GENERATION INVESTMENT MANAGEMENT LLP

PILLAR 3 DISCLOSURE

YEAR-ENDED 31 DECEMBER 2021

PILLAR 3 DISCLOSURE

BACKGROUND

Following the implementation of the Alternative Investment Fund Managers Directive ("AIFMD"), Generation is designated as a Collective Portfolio Management Investment ("CPMI") Firm. The designation applies because, in addition to carrying out collective portfolio management of Alternative Investment Funds ("AIFs"), it provides certain additional services to its clients which fall within the European Union's Markets in Financial Instruments Directive ("MiFID").

The practical effect of this is that Generation's regulatory capital is calculated both with regard to the latest version of the Capital Requirements Directive and Regulation ("CRD IV") of the European Union and the AIFMD. In broad terms, Generation must maintain own funds equal to the higher of the capital requirements calculated under the two regimes. As explained more fully below, for the year ended 31 Dec 2021 this is the capital requirement established by CRD IV.

In the United Kingdom, for firms of Generation's type that do not hold client money or safeguard assets, CRD IV has been implemented by the Financial Conduct Authority ("FCA") in its regulations through the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

The GENPRU/BIPRU framework consists of three 'Pillars':

- Pillar I sets out the minimum capital amount that meets the Firm's credit, market and operational risk;
- Pillar II requires the Firm to assess whether its Pillar I capital is adequate to meet its risks; and
- Pillar III requires disclosure of specified information about the underlying risk management controls, capital position and remuneration arrangements.

Generation Investment Management LLP ("Generation") is an investment manager, authorised and regulated by the Financial Conduct Authority. Generation is categorised as a Full Scope UK CPMI Firm. It acts primarily as a discretionary investment manager and does not hold client money or client assets. Although, Generation is an AIFM and falls under the AIFMD Regime, it is also subject to CRD IV and the FCA's BIPRU Pillar I, Pillar II and Pillar III requirements outlined above by virtue of the additional MiFID activities it undertakes in managing portfolios for separate account clients. In practice this means that in addition to meeting its minimum Pillar I capital adequacy requirements, Generation is further required:

- To assess the adequacy of its capital to cover all the risks to which it is or may be exposed. The results of this analysis are included in the Firm's Internal Capital Adequacy Assessment [1]("ICAAP"), which is undertaken on at least an annual basis (Pillar II); and
- To publish certain details of its risks, capital and risk management process on an annual basis (Pillar III).

Disclosure of Generation's regulatory capital position and its risk management arrangements under Pillar III will be issued on an annual basis unless circumstances warrant a more frequent update.

[1] From 01 January 2022, this is replaced by the Internal Capital Adequacy and Risk Assessment ("ICARA")

RISK MANAGEMENT FRAMEWORK - OVERVIEW

Generation has established a governance framework designed to allow for investment management, business development, client relationships, operational control and risk management to be independently reviewed through a number of committees and oversight groups. A key element of the design of the Risk Management Function is to ensure functional and hierarchical separation between the portfolio management, investment teams and the control and compliance functional teams. The Management Committee has instructed the Risk Oversight Group ("ROG") to provide focused support, oversight and governance on risk matters. The ROG is the senior governance body specifically referenced by the Management Committee with the responsibility for ensuring there are suitable and adequate internal financial controls and risk management systems in place (including those required by AIFMD) and ensuring that Generation performs an assessment and evaluation of the risks facing the Firm and the control procedures to manage these risks.

On a quarterly basis the ROG receives a formal report from:

- the Chief Operating Officer;
- the Chief Finance Officer;
- the General Counsel and Compliance Oversight Officer;
- the US Compliance Officer;
- the Head of the People team;
- the Head of the Control team, including Risk Metrics;
- the Chief Technology Officer; and
- the Risk Manager.

The Risk Metrics report includes a data analysis of specific risks arising from a view of key business indicators. This may include but is not limited to changes in the number or composition of clients and AUM; portfolio performance; trade volumes and commission allocations; counterparty exposure; headcount changes; corporate governance targets; and AIFM Reporting. On a monthly basis, the ROG is provided with a summary of new and outstanding operational incidents.

