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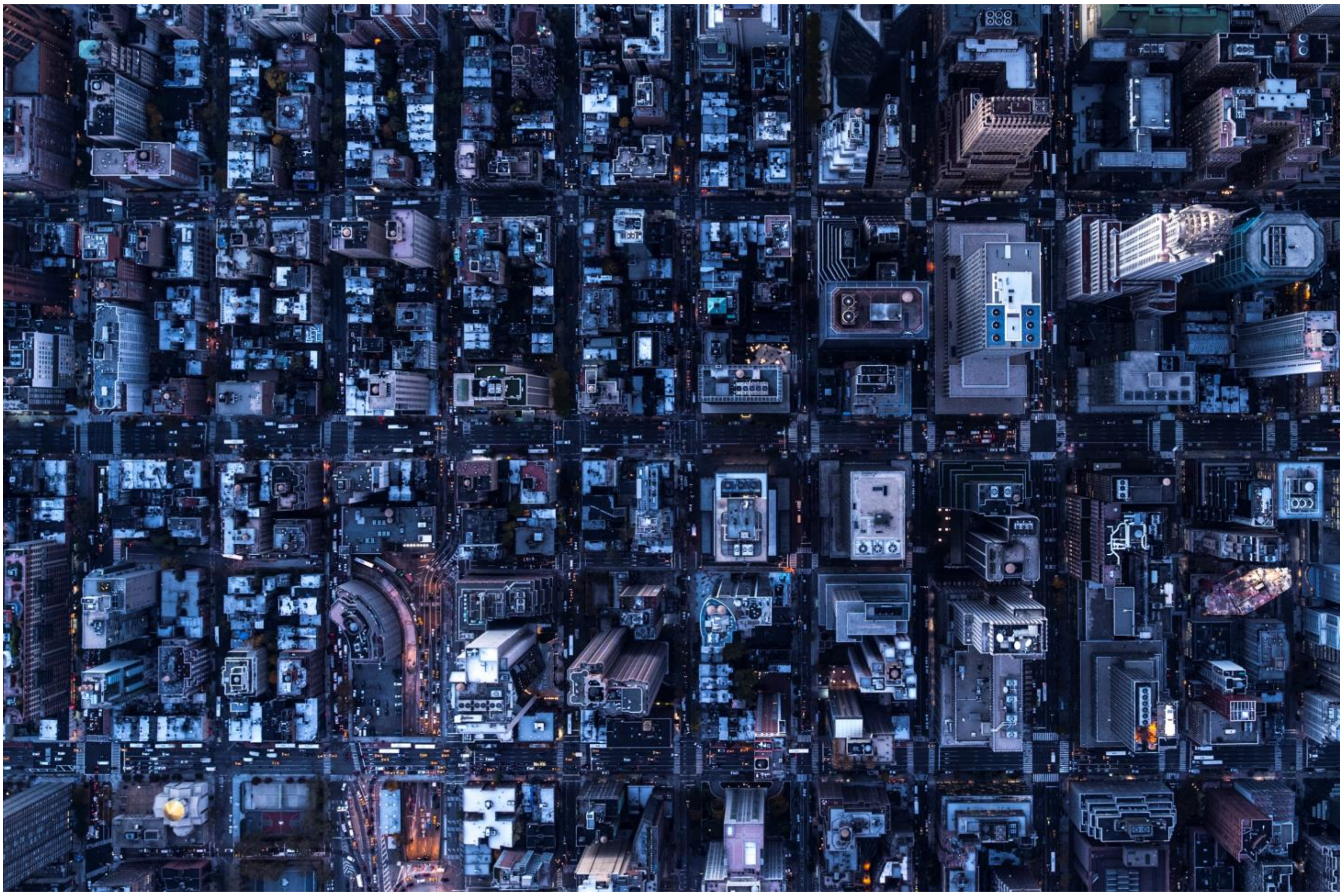
Generation Investment Management Global Equity Quarterly Investor Letter

July 2024



Dear fellow investors

In this quarterly letter we discuss our recent performance and reflect on rising power demands of Generative AI.

As co-Chief Investment Officers, our task is simple. We aim to buy great companies at the right prices. Companies in the portfolio must also push the world in a sustainable direction.

PERFORMANCE

Recent net performance is behind market averages. However since the fund's inception, we have spent only about 8% of the time underperforming on a rolling five-year basis.[1] We do not enjoy these spells. A number of different factors has contributed to the current period of underperformance. The fact that we do not own Nvidia is one. That single company accounted for roughly 25% of returns in the benchmark so far this year, meaning almost everyone who does not own Nvidia has lost out. Year-to-date, not owning Nvidia explains about a third of our relative underperformance.

