environment can change. Recall the four horsemen. Supply chains have turned upside-down, the world is shifting to a new model of globalisation, and inflation and interest rates have jumped. As a result, many businesses that were 'truly excellent' a few years ago are currently only 'very good.' Companies such as Adidas (which has struggled with supply-chain turmoil) and Baxter (which has struggled with inflation) fall into this bucket.

Third, in some cases we overpaid for companies. Zalando falls into this bucket.

Your portfolio has been relatively insulated from recent banking troubles. Charles Schwab is the only financials company in your portfolio (forming 2.37% of it). The company's share price has suffered. We are watching the situation closely. Regulators have responded quickly to the turmoil. After a few weeks when people were withdrawing deposits from small banks across America, the rush seems to have slowed.

We do not have strong views on whether the banking turmoil will tip the global economy into recession. We are not economists, and in any case the global economy has rarely been so hard to predict. Forecasters are trying to weigh up a large number of highly unusual variables: a land war in Europe, the fallout from massive fiscal stimulus in 2020–21 and high inflation. In this environment all judgments about the macro economy are uncertain.

However, we do strongly believe in the quality of your companies. According to our internal estimates of business quality (BQ) and management quality (MQ), which form the basis for our investment decisions, they score highly. The average BQ of the portfolio is 1.5 and the average MQ of the portfolio is 1.6, both among the highest in the fund's history.

[1] Net performance includes base management fees, trading and other expenses, but not performance fees. Performance fees, when payable, reduce gross and net returns. The Fund's benchmark is the MSCI World Total Return Index Net Dividends in USD. Results include the reinvestment of dividends and all other earnings.

[2] We consider mistake rate to comprise both notional and permanent impairment, as discussed in our Q4 2022 Investor Letter. Notional impairment reflects a downwards assessment in fair value and a greater fall in market value, and permanent impairment reflects a permanent loss of capital in cases where we have sold positions.

The companies have robust and sustainable growth prospects — and are also delivering significant sustainability impacts. Expressing the entirety of your portfolio as a single company, it would currently trade at about 20 times earnings, exhibit an operating cash yield of around 5.5% and have projected earnings growth in the high teens over the next several years.[3] The portfolio, on average, has very modest leverage. Even if there is a recession this year, we believe your companies would continue to perform well. And, importantly, on average the portfolio emits carbon dioxide at around one-quarter of the rate of the benchmark.

THE INVESTMENT PROCESS

In the past quarter we have redoubled our efforts to reduce inefficiencies in our investment process. We have done this in three main ways. **First**, we have acted upon many of the recommendations that came out of our annual 'Hits and Misses' session, held at the end of last year.

1. Internal research suggests that BQ is strongly predictive of future returns. We are therefore improving our execution of the BQ process. We will retest BQ scores more frequently. We will also reduce the size of the Focus List to closer to its historical average, thereby giving analysts more time to improve their BQ estimates.

2. We will refine our MQ framework. We need to do more, for instance, to improve our estimates of company culture. We also need to refine how we treat company transitions, such as when a firm moves from a high-growth phase to a high-profitability one.

3. We also want to improve our internal data, making it easier to monitor ourselves.

Second, we have sought to improve our decision-making processes. In partnership with Herman Brodie, a behavioural economist, we explored the ways in which biases may cloud our judgement. When researching a company, do analysts seek information that conforms to their pre-existing beliefs — while ignoring contrary information? Are they reluctant to sell a company because they feel awkward about crystallising a loss?

To make good investment decisions, you have to understand how your brain can trick you — and then practise techniques to overcome it. We incorporate a range of techniques into our investment process, from having 'devil's advocates' to prevent groupthink, and practising 'pre-mortems,' where we imagine how a particular investment could go wrong. Reminding ourselves of our behavioural biases is a bit like going to the dentist: sometimes uncomfortable, but necessary every now and then. We plan to do more sessions in the future.