In addition, Generation's Risk Matrix which contains analysis of the key risk areas identified by senior management, is reviewed on a regular basis by each business team to ensure it accurately captures current risks and their mitigating controls accurately.

Appropriate disaster recovery and business continuity plans are in place, regularly tested and are reviewed by senior management and the ROG.

Generation produces an annual report on its internal controls (ICAEW ISAE 3402), which is reviewed by independent external auditors, PwC. The report identifies the Key Control Objectives, the procedures that have been implemented to achieve these objectives and a review of the effectiveness of those procedures and whether they have been consistently applied. This is undertaken as at 30 June each year and is made available to Generation's clients upon request. Generation's senior management recognises the importance of external independent review to provide additional assurance that controls are adequate and being consistently applied.

KPMG are Generation's external auditor and Generation's corporate financial statements are subject to annual review. All historic financial statements and internal controls audits have received unqualified reports.

These arrangements have proved effective in the management of the Firm's exposure to risk during the execution of the investment management process. Since its inception the Firm has not suffered any material failing in its internal controls or experienced any significant breach related to inadequate processes or procedures designed to mitigate risk.

For the purposes of its ICAAP and as required by the CRD, Generation confines its risk assessment to the risks to which it is or believes reasonably that it might be exposed. However, Generation, in accordance with the requirements of the AIFMD, also has additional risk management arrangements in place designed to allow it to identify, assess and mitigate risks to the Alternative Investment Funds that it manages.

RESPONSIBILITY AND RISK MANAGEMENT FRAMEWORK

Generation has invested significant capital and resources in building its team, formalising the investment process, establishing the operational environment (including selecting outsourced services providers and negotiating service level agreements), implementing systems solutions and establishing control procedures. A fundamental part of identifying and understanding the key business risks was the development of the risk matrix.

The key sponsor in establishing the governance and control environment is the Senior Partner, who in conjunction with the Management Committee represents the Firm’s senior personnel. The senior personnel are supported by an executive committee structure, comprising – Operating Committee, Risk Oversight Group, Valuation Oversight Group, Remuneration Committee, and the Conflicts Committee.

The Risk Team comprising the Chief Risk Officer and the Risk Manager, is responsible for delivering the oversight of the Firm’s risk framework.

MC
- Governance and Oversight
- Approval process
- Guidance

ROG
- Review of Risk Register, Risk Statement, Risk Appetite
- Execution and delegation of ROG deliverables
- Recommendations

BUSINESS HEADS
- Providing expertise and resource to the risk management framework
- Identifying business risks
- Ownership of risk events within their team and identifying mitigating solutions
- Monitoring risks as part of BAU process

RISK TEAM
- Collaboration in creating and monitoring business risk register, vendor management practices, ICARA risk scenarios, System Access audits, internal control reviews and BCP.
- Capturing and analyzing risk data - internal risk assessments and ROG / External requests.
- Identifying risks and finding mitigating solutions with wider Generation team and/or external counsel
- Escalation of risks to business heads/risk owners, MC and ROG
- Assisting with monitoring risks within project/vendor onboarding phase, transition to business heads/risk owners for BAU process

EXTERNAL VENDORS
- Providing expertise and opinion
- Drawing on local knowledge / technical experience
- Recommendations

This is not an exhaustive list – please refer to the Risk statement for details of ROG duties

The Risk Manager is responsible for maintaining the risk matrix and ensuring the inventory incorporates the ICAAP framework, such as mapping the internal risk types to the GENPRU classifications and ensuring the appropriate Pillar II calculations reflect the internal risk scores, whilst it is the responsibility of the respective business units to identify the risks that they are subject to, and ensure they are represented within this risk matrix.

Procedures and controls have been put in place to manage these risks and continue to be enhanced to improve efficiency and effectiveness; the Key Control Objectives and control procedures are set out in the Firm’s annual report on Internal Controls and are regularly reviewed for effectiveness.