Nvidia is, clearly, an earnings juggernaut. In the past year its revenue has more than tripled, as cloud companies load up on hardware to power AI models. So while its earnings multiple has increased, we are not seeing a repeat of the dotcom mania of the late 1990s. This company's valuation is backed by cold, hard cash.

And yet we believe Nvidia has some fragility that could impact it in the longer term. It is reliant on a small number of customers, who are now trying to develop alternative suppliers. Nvidia is itself trying to compete with cloud companies by offering some AI services. The early days of a boom usually benefit hardware companies, before software firms capture the real value. No one knows when the cloud companies will have had their fill of AI hardware, but when it happens it will take the industry by surprise. Finally, it's worth noting that Nvidia's name is derived from the Latin word *invidia*, which means 'envy.' Certainly, some investors are buying Nvidia purely because everybody else is. Retail investors are piling money into the stock, including highly levered bets on the company's future share price. Whilst we continue to closely follow Nvidia's journey, we believe there are smarter ways to gain exposure to the trend outside of this one company.

In the past year some of our holdings have detracted from returns. These include analytics company Clarivate and cloud communications firm Twilio. We have marked down the fair value of these holdings. For other 'detractors,' however, we believe that they are only temporarily out of favour with the market, and we have made little to no write-down to our fair value. These include healthcare company BD and wind turbine manufacturer Vestas.

Why are these companies temporarily out of favour? Think back to Nvidia once again. For every boom, there is a 'contraboom'– perhaps not the prettiest word, but a useful one. Put simply, investors may fund their purchase of Nvidia by selling other companies. In the short term, the portfolio is therefore hit on both sides: losing out relative to Nvidia and losing out as investors sell down other companies. Indeed, so far this year, the majority of the portfolio is underperforming the market.

But in the long term, there is a beauty to it. It means that we can deploy capital, picking up excellent assets at great prices. In aggregate, the portfolio currently has low debt and estimated annual earnings growth in the mid-teens over the coming years. Such rapid earnings growth is often consistent with double-digit returns.

The market has rewarded some of our portfolio companies, contributing to returns in the past year. Applied Materials, which makes equipment used in semiconductor manufacturing, is one such company. So is Amazon, which looks poised to benefit from

[1] Since the fund's inception in April 2005, we have reported net underperformance relative to our benchmark over a rolling five-year period in 14 months out of 171 months. This calculates to 8.2% of the available months from April 2010 through to June 2024.

the growing Generative AI ecosystem. Later in this letter we profile Nutanix, another significant contributor to returns in the past year. Nutanix is a cloud computing company that we believe nicely illustrates the patient and long-term nature of our investment process.

We will always iterate on our investment process to improve performance. One theme we are currently exploring can be summarised thus: “It’s OK to be wrong, but it’s not OK to stay wrong.” This gets at the idea that when we make investment mistakes, we need to recognise them and act quickly. Yet acknowledging errors is harder than it looks: our ancestors on the savannah have endowed us with plenty of behavioural biases, including ‘loss aversion.’ It can be hard to make an active decision to crystallise losses on an investment that you once believed would perform well.

We need to look critically at ourselves and acknowledge that in the past we have sometimes been slow to exit underperforming companies. To overcome these biases, we need to improve our use of guardrails, including stop losses.

We are also redoubling our focus on ‘compounders’ – companies that deliver sustainable and long-term growth. Revenue growth is all well and good, but what really matters is that a company creates a spread between its cost of capital and its return on capital. So, as investors, we look for companies with strong brands that offer products competitors find hard to replicate. We look for great management teams, whose members understand the difference between revenue maximisation and profit maximisation. These companies tend to deploy capital judiciously, reinvesting their earnings today to create more earnings tomorrow. That is the impact of compounding.

Over the long run, compounders have easily outperformed the market. Many companies in our portfolio are compounding at a high rate – a positive sign, in our view. We also note that for our portfolio as a whole, our internal measures of Business Quality (BQ) and Management Quality (MQ) are near all-time highs. But many sustainable compounders are currently out of favour with the market, which at present is more interested in ‘growth at all costs.’ We do not believe this can endure. Over the long term we believe our focus on deploying capital to the highest quality businesses should deliver.