Third, we have organised internal sessions on improving the quality of our writing. This is not a matter of aesthetics. Rather, it is to ensure that communication, both internally and externally, is efficient. Reams of research show that clear communication has big, positive impacts on productivity.

INVESTMENT OPPORTUNITIES

We continue to evaluate new investment opportunities. Despite the volatility of recent months, we see a number of strong tailwinds in certain sectors — particularly those that solve big societal problems. One such problem is growing healthcare costs, which will put more pressure on social-security systems and household budgets. Later in this letter we profile Henry Schein, the largest distributor of dental and medical products and services globally. Companies like Henry Schein have the potential to control the growth in healthcare costs, while promoting access to underserved communities.

We are also exploring intelligent machines. The coming wave of artificial-intelligence technologies represents a before-and-after moment in our history — like the iPhone or the

[3] Calculated based on assumed T2 (2024) numbers.

internet. Earlier this year we completed a large-scale Roadmap on the subject. Intelligent machines could make it easier to use resources efficiently, a positive from an environmental perspective. There are, however, concerns about the impact on workers.

History suggests that technological adoption follows a consistent pattern. There is a period of hype; followed by a realisation of the limitations of the new technology; and then gradual installation. There is reason to believe that adoption of intelligent machines could be historically fast: witness how many people already use ChatGPT on a daily basis. We are watching the situation closely, and are considering initiating coverage on an additional company focused on intelligence or automation (we already have existing assets in the areas of silicon, cloud and data).

The recent excitement over AI is just another example of the volatile nature of financial, economic and political developments at present. At times like these it is important to remain calm and focused on what you know you are good at doing. For us, that involves a long-termist and system-positive approach to investment. If we can buy high-quality, sustainable companies at the right price, we expect that returns — both financial and societal — will follow.

The total assets under management for the Global Equity strategy as at 31 March 2023 are USD 25.5 billion.

In each quarterly letter, we share examples from your portfolio that bring our investment process to life. This quarter we focus on Henry Schein, the distributor of healthcare products and services.

Company example

HENRY SCHEIN®

Global healthcare faces profound challenges. As populations age, the demand for healthcare services will continue to rise. People's expectations for healthcare are also growing fast — both in rich and poor countries.

At the same time, healthcare cost pressures are escalating. To make matters worse, healthcare has worse labour shortages than most industries, while productivity improvements are hard to come by.[4] In almost every country, health spending is forecast to form an increasing share of GDP in the coming years.[5]

At Generation, we look for companies that can provide a solution to these long-term challenges. More specifically, we look for healthcare companies that reduce costs and drive efficiency; that improve clinical outcomes; and that improve access to care. Henry Schein, a long-term holding of your portfolio, is an example of a company that we believe can deliver on all three of these criteria.

Henry Schein is the largest distributor of dental and medical products and services globally. Headquartered in Melville, New York, the company serves over one million customers and employs over 20,000 people. Henry Schein is committed to helping its customers — largely dental practices and physician offices — operate efficient and successful businesses, thereby allowing them to deliver better clinical care.

Over the years, the company has transformed itself from a pure mail-order business in the 1980s to a full-service solutions provider of consumables, equipment, software, specialty products and services.

OUR INVESTMENT THESIS

Henry Schein has been on our Focus List since 2010. Close to 4% of your portfolio is invested in the company. When thinking about whether to invest in a company, we consider business quality (BQ) and management quality (MQ), with sustainability an important assessment within both of these.

Business quality

We rank Henry Schein a BQ1, the highest quality score in our framework. This is for a few reasons. First, Henry Schein's business provides essential services for dentists and physicians, the majority of which continue to be small business owners. These customers derive value from using Henry Schein as a one-stop shop to help them run their practice. The company's distribution network sells over 300,000 SKUs (stock keeping units) to over one million dentist and physician offices in the US, Europe and certain other geographic markets. Over 90% of those customers globally receive next-day service. We believe this service and network is difficult to replicate.