RISK IDENTIFICATION

All staff at Generation are responsible for managing risk in their day-to-day activities. In order to identify such risks, the Risk Manager, along with the Chief Risk Officer, reviews the risk register ("Risk Matrix") on a periodic basis with each business unit. The Risk Matrix review process is designed to:

1. Improve the transparency for the accountability of each risk event;
2. Ensure each risk event has sufficient information for any reader to assess the event;
3. Ensure consistency with applying the methodology of risk scoring for the Firm;
4. Categorise every item against a standardised risk taxonomy;
5. Determine the level of risk appetite for each individual risk event; and
6. Define a set of risk tolerance thresholds.

At least once a year a series of workshops is held with the head (or delegated team member) of each business unit, where the following assessment is conducted on the latest Risk Matrix:

- Review of the risk events to determine any new items and confirm existing items remain active. Where a risk event is no longer deemed active a business reason must be provided on why it can be removed and logged accordingly.
- Review of the latest risk score reflecting the current probability and impact (see below for definitions).
- Review of the RASCI model, to clearly identify the roles and responsibilities and ensure the accountable owner is relevant to the business unit in question,
- Validation from the business owner that the mitigating controls are up-to-date, along with any identified objectives that will either reduce risk, improve controls or enhance systems/processes associated with the risk event being reviewed.
- Review the level of risk appetite at the risk event level, along with identifying tolerance thresholds.
- Complete an assessment against agreed risk thresholds to determine current level of risk on a Red/Amber/Green rating.
- The Risk Team will carry out an independent assessment of the information provided during the workshops, and upon final review will seek sign-off of each risk event by the appropriate business unit owner.

RISK APPETITE

Generation's key operating objective is to provide sustainable, long term revenue streams. The Firm has established a conservative risk attitude throughout the organisation. Led from the top and through the staff hired, Generation has designed a business organisation, investment philosophy and strategy, and attracted the client base with a time horizon enabling the Firm to pursue its long-term mission.

Generation captures the level of risk appetite it is willing to take, within the risk register, at the individual risk event level. Risk appetite is defined as the amount of risk the Firm is willing to take, in order to pursue its business objectives. This is expressed on a 5-stage scale from Very Low through to Very High. Over 80% of the risks captured on the risk register designate a Very Low risk appetite, reflecting Generation's unwillingness to accept risk in areas that it believes may negatively impact the pursuit of its business strategy.

CORE RISKS

Generation's risk assessment has identified 160 risk items, which have been documented within the risk matrix accordingly. The primary risk categories Generation is exposed to are associated with Business Risks and Operational Risks. The Firm also recognises the effect that these risks can have on its reputation and recognises Reputational Risk as an Impact category, rather than a separate risk category.

Throughout the risk assessment, business units are accountable for ensuring that key controls have been put in place for each of the risks, applying an appropriate level of mitigation, along with determining the right level of training for their team members/the Firm.

REPUTATIONAL RISK

Generation is sensitive to the implications of actions that could negatively impact its reputation and business franchise. As Generation has become more successful and its "brand" has become globally recognizable, so have the risks of adverse publicity. Generation has implemented press monitoring procedures to help identify adverse press coverage and employs a PR firm to help manage communications with the media. All staff are made aware of the need to act with probity at all times and to be mindful of how their actions may be perceived by others.

Generation has a formal induction process in place for all new joiners, a key part of which focuses on culture, compliance and reputational risk. Generation's size, the governance structures and the quality of staff all help mitigate these risks.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational failures can have significant impacts to the Firm's reputation and cause subsequent financial losses. Generation recognises a number of sub-categories within Operational Risk, including Transaction Processing & Execution risk, Third Party risk, Data Management risk and Information Security (inc. Cyber) risks.

BUSINESS RISK

Business risk is any risk to the Firm arising from changes in the business, including:

(i) the acute risk to earnings posed by falling or volatile income;

(ii) the broader risk of the Firm's business model or strategy proving inappropriate due to macro-economic, geopolitical, industry, regulatory or other factors; and

(iii) the risk that the Firm may not be able to carry out its business plan and desired strategy.

Generation considers and assesses Business Risks within a number of sub-categories, including Legal & Regulatory risk, Investment Performance risk, Conduct risk and Business Strategy risk.