POWER DEMAND OF GENERATIVE AI

As sustainable investors, we always apply a critical eye to new technologies. In recent months we have devoted our research attention to the energy requirements of Generative AI. Data centres, which provide the computing power and information for AI, need a lot of power – an awful lot, in fact. Data centres and data transmission networks are already responsible for 1–2% of global energy-related greenhouse gas emissions, up from 0.5% in 2000.[2]

Generative AI's hunger for power has increased disproportionately with its intelligence. According to one estimate, OpenAI's GPT-4 required 50 gigawatt hours (GWh) of electricity to train, much more than the 1.3 GWh needed for GPT-3.[3] And then AI requires even more power when it is put to use (so called 'inference'). Some of the latest trends worry us. Microsoft appears to be slipping in its ESG goals, with its greenhouse gas emissions rising again last year, as it invests in becoming a big player in AI. It is struggling in particular to curb its Scope 3 emissions in the capital goods category – nowhere more so than in the activity associated with the construction of data centres: both the embedded carbon in construction materials like steel and cement, as well as the emissions from the manufacturing of hardware components such as semiconductors, servers and racks. Google's emissions have risen by close to 50% in the past five years.[4]

We feel it is worth dwelling on Microsoft for a few moments, since we suspect you will be hearing a lot more about the relationship between AI and sustainability in the coming months. The bottom line is that we continue to see Microsoft as a sustainability leader. In the case of Scope 2 emissions, the company covers 100% of its electricity use with purchases of renewable energy. Crucially, though, the majority of this green energy is directly sourced via power purchase agreements, which bring new renewable capacity to the grid. Microsoft is also committed to operating 24/7 on renewable power by 2030, a policy that will help bring energy storage onto the grid as well.

As for Scope 3 emissions, Microsoft has been levying an internal carbon fee since 2020. But the company faces a big challenge: many of its capital goods are manufactured in Asia using power from grids dominated by fossil fuels. Microsoft recognises that it needs to be a 'system positive' actor on this. It is incorporating the need for accelerated deployment of renewables into its public policy activities in Asia.

Microsoft must keep driving forward, investing and innovating for net zero. We will remain in regular dialogue with the company about both its near-term science-based target for emissions reduction and its goal to be carbon-negative (through purchasing of carbon removal), both of which it hopes to achieve by 2030.

[2] https://www.economist.com/technology-quarterly/2024/01/29/data-centres-improved-greatly-in-energy-efficiency-as-they-grew-massively-larger

[3] See report here.

[4] https://www.ft.com/content/383719aa-df38-4ae3-ab0e-6279a897915e

What about other companies? There is an enormous range of estimates about the future total power demands of AI, as the technology becomes more widespread and even more powerful.[5] We are not qualified to comment on which estimate is most plausible, but in the past we have seen catastrophic predictions on future data centre power use, which have proven to be illusory. This is in part because data centres have become more efficient at converting energy to brainpower. In the past decade or so, internet traffic has grown 25-fold, yet power use from data centres has risen only slightly.[6] The rate of efficiency improvements may also have increased in the AI era. If these trends continue, AI's future power demands may not be so drastic, but we need to monitor the trends closely.

Another question is the source of the energy to power AI. One concern is that Generative AI runs off fossil fuels, raising carbon dioxide emissions just as the world needs to cut them more urgently than ever. Yet there are other possibilities. One potential solution is to locate a large amount of training and inference a long way from busy population centres, where there is plenty of renewable energy. It is, after all, a lot cheaper to carry data across long distances than it is to carry gas and electricity.

Internally, we have robust debates on whether the big cloud companies, which account for nearly 80% of global hyperscale data centre capacity, are truly interested in powering AI with renewable energy.[7] Some analysts point out that cloud companies may be taking renewables supply away from other companies. Others point out that they are adding additional supply, as well as guaranteeing future demand for it, allowing new energy systems to bed in.

We note the possibility – and we stress the word 'possibility' – that total global carbon emissions will decline in 2024, and then keep falling.[8] So any backsliding now would be a deeply regrettable development. Our message is clear: cloud companies need to be open with the world about the energy demands of Generative AI. They need to remain on track for their climate goals – and be honest when they are missing them. As sustainable investors, we will certainly hold them to account.

At a time of great uncertainty about the future, our research is our guiding light. There are great companies out there, doing great things. The world can be an uncertain and confusing place, especially today, but there is a lot to be optimistic about. We strongly believe that our approach will pay off.

The total assets under management for the Global Equity strategy as at 30 June 2024 are USD 27.1 billion.