Second, the company is a beneficiary of several long-term trends in both their dental and medical segments. In dental, Henry Schein is in a unique position to capitalise on an important trend: the digitalisation of the dental office. The company helps dentists digitalise their practice with equipment and software, which improve the customer experience and help drive better clinical outcomes. Digitalisation also has the potential to make it easier for providers to minimise inefficiencies. This is particularly important for small businesses, which often find it hard to make productivity improvements. In their medical segment, Henry Schein is a beneficiary of a trend to shift the delivery of care away from expensive, acute hospital settings into more affordable and accessible settings such as physician offices and smaller surgical centres.

Third, Henry Schein is in a good position to leverage existing relationships with customers to drive the sales of more profitable products. Over the past five years, for instance, the company has built out its software and specialty offerings. These markets are growing twice as fast and are approximately three times more profitable than their core distribution business. They already represent a third of the company's profits. Penetration is still low, however — so we think this could represent a significant opportunity for the company. Henry Schein is the only company offering a full suite of proprietary software to help drive their customers' profitability and productivity.

[4] Refer to sources here and here.

[5] Refer to source here.

Management quality
We also believe that Henry Schein is well managed. The company has a strong culture, cultivated by an experienced management team, led by CEO Stanley Bergman. This strong culture is a crucial tenet of our investment case in this company. Distribution businesses are often relationship-based. Henry Schein has a network of 3,000 tenured sales representatives globally. We believe this to be a key source of their competitive advantage.

Over the decade-plus that we have covered this company, we have often asked ourselves the following question: what makes the culture of Henry Schein so unique? To answer this question, we have spoken with many ex-employees. The feedback has always been consistent. The company has a strong mission and values-based culture, and a corresponding belief that their people are their greatest asset. This strong culture has translated to low employee turnover relative to the industry average. At a recent investor day, we were surprised at the tenure and depth of experience of employees below the senior leadership level. Many of these leaders were retained from companies acquired by Henry Schein over the decades.

Sustainability
Henry Schein has demonstrated a long-standing commitment to sustainability encompassing all their stakeholders. Take diversity, for example. At a customer level, Henry Schein was one of the early founders of the American Dental Association's Institute for Diversity Leadership nearly two decades ago, an organisation that funds leadership training and mentorship programmes for under-represented racial and gender groups. As for employees, diversity and inclusion goals are linked to compensation metrics all the way to director and VP levels. The company has also set itself a target to increase representation of all under-represented groups by 2030. In 2017 it signed up for Paradigm for Parity, a commitment to gender parity of the senior leadership team (including directors and VPs) by 2030.

From a social perspective, the company has formed many public-private partnerships over the years to improve access to healthcare services among typically underserved populations. In 2015 Henry Schein co-founded the Pandemic Supply Chain Network, a public-private partnership to improve the efficiency of the supply chain for personal protective equipment (PPE) in the event of a pandemic. The company is a participant of the White House's COVID-19 Supply Chain Task Force. They also played a crucial role in securing supply and distributing PPE and test kits during the COVID-19 pandemic. We believe all of these efforts and initiatives have helped to drive a strong culture, and in turn engage, motivate and retain employees.

On the environmental side, the company has committed to science-based targets and net zero by 2050. It has made good progress on these objectives. Their focus on climate change extends to their customers. For instance, their 'Practice Green' initiative offers customers solutions to become more sustainable. We continue to engage with the company to drive to more ambitious long-term climate-related targets.

Investment case
Against all these positives, our investment thesis in this company is not without challenges. Over the past decade, Henry Schein's dental and medical customers have consolidated. As a result, they can drive lower prices from their distributors. Henry Schein has offset these pressures by shifting their business towards higher-margin and faster-growing markets. The company has also fended off competition from online distributors by investing in their own e-commerce and digital-marketing capabilities.