OTHER RISKS

Further to the primary risks described above, Generation is also exposed to Insurance Risk, Group Risk, Concentration Risk, Credit & Counterparty Risk, Liquidity Risk and Market Risk.

For the purposes of providing information on the Firm's insurance policy, description around Insurance Risk has been detailed below

INSURANCE RISK

Generation has taken professional insurance advice and as of 31 December 2021 has cover for Professional Indemnity of up to GBP 50 million, Directors and Officers insurance of GBP 50 million for Generation, general crime insurance of £10 million, Fidelity Bond cover for ERISA clients of USD 500,000 per plan and Public liability cover at GBP 10 million and Employer liability cover at GBP 20 million. In addition, Generation has arranged for Directors and Officers Liability cover of GBP 50million for Generation's own managed Funds.

Appropriateness of cover is reviewed annually when policies are renewed. In discussions with advisors, clients and underwriters, Generation believes the scope and level of insurance cover is suitable and appropriate for the type and scale of business conducted and associated risks.

NON-RELEVANT RISKS

As part of the risk identification process, Generation has reviewed its risk categories against those set out under GENPRU 1.2 and IFPRU 2.2, and has validated that the following risk categories do not apply to Generation:

Risk Category	Risk Description	Generation Conclusion
Residual risk	Residual risk means the risk that credit risk mitigation techniques used by the firm prove less effective than expected.	Generation does not perform credit risk mitigation techniques
Securitisation risk	Securitisation risk includes the risk that the capital resources held by a firm in respect of assets which it has securitised are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved.	Generation does not securitise any assets
Interest rate risk, including interest-rate risk in the non-trading book	Interest-rate risk in the non-trading book means: (a) risks related to the mismatch of re-pricing of assets and liabilities and off balance sheet short- and long-term positions (“re-pricing risk”); (b) risks arising from hedging exposure to one interest rate with exposure to a rate which re-prices under slightly different conditions (“basis risk”); (c) risk related to the uncertainties of occurrence of transactions, for example, when expected future transactions do not equal the actual transactions (“pipeline risk”); and (d) risks arising from consumers redeeming fixed rate products when market rates change (“optionality risk”).	Generation is not materially exposed to any interest rate risks
Risk of excessive leverage	Risk of excessive risk is the risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.	Generation is not leveraged and therefore not subject to this risk
Pension obligation risk	Pension obligation risk is the risk to a firm caused by its contractual or other liabilities to, or with respect to, a pension scheme (whether established for its employees or those of a related company or otherwise). It also means the risk that the firm will make payments or other contribution to, or with respect to, a pension scheme because of a moral obligation or because the firm considers that it needs to do so for some other reason.	Generation does not have any pension obligation exposure

CAPITAL RESOURCES

Generation is required to disclose certain information regarding its capital resources and its capital resource requirement. As stated earlier the capital resource requirement is the higher of the capital required under CRD IV contained in the FCA's GENPRU/BIPRU and that of the AIFMD included in the FCA's Interim Prudential sourcebook for Investment Businesses ("IPRUINV").

The capital resources of the business comprise Tier 1 capital after required deductions. The capital resources requirement is calculated as the total of Pillar I and Pillar II capital.

Generation's Pillar I CRD IV GENPRU/BIPRU capital requirement is the greatest of:

- a base capital requirement of €50,000;
- the sum of market and credit risk requirements; and
- the Fixed Overhead Requirement (FOR).

It is Generation's experience that its GENPRU/BIPRU capital requirement normally consists of the FOR, although from time to time the sum of its credit and market risk capital components exceeds this. Generation applies a standardised approach to credit risk, applying 8% to Generation's risk weighted exposure amounts, consisting mainly of management fees due but not paid, and bank balances.

Generation's Pillar I AIFMD IPRUINV capital requirement necessitates it to meet both an Own Funds and a Liquid Assets capital requirement.

The Own Funds capital requirement is based upon a combination of the funds under management capital requirement, which represents the higher of:

- its base own funds requirement of EUR 125,000 plus its funds under management requirement of 0.02% of relevant funds under management exceeding EUR 250m; and
- its own funds based upon fixed overhead (Article 97 of the EU Capital Requirements Directive) plus its professional negligence capital requirement of 0.01% of relevant funds under management.