[5] According to one recent paper, a superintelligent AI could require 1,000 to 1,000,000,000,000 (yes, a trillion) times the amount of power that the US currently produces in a year. See report here.

[6] Again, there are widely varying estimates here. The International Energy Agency recently suggested that data centre energy use (excluding crypto) rose by 20–70% from 2015 to 2022. See report here.

[7] https://www.economist.com/technology-quarterly/2024/01/29/data-centres-improved-greatly-in-energy-efficiency-as-they-grew-massively-larger

[8] https://climateanalytics.org/comment/will-2024-be-the-year-emissions-start-falling

In each quarterly letter we share examples from the portfolio that bring our investment process to life. This quarter we focus on Nutanix, a company that simplifies the management of data centres.

Company example

NUTANIX

Data centres have had a strange few years. Not long ago most people never gave them much thought – they seemed like little more than closets of flashing lights. Today, they are known the world over as the infrastructure that runs digital superintelligence. But we are interested in a more mundane side of the technology – one that is proliferating. It is called hyper converged infrastructure (HCI). HCI was developed 15 years ago by Nutanix, one of our portfolio companies. Nutanix illustrates well the patient and long-term nature of our investment process.

The central idea of HCI is to cut costs and complexity for customers by combining all bits of a data centre into a single offering. To oversimplify slightly, a data centre has three core functions: computing power, data storage and networks to tie them all together. Companies often use different vendors or solutions for each function, raising complexity. This is where Nutanix comes in. Its software blends these technologies together. Customers benefit from a single vendor and a single screen to manage all their digital infrastructure.

Getting the world to adopt HCI has been a bumpy ride, for two main reasons. First, the technology is still quite new and, to many organisations, unfamiliar. IT teams, like the rest of us, favour the status quo, making them resistant to change. Second, Nutanix underwent several transitions in short succession without the required planning or rigour. This made it hard for the company to demonstrate its true value to customers.

Nutanix cannot do much to change human nature, but in the late 2010s it flip-flopped on strategy. In quick succession, the company moved from selling hardware to selling software in 2018 and then shifted from software to a subscription-based model in 2019. At the same time, it took more of its sales in-house, after losing Dell as its biggest partner. This created a lot of turbulence and ultimately led to an entirely new management team. Rajiv Ramaswami, the current CEO, was appointed in 2020. Happily, the new team has more experience at running large complex software organisations.

We first built a position in 2019. Subsequently we saw the company halve and double in market value twice. We have mostly used that volatility to buy more of the company.

OUR INVESTMENT THESIS

Our investment thesis on Nutanix has three strands. First, we think their technology will become the standard for running on-premises data centres (i.e., those located within the company's facilities, rather than operated in the cloud). Second, Nutanix has the best solution for customers in a benign competitive environment. Third, its business model has become even more attractive over time. Let's take each in turn.

First, its technology. We have long believed that for all the talk of public cloud, on-premises technology is here to stay. To be sure, the public cloud has many advantages: it is easy to scale and it is extremely efficient. However, the drawbacks are clear. Renting is often more expensive than buying. Some firms like keeping their data local for reasons of performance and privacy. Nutanix has built technology that provides the benefits of public cloud with the control of on-premises.

Second, the market has long been a duopoly between Nutanix and VMware, an unusual structure for such a nascent technology. As the inventor of the category, Nutanix has 50% share, VMware takes 40% of the market and 10% goes to a long list of players. The conservative nature of IT teams described above makes life difficult for younger and riskier firms.

Third, in 2020 Nutanix had negative $600m of free cash flow (FCF) because the prior management had prioritised growth over efficiency. It does not take an expert to realise that this is rather unattractive. However, under its new CEO Nutanix has undertaken a series of operational improvements that have driven up margins. Since initiating our investment, revenues are up 80% and gross profit is up by 100%, while operating expenses are up by just 20%. As a result, the company is now sustainably FCF-positive.

SUSTAINABILITY

The two biggest bottlenecks in IT are people and power.

On people, companies the world over are struggling to find technical experts at the rate required by our digitising world. Most organisations struggle to compete with the technology giants for the best talent. The typical firm is left in a bind. Technology is becoming more important to their business, even as few of their staff can build or manage it.

On power, data centres currently consume 1–2% of global energy, and that is forecast to rise substantially because of AI as discussed above.[9] We desperately need solutions that can bring down the power intensity of computing to ensure corporate IT remains sustainable.