On the whole, our research on the dental and medical industries continues to drive our conviction in Henry Schein. Over the years we have interviewed industry experts, attended industry conferences, spoken with competitors and customers, and analysed market datasets. This has reinforced our conviction on the opportunity in the industry and in this company. We believe that in the long term, Henry Schein will benefit from a society-wide need to provide higher-quality, more efficient and more affordable care to all.

As such, Henry Schein sits well within our 'system positive' framework of healthcare companies that deliver high-quality products and services, improve societal well-being and make a fair but not excessive return.

Stewardship and engagement

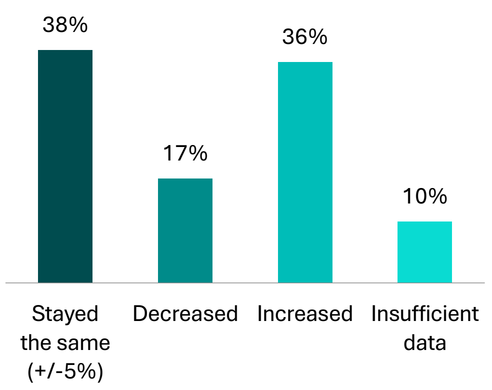
GREENHOUSE GAS EMISSIONS – A LOOK BEHIND THE METRICS

Recently, there were reports on the emissions profile of your portfolio, with some companies highlighted as seeing increases in greenhouse gas (GHG) emissions. We want to address some of the issues that were raised.

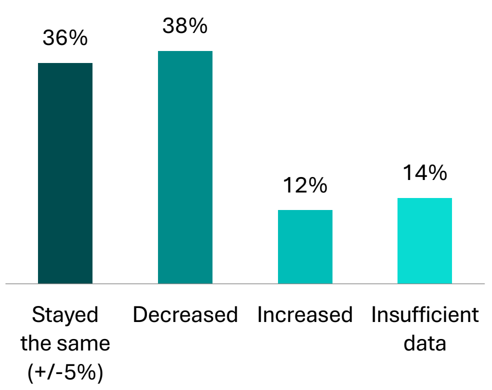
The facts are not in dispute: in recent years, the emissions of some companies in the Global Equity portfolio have grown in absolute terms and, occasionally, even in terms of emissions intensity (i.e., GHG emissions per unit of company revenue).

These are the numbers.

GLOBAL EQUITY PORTFOLIO COMPANY SCOPE 1 AND 2 ABSOLUTE EMISSIONS TRENDS 2018–2020[6]



GLOBAL EQUITY PORTFOLIO COMPANY SCOPE 1 AND 2 EMISSIONS INTENSITY TRENDS 2018–2020[6]



At first glance, these trends may look concerning. But once you consider three crucial factors, a different story emerges.

First, consider what you might call 'displaced emissions.' The example of e-commerce illustrates this well. Companies such as Amazon and Zalando grew rapidly between 2018 and 2020. Their emissions rose. But this trend is *positive* for the fight against climate change — and this is precisely the reason we invest in them. The emissions of e-commerce displace higher emissions from traditional bricks-and-mortar retail, as we wrote in an Insights piece in 2020.

In addition, the e-commerce companies in which we invest on your behalf have ambitious climate action plans.

Amazon is working to achieve net-zero emissions by 2040. Its Climate Pledge covers not only Scope 1 and 2 emissions, but also important categories of Scope 3 emissions, including purchased delivery services and freight, Amazon packaging, Amazon product manufacturing, customers' use of Amazon devices and capital goods (e.g., emissions from building construction and the manufacturing of servers and equipment). This represents a massive investment in decarbonisation.

A **second** factor behind higher emissions relates to acquisitions. Take Swiss specialty chemical company, Sika. Its absolute emissions increased between 2018 and 2020 (whilst emissions intensity remained stable). But the company acquired 10 businesses over these three years.

Again, Sika has an ambitious climate action plan. Like Amazon, it has committed to the Science Based Targets initiative. Its targets are to reduce its Scope 1 and 2 emissions by 42% and its Scope 3 emissions by 25%, by 2032.