In practice Generation's own funds capital requirement represents its own funds based upon fixed overhead which significantly exceeds its funds under management requirement.

For its Liquid Assets Capital requirement Generation is required to hold liquid assets which exceed its own funds based upon fixed overhead plus its professional negligence capital requirement of 0.01% of relevant funds under management. Liquid Capital represents assets that are readily convertible to cash within one month and have not been invested in speculative positions.

Pillar II capital is calculated by Generation as representing any additional capital to be maintained against any risks not adequately covered under the requirement in Pillar I as part of its ICAAP.

Having completed the capital assessment, Generation concludes that the capital resource requirement under Pillar II is greater than that of the Pillar I calculation. As a result, Generation recognises that the appropriate minimum required level of regulatory capital for the Firm is £10.5m, as determined by the Pillar II calculation.

The level of partner capital held within the business is considered ample cover for the principal risks that Generation face. With an Adjusted Regulatory Capital of £21.6m, Generation holds a surplus of £11.1m.

This conclusion is based upon a consideration of several determining factors: most notably the reduced fixed cost base of the Firm as a result of its LLP structure and the relative simplicity of Generation's business model.

As at 31 December 2021 Generation's audited regulatory capital position was:

OWN FUNDS TEST

Capital Items	£ '000
Total Tier 1 Capital After Deductions	21,593
Pillar I (Fixed Overhead Requirement)	9,798
Pillar II Requirements	10,480
Minimum Regulatory Capital Requirement	**10,480**
Capital in Excess of Requirements	11,113

LIQUID ASSETS TEST[2]

Capital Items	£ '000
Liquid Assets Held	129,591
Liquid Assets Requirement	9,659
Surplus of Liquid Assets	119,932

There is a surplus of reserves above the capital resource requirement deemed necessary to cover the risks identified.

[2] The Liquid Assets Test represents the FCA submission as of 31 December 2021. Given the submission takes place ahead of a finalised ICAAP, the Liquid Assets Requirements is determined by the FOR taken from the 31 December 2020 audited accounts.

REMUNERATION ARRANGEMENTS AND POLICY

Generation is required by the FCA to provide information on its remuneration arrangements. In its application of the rules to its Remuneration Policy, Generation has taken account of the FCA's AIFM remuneration principles proportionality rule. This permits application of the Remuneration Code in a way and to the extent that is appropriate to the Firm's size, internal organisation and the nature, scope and complexity of its activities.

The Committee comprises David Blood (the Senior Partner) as Chairperson, the Non-Executive Officer Douglas Paterson, Mark Ferguson (Co-CIO), Charlotte Worthington (the Chief Financial Officer) and Alina Manolache (Director of Human Resources). The Committee reports to the Management Committee ("MC") and presents recommendations for any action on matters it thinks appropriate in the execution of its duties.

Generation's remuneration arrangements represent a combination of salary, bonuses and long-term incentive schemes that are designed to ensure the sustainability of Generation and to align the interest of Generation and its employees and partners with those of its clients. Employee Incentive Benefit Plans have been established that invest solely in Generation Funds, thereby directly aligning the interests of Generation's partners and employees with those of its clients. Remuneration includes a variable discretionary component, based on Generation's profitability, individual performance, and product performance. Individual performance includes a consideration of financial and non-financial measures. Financial measures are generally reviewed over a multi-year time horizon.

Breakdown of Remuneration for the financial year ended 31 Dec 2021:

Breakdown of aggregate remuneration of staff in respect of whom disclosure is required by Business Area (i) and by Senior Management and Other Staff whose actions have a material impact on Generation's risk profile (ii)		
(i) Business Area		***Total Remuneration*** ***(£ '000)***
Investment Management		188,626
(ii) Senior Management ***(£ '000)***	***(ii) Other Staff (Material Impact)*** ***(£ '000)***	***Total*** ***(£ '000)***
111,905	68,148	180,053

Generation is a limited liability partnership; partners are entitled to a share of distributable profits according to their profit share percentages as set out in the Partnership Agreement and their Individual Terms. For the purposes of this disclosure remuneration for partners excludes these amounts.