Nutanix addresses both by using high levels of automation. Through automation their infrastructure is simpler to manage. It therefore requires fewer people, often with less training. Through automation they simplify IT infrastructure: cutting the amount of space taken and consequently cutting the power used by 50%.[10]

LOOKING FORWARD

We mentioned earlier that VMware is Nutanix's primary competitor. Broadcom announced an intent to acquire VMware in 2022, with the deal completed in 2023.

To better understand how this would affect the competitive landscape for Nutanix, we conducted a proprietary survey of VMware's customer base. The survey tells us that there is widespread discontent, with most customers concerned about price rises, deteriorating customer support and a slower pace of innovation. These fears are well placed, we believe.

Nutanix stands to be one of the primary beneficiaries from this acquisition. For customers that have already adopted HCI, they are an easy choice to make. For customers that are currently using legacy approaches to infrastructure, the attractiveness of switching has never been greater.

Nutanix's management are playing the long game and investing behind their client relationships. We look forward to our continued partnership with the company.

[9] https://www.economist.com/technology-quarterly/2024/01/29/data-centres-improved-greatly-in-energy-efficiency-as-they-grew-massively-larger

[10] Nutanix.

Stewardship and engagement

This quarter is a busy time for reports and publications on stewardship and sustainability from Generation, so we want to flag the key items that we posted to our website recently.

In early May, we published our Stewardship Report 2023. This gives a full account of ESG integration, engagement and voting across Generation and Just Climate for the year, complete with statistics, case studies and full voting disclosure.

Later in May, we released an Insights piece on The Global Spread of Sustainability Disclosure. This draws attention to the global revolution in sustainability disclosure that is underway. Regulators across the world are developing rules that will compel businesses to report on an unprecedented array of sustainability issues. At Generation, we strongly support a global baseline of mandatory sustainability disclosure requirements.

Finally, at the end of June, we released our Climate and Nature Report & Transition Plan 2024. This document acts as our regulatory Taskforce on Climate-related Financial Disclosures (TCFD) report as well as our net-zero transition plan, in line with the guidance from the Glasgow Financial Alliance for Net Zero (GFANZ). This year, for the first time, we produced the document as a combined climate and nature report, as we start to act upon the recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD) as early adopters of the TNFD framework.

PROXY SEASON AND CLIMATE ACTION

Proxy season is now passing. This has been our second year of exercising votes against directors (typically the Chair) where companies have not yet committed to participate in the Science Based Targets initiative (SBTi). So far this year – through to the end of June – we have voted against directors at seven companies on climate grounds.

Typically in these circumstances, we engage with companies prior to their AGMs. When we had these pre-AGM meetings on climate disclosure and action, companies had progress to report. Nonetheless, we feel that it is important to maintain our votes against directors in the absence of a compelling reason to exercise discretion. In our experience, this communicates clearly to companies how seriously we regard their lack of externally validated emissions reduction targets aligned with the 1.5°C goal of the Paris Agreement. We are now nearly halfway through this decisive decade for climate action. Urgency is needed where companies have not yet set their course for the required emissions cuts.

We are pleased to report that as of June – as you will see in the ESG metrics later in the letter – the Global Equity portfolio has for the first time exceeded 60% portfolio coverage by validated science-based targets (SBTs). The Global Equity strategy is the first of Generation's strategies to achieve this milestone. But the firm seeks to drive to 60% SBT coverage across all assets under management and supervision by 2025, in line with our first interim target under the Net Zero Asset Managers initiative.

SBTI'S CARBON CREDITS CONTROVERSY

On the subject of SBTi, many of you will be aware that a significant controversy erupted at the organisation in April. The initiative's Board put out a statement which said that SBTi's corporate standards would be revised to allow companies to offset some of their Scope 3 emissions. This took many people by surprise – including, it seems, SBTi staff. Up until then, SBTi had taken a firm stance against the use of carbon credits for this purpose. Specific proposals for consultation are expected this month.

At Generation we are increasingly concerned by the extreme polarisation of views on the role of carbon credits in corporate net-zero commitments. We share the worries about the overall quality of credits available in the marketplace. We support the various initiatives now under way to tighten standards and verification protocols to ensure the money really does what it is meant to do and contributes to mitigation of the climate crisis in the short term.

At the same time, however, we are conscious that voluntary carbon credits have become a key funding mechanism for nature protection. When properly structured, they can reward communities that look after critical ecosystems for the benefit of the climate, nature and people.