[6] Portfolio as at January 2023. Data from MSCI. Percentages may not total 100 due to rounding.

But what of increases in emissions *intensity*? How can they ever be explained or justified? Consider the **third** point: changes in business model. Again, we can make the point best with an example. You may be surprised to learn that Microsoft, a company widely recognised as a leader on climate action (including by us), saw its emissions intensity increase slightly between 2018 and 2020.

The reason was Microsoft's cloud-computing business, Azure, where revenues grew 84% from 2018 to 2020, much faster than Microsoft's traditional software businesses. Data centres use significant amounts of electricity. As a result of Azure's growth, Microsoft's emissions intensity went up. Microsoft's absolute emissions increased from 3.1 million tCO_2e to 4.2 million tCO_2e between 2018 and 2020, an increase of approximately 35% whilst revenues grew from USD 110 billion to USD 143 billion, an increase of 30%.

But, if we take a step back, we can see that the growth of Azure is again positive for the fight against climate change. Cloud computing is much more efficient than individual companies operating their own servers in data centres. Indeed, a 2018 study found that using the Azure cloud platform can be up to 93% more energy-efficient and up to 98% more carbon-efficient than on-premises solutions.[7]

All this leads to an important point. The GHG footprint of a company or a product can never be examined in isolation. It is always critical to ask: "What is that company or that product displacing and what are its emissions?"

In aggregate, Global Equity companies help reduce global emissions. Vestas estimates that the wind turbines it produced in 2021 will avoid 532 million tonnes of emissions over their lifetime. Every year Sika's admixtures save around 66 million tonnes of emissions. Trane Technologies equipment sold since 2019 (mainly heating, ventilation and air-conditioning equipment) has avoided 50 million tonnes of emissions.[8]

By way of comparison, the total Scope 1 and 2 emissions of the companies in the Global Equity portfolio in 2021 was around 35 million tonnes.[9]

We are committed to aligning the Global Equity portfolio with net-zero emissions by 2040. But we are measuring our progress not by linear reductions in emissions, but by Science Based Target coverage. The companies in which we invest on your behalf need to transition to net-zero emissions as soon as they can. But, in the meantime, the world desperately needs the emissions reductions their products and services facilitate.

[7] https://azure.microsoft.com/en-us/explore/global-infrastructure/sustainability#Carbon

[8] Avoided emission data taken from company disclosures.

[9] Where data was available, for 85% of the portfolio as at January 2023. Data from MSCI.

Portfolio metrics[10]

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) CO_2 equivalent/$m (revs)[11]	**62**	234
	Greenhouse gas – imputed cost (% of revenues)[11]	**0.6%**	1.4%
	Water & resource use – imputed cost (% of revenues)[11]	**0.5%**	1.3%
	Waste & pollution – imputed cost (% of revenues)[11]	**0.5%**	1.0%
	Average carbon-weighted disclosure percentage (Scope 1)[11]	**78%**	77%
	Percentage of companies in SBT initiative[12]	**65%**	39%
S	Human capital development score[13]	**6.1**	5.5
	Data security score[13]	**6.0**	5.7
	% of employees would recommend company to friend[14]	**76%**	73%
G	Firm tenure of executive team[15]	**14.3 years**	N/A
	Fewer than 10% shareholder votes against executive pay[13]	**64%**	74%
	Equal shareholder voting rights[13]	**95%**	89%
	CEO total pay less than 3x of median executive officer[13]	**69%**	73%
	Percentage of shares owned by executives[16]	**0.18%**	0.10%
	Female Board directors[13]	**33%**	32%
	Board not entrenched[13]	**72%**	80%
	All non-executive Board members on fewer than four Boards[13]	**36%**	57%
	Independent compensation committee[13]	**87%**	71%
	Independent Board[13]	**81%**	75%
	Independent chairman or lead non-executive director[13]	**90%**	72%
F	Three-year revenue growth (annualised)[16]	**18%**	12%
	Gross margin[16]	**55%**	50%
	Cash flow return on invested capital (CFROI)[17]	**11%**	8%

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

[10] As at 15 March 2023. This information may no longer be current. To the extent not sourced from Generation, it is from sources believed reliable. However, Generation does not represent that it is accurate or complete and it should not be relied upon. It should not be deemed representative of future characteristics for the Portfolio. For definitions of each metric, please refer to the Q1 2023 Global Equity Portfolio Review report.

