

Generation Investment Management

# PAI Assessment Policy

2022

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## This document:

- sets out information on how Generation considers principal adverse impacts on sustainability factors and how Generation’s investment approach and due diligence policies take into account such impacts, for the purposes of Article 4 of the EU Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019) (**SFDR**) and associated Regulatory Technical Standards set out in the Commission Delegated Regulation of 6.4.2022 C(2022) 1931 final (RTS);
- supersedes any previous Generation document or statement that has set out information for the same purposes;
- applies to Generation Investment Management LLP and its subsidiaries Generation Investment Management US LLP and Just Climate LLP.

## Minimum PAI indicators

Where relevant and where data is available, Generation currently takes into account the minimum following indicators for adverse impacts on sustainability indicators (**‘PAI indicators’**) in the context of SFDR, both in the positive investment case for the selection of investments as well as in the application of the ‘do not significantly harm’ test to those investments which are categorised by Generation as sustainable investments for SFDR purposes. Where data is available, Generation also reviews these minimum PAI indicators during ongoing investment monitoring and portfolio management.

ADVERSE SUSTAINABILITY INDICATOR	METRIC	
<b>MANDATORY</b>		
<b>Greenhouse gas emissions</b>	1. GHG emissions	Scope 1 GHG emissions Scope 2 GHG emissions From 1 January 2023, Scope 3 GHG emissions Total GHG emissions
	2. Carbon footprint	Carbon footprint
	3. GHG intensity of investee companies	GHG intensity of investee companies
	4. Exposure to companies active in the fossil-fuel sector	Share of investments in companies active in the fossil-fuel sector
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector
<b>Biodiversity</b>	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas

ADVERSE SUSTAINABILITY INDICATOR		METRIC
<b>Water</b>	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
<b>Waste</b>	9. Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average
<b>Social and employee matters</b>	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
	13. Board gender diversity	Average ratio of female to male board members in investee companies
	14. Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons
<b>VOLUNTARY</b>		
<b>Emissions</b>	4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement
<b>Biodiversity</b>	14. Natural species and protected areas	1. Share of investments in investee companies whose operations affect threatened species
		2. Share of investments in investee companies without a biodiversity protection policy covering operational sites owned, leased, managed in, or adjacent to a protected area or an area of high biodiversity value outside protected areas
<b>Social and employee matters</b>	6. Insufficient whistle-blower protection	Share of investments in entities without policies on the protection of whistle-blowers
<b>Anti-corruption and anti-bribery</b>	15. Lack of anti-corruption and anti-bribery policies	Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption

These PAI indicators are taken into account alongside the broader suite of sustainability indicators and analysis that Generation uses in its investment, monitoring, reporting and engagement processes as set out in Generation's [Sustainability in the investment process](#).

## Methodology

Generation reviews a wide range of sustainability information that it has identified as material for its investments and operations, aligned with its commitment to the United Nations (UN)-backed Principles for Responsible Investment, the UN Global Compact, the Net Zero Asset Managers initiative, the Task Force on Climate-related Financial Disclosures and the UK Stewardship Code. In particular, the Net Zero Asset Managers initiative is aligned with Generation's commitment to the 1.5C-degree goal of the Paris Agreement.

The targets and actions to achieve Generation's sustainability goals are focused on environmental performance, governance and, in the social sphere, employee matters, respect for human rights, anti-corruption and anti-bribery matters.

The minimum PAI indicators that Generation commits to reviewing across all strategies, as noted above, has been informed by both (i) the mandatory nature of certain PAI analysis and reporting, as specified by SFDR and (ii) its assessment of the materiality of indicators to its investments and strategies. In particular, the voluntary PAI indicators chosen are based on Generation's view of the probability of occurrence and severity of those adverse impacts to Generation's wider social and environmental stakeholders and mission, as well as to the financial performance of the range of its investments.

Generation's investment teams may also choose to review additional PAI indicators, based on their judgment as to the materiality of such indicators to the stakeholders or financial performance of a specific investment or an investment fund/account.

Generation's investment teams assess individual PAI indicators by aggregating data from a range of sources, depending on the nature of the investment (in particular, whether the investment is privately held or publicly listed) and the datapoint in question. These sources may include: data provided by the individual company through a quarterly and/or annual monitoring survey conducted by Generation itself, data procured through credible third-party data providers (which may combine data provided by third parties and by the company itself), and publicly available data.

There remains a lack of relevant, comparable, reliable and publicly available data on companies in a number of areas covered by the minimum PAI indicators table above, which may introduce error into PAI datasets. This represents an impediment to a comprehensive and accurate assessment of PAI indicators. The assessment of PAI indicators is therefore expected to be dynamic and change over time as the data sources develop. Even where data is available, its impact and/or interpretation may be disputed. Furthermore, such data often relies on the efforts of third parties and interruptions or inaccuracies in that data supply will be beyond Generation's control.

## Responsibilities

Generation's investment teams are responsible for the implementation of this policy, including the assessment and review of the minimum PAI indicators above. As part of this assessment, Generation's investment teams are also responsible for implementing a systematic approach to data quality control, to reduce the risk of error and inaccuracies in data utilised in the investment process.

Generation's investment teams are also responsible for the decision to assess and review any further PAI indicators beyond the aforementioned minimum PAI indicators.

The Management Committee of Generation Investment Management is responsible for reviewing and approving this policy.

This Policy was approved by the Management Committee of Generation Investment Management LLP on 28 November 2022.

## IMPORTANT INFORMATION

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