In principle, therefore, we are supportive of the development of rules and guidelines that allow and encourage the flow of corporate money into the voluntary carbon market to cover the limited situations in which credits are the most realistic way for companies to tackle elements of their

Scope 3 emissions that are particularly hard to influence. Such permission to use credits in these narrowly prescribed circumstances would likely need to be time-limited. It must be clear that carbon credits are not the long-term solution for most types of emissions.

We know that this issue elicits passionate views, but our take is that it is not unequivocal. Carbon credits are not universally 'bad,' nor are they the answer to all the challenges that companies face. They are instead a tool for making a positive impact today when companies face insurmountable near-term obstacles to reducing some of their indirect emissions. In our view, this has its place.

It is abundantly clear that voluntary market initiatives can never fully substitute for the public policy on climate change we need. In the absence of a full suite of appropriate policy tools, SBTs are a powerful motivational tool for coordinated, ambitious climate action. Voluntary carbon markets are one mechanism for corporate action for net zero.

We will respond to SBTi's draft proposal when it is published. Please let us know if, in the meantime, you would like to exchange views on this delicate but important topic.

Portfolio metrics[11]

We provide select Environmental, Social and Governance (ESG) as well as Financial (F) 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 through which to view the portfolio and stimulate internal discussion.

As well as measuring the portfolio against a benchmark, we are starting to measure it against thresholds too. This is because the portfolio might beat its benchmark in one of the criteria below, but this still might not achieve what is needed for a truly sustainable society. For example: the portfolio has a lower gender pay gap score than the benchmark, but really we want the portfolio, and society more broadly, to move towards eliminating the gender pay gap completely. Therefore, in this situation, our threshold for success would be zero.

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	Portfolio	Benchmark	Threshold
Carbon intensity, Scopes 1 & 2 (tCO_2e/\$m)[12]	**22**	94	
Carbon intensity, Scopes 1–3 (tCO_2e/Eur m)[12]	**469**	783	
SBTi target validated (portfolio weight %)[13]	**65%**	42%	100%
SBTi committed but target not set (portfolio weight %)[13]	**7%**	9%	
Implied temperature rise (Scopes 1–3, degrees Celsius)[14]	**1.8**	2.4	1.5

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	Portfolio	Benchmark	Threshold
Percentage of employees would recommend the company to friend[15]	**70%**	71%	
Effective tax rate[16]	**20%**	22%	
Commitment to a living wage[17]	**31%**		100%
Gender – female Board % (weighted average)[18]	**32%**	34%	40–60%
Gender – female executives % (weighted average)[19]	**23%**	25%	40–60%
Gender pay gap (simple average)[20]	**14%**	18%	0%
Advanced total race/ethnicity score (weighted average)[21]	**49**	48	
Pay linked to diversity targets (simple average)[22]	**22%**	10%	

[11] As at 20 June 2024. 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 appendix.
[12] Source: MSCI, weighted average calculation.
[13] Generation analysis based on data from the Science Based Targets initiative.
[14] Source: MSCI. The methodology has been updated since the Q4 2023 investor letter was published and therefore the new numbers are not directly comparable to the prior ones that we have shown. We welcome the changes as reflecting the recommendations of the GFANZ report "Measuring Portfolio Alignment: Driving Enhancement, Convergence, and Adoption," published in November 2022.
[15] Source: Glassdoor. Benchmark data is as at 15 March 2024.
[16] Source: CapIQ. This metric is not shown as above or below benchmark, as one cannot deduce from the number alone whether a company's effective tax rate is a positive or negative; company profits are taxed in a range of jurisdictions with a range of tax rates and permissible deductions. For comparison, the global average Effective Average Tax Rate (EATR) published by the OECD in November 2023 was 20.2%. This was calculated on the basis of data for 2022 from 77 jurisdictions.
[17] Source: Denominator. Coverage is poor for this metric and not adequately representative of the benchmark, therefore no comparison is made.
[18] Source: Denominator.
[19] Source: Denominator. This is a Denominator calculated data point because there is no universally agreed definition of an 'executive' and therefore without a standard method one company's disclosure might represent something significantly different to another.
[20] Source: Denominator. This metric is a simple average of gender pay gap data disclosed by companies. Coverage is poor for the benchmark at 48%. Pay gaps are not measured in a consistent way. Some data points reflect all full-time employees at a company and others only reflect the workforce in jurisdictions where reporting on gender pay gaps is mandatory. Nonetheless, we think it is important to show the data available on this metric and we expect data quality to improve over time.
[21] Source: Denominator. This metric is a score out of 100 that measures the company's total performance on racial/ethnic diversity across the Board, executive and company as a whole. Comparison to background race/ethnicity is calibrated to the country of operations: a company with 100% Caucasian leadership in the US scores less than a company with same ratio in Denmark, due to the different race/ethnicity composition of the background population (higher % of Caucasian in Denmark).
[22] Source: MSCI.

G

	Portfolio	Benchmark
Percentage of shares owned by executives (median)[23]	0.19%	0.09%
Independent Board (weighted average)[24]	78%	81%
Independent chair or lead non-executive director (simple average)[24]	98%	74%
Board not entrenched (simple average)[24]	78%	82%
All non-executive Board members on no more than four public company Boards (simple average)[24]	92%	93%
Equal shareholder voting rights (simple average)[24]	95%	89%
Independent compensation committee (simple average)[24]	81%	72%
Companies with regular 'say on pay' votes (simple average)[24]	97%	81%
Fewer than 10% votes against executive pay (simple average)[24]	59%	71%
Pay linked to sustainability targets (simple average)[24]	59%	33%

F

Three-year revenue growth (weighted average)[23]	14%	16%
Gross margin (weighted average)[23]	54%	53%
Cash flow return on invested capital[25]	15%	9%

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

[23] Source: CapIQ.
[24] Source: MSCI.
[25] Source: Credit Suisse Holt.

The firm

Generation has ambitious impact initiatives in addition to our core investment work. We know that to bring about the transformative change required over this decade, we must also motivate others.

INSIGHTS SERIES

In June we published the latest in our Insights series on Why Healthcare is Unsustainably Expensive – and What We Can Do About It. In this paper, which draws on 20 years of the firm's thinking from healthcare roadmaps, we examine why achieving productivity growth in healthcare is especially hard.

We believe companies with sustainable business models, which offer solutions to creating a more equitable, efficient and effective society, are more likely to thrive in the long term. Within a healthcare context, we focus on investing on the supply side: on technological innovation, with the goal of reducing healthcare costs and cost disease, which in turn improves access and outcomes.

As at 30 June 2024, the Generation Investment Management team comprises 129 people and assets under management and supervision total approximately USD 44.3 billion.[26,27] The Just Climate team comprises 40 people and the Generation Foundation is four.

FIRM AND TEAM UPDATE

In November last year, we announced we had begun a transition in the portfolio management of our Global Equity strategy, from Miguel Nogales and Mark Ferguson to Miguel Nogales and Nick Kukrika. Nick has been an observer in Global Equity portfolio manager meetings since January 2023 and over this transition period has been taking on increasing responsibilities in the management and oversight of the strategy. We have been pleased with the progress made in the transition, and from 1 July 2024 Mark will be moving into the observer role with Miguel and Nick serving as active co-Portfolio Managers of the strategy. Mark will continue to work alongside them as an observer until the end of the transition period, which we anticipate will conclude by 1 January 2025.

After this time and as previously communicated, Mark will remain co-Chief Investment Officer of Generation alongside Miguel. As such, Mark and Miguel will continue to oversee Generation's investment teams and strategies across our public and private markets platforms.

Miguel Nogales,
co-CIO

Mark Ferguson,
co-CIO

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

[27] Assets under management as at 30 June 2024 are USD 33.8 billion. Please note that this includes Global Equity and Asia Equity strategy assets under management as at 30 June 2024 and Growth Equity strategy assets under management, Just Climate assets under management and Private Equity strategy assets under management and assets under supervision (AUS) as at 31 March 2024. Assets under supervision (AUS) are USD 10.5 billion as at 31 March 2024. AUS form part of our Private 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.

Appendix

Portfolio metrics: definitions

FACTOR	METRIC	SUMMARY DESCRIPTION
Carbon intensity, Scopes 1 & 2 (tCO_2e/$m)	Weighted average	Aggregate tonnes of GHG emissions (expressed as CO_2 equivalent) per USDm of company revenue.
Carbon intensity, Scopes 1–3 (tCO_2e/Eur m)	Weighted average	Aggregate tonnes of GHG emissions (expressed as CO_2 equivalent) relative to the company's most recent sales in million euro. Scope 3 emissions are estimated.
SBTi target validated (portfolio weight %)	Percentage	The percentage of companies in the portfolio with a validated science-based target.
SBTi committed but target not set (portfolio weight %)	Percentage	The percentage of companies in the portfolio that have committed to setting a science-based target with the Science Based Targets initiative but have not yet had their target validated.
Implied temperature rise (Scopes 1–3, degrees Celsius)	Degrees Celsius	A portfolio level number in degrees Celsius demonstrating how aligned the companies in the portfolio are to global temperature goals. This metric uses an aggregated budget approach: it compares the sum of 'owned' projected GHG emissions on a Scopes 1–3 basis against the sum of 'owned' carbon budgets for underlying holdings. Scope 3 emissions are estimated.
Percentage of employees would recommend company to friend	Average	Percentage of participating employees who would recommend the company to a friend. This metric may warrant caution where a small percentage of the workforce report.
Effective tax rate	Weighted average	The effective tax rate is calculated as the company income tax expense divided by earnings before interest and tax (EBIT) including unusual items. We show a three-year average for smoothing purposes and exclude significant outliers.
Commitment to a living wage	Percentage	The percentage of companies in the portfolio that have committed to a living wage. A living wage is defined by the Global Living Wage Coalition as the remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and their family. Elements of a decent standard of living include food, water, housing, education, healthcare, transportation, clothing and other essential needs including provision for unexpected events.
Gender – female Board	Weighted average	A weighted average calculation of the percentage of female Board directors on each of the Boards in the portfolio.
Gender – female executives	Weighted average	A weighted average calculation of the percentage of female executives at each of the companies in the portfolio. There is no standard definition of an executive and companies can define the executive level in many different ways. Denominator, our data provider, works to calculate the data point based on standard definitions.
Gender pay gap	Average	The average salary gender pay gap across companies that disclose this metric within the portfolio. Calculation methods can vary between companies and jurisdictions. Some data points reflect all full-time employees at a company and others only reflect the workforce in jurisdictions where reporting on gender pay gaps is mandatory. Nonetheless, we think it is important to show the data available on this metric and we expect data quality to improve over time.
Advanced total race/ethnicity score	Weighted average	This metric is a score out of 100 calculated by our data provider that measures the company's total performance on racial/ethnic diversity across the Board, executive and company as a whole. Comparison to background race/ethnicity is calibrated to the country of operations: a company with 100% Caucasian leadership in the US scores less than a company with same ratio in Denmark, due to the different race/ethnicity composition of the background population (higher % of Caucasian in Denmark).
Pay linked to diversity targets	Percentage	The percentage of companies where there is evidence of a commitment to linking executive pay to diversity and inclusion targets. The metric is calculated as: number of companies where evidence exists divided by the total number of companies in the portfolio.
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.

FACTOR	METRIC	SUMMARY DESCRIPTION
Independent Board	Weighted average	Board independence is inferred by MSCI. The following categories of director are not regarded as independent: current and 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 have provided services to a senior executive or the company within the last three years. The compensation of a non-executive chair must not be excessive in comparison to that of other non-executives and must be less than half that of the named executives. Where information is insufficient, the director is assumed to be non-independent. For the Board to be classified as independent, a majority of the Board members must be classified as independent.
Independent chairman or lead non-executive director	Percentage	Percentage of companies that have an independent chair or, where the chair is not independent, an independent lead director.
Board not entrenched	Percentage	Percentage of companies without an entrenched Board. Board entrenchment is inferred by MSCI using a range of criteria including: >35% Board tenure of >15 years, five or more directors with tenure of >15 years, five or more directors >70 years old.
All non-executive Board members on no more than four public company Boards	Percentage	Percentage of companies with no over-boarded non-executives. The threshold is where a Board member serves on five or more public company Boards.
Equal shareholder voting rights	Percentage	Percentage of companies that have equal voting rights.
Independent compensation committee	Percentage	Percentage of companies with independent compensation committee. Please see above for the independence criteria used.
Companies with a regular 'say on pay' vote	Percentage	The percentage of companies in the portfolio that have a policy in place to ensure that a firm's shareholders have the right to vote on the remuneration of executives on a regular basis.
Fewer than 10% shareholder votes against executive pay	Percentage	Percentage of companies that received less than 10% shareholder votes against executive pay at the most recently reported annual shareholder meeting. Only applies to companies that have a 'say on pay' vote.
Pay linked to sustainability targets	Percentage	The percentage of companies where executive remuneration is linked to sustainability targets. This metric is based on the company's own reporting. It considers whether one or more sustainability metrics are used to determine annual and/or long-term incentive pay and does not consider the effectiveness of those metrics.