[11] Trucost data.

[12] Generation analysis based on data from the Science Based Targets initiative and MSCI as at 15 March 2023.

[13] MSCI ESG data.

[14] Glassdoor data.

[15] Generation in-house analysis prepared in March 2023.

[16] CapIQ.

[17] 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.[18] 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.

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

In our 2023 Senior Partner Letter which we published in March, we put forward our thoughts on the state of sustainable investing and followed with an update on the firm. In the letter we detailed several encouraging developments over the past year that buoyed our hopes that the world is, at long last, getting serious about the net-zero and just transitions. Yet other developments continue to give us cause for worry.

FIRM AND TEAM UPDATE

We are pleased to note that Vikas Jain, currently co-portfolio manager for the Asia Equity strategy, has been invited to lead our consumer sector coverage in the Generation Global Equity Fund. We believe that Vikas will be a strong addition to the team. We have entered a period of transition in both the Asia and Global Consumer teams which we expect to complete in the next few months. We wish Vikas well in his new role.

As at 31 March 2023, the Generation team comprises 119 people and assets under management and supervision total approximately USD 42.7 billion.[19,20] The Just Climate team comprises 26 people.

Thank you for the trust you have placed in us.

Miguel Nogales,
co-CIO

Mark Ferguson,
co-CIO

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

[20] Assets under management as at 31 March 2023 are USD 32.1 billion and assets under supervision (AUS) as at 31 December 2022 are USD 10.6 billion. AUS form part of our Long-term Equity strategy and include assets where Generation sourced, structured and/or negotiated the investment and in relation to which it provides certain ongoing advisory services for a fee.

Important information

Please note that this communication is for informational purposes only and describes our investment strategies. It is not and does not constitute a solicitation of any financial product in any jurisdiction. It is not intended to be, nor should be construed or used as, an offer to sell, or solicitation of any offer to buy units or interests in any Fund managed by Generation. The information contained herein is not complete, and does not represent all holdings, or material information about an investment in the Global Equity Fund, including important disclosures and risk factors. It is intended for existing investors only. 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)207 534 4700).

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Notes to Metrics

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) CO2equivalent/$m (revs)	Weighted Average	Aggregate tonnes of carbon dioxide (CO2 equivalent) per $USDm revenue (not restricted to CO2, includes a basket of emissions).
Green house gas - imputed cost (% of revenues)	Weighted Average	Aggregate green house gas cost (to society) of direct and indirect emissions, based either on disclosed or modelled emissions. Calculated as a percentage of revenues.
Water & resource use - imputed cost (% revenues)	Weighted Average	Aggregate water and resource use cost, both direct and indirect, either disclosed or modelled. Calculated as a percentage of revenues.
Waste & pollution - imputed cost (% revenues)	Weighted Average	Aggregate waste and pollution cost, both direct and indirect, either disclosed or modelled. Calculated as a percentage of revenues.
Average carbon-weighted disclosure percentage (Scope 1)	Percentage	Scope 1 GHG emissions disclosed by portfolio companies as a percentage of total portfolio Scope 1 GHG emissions either estimated by Trucost or partially estimated and partially disclosed. For the calculation all emissions are expressed in terms of Trucost damage costs for the relevant GHGs.
Percentage Companies in SBT initiative	Percentage	Percentage of companies that have joined the Science Based Targets initiative. Please refer to the Science Based Target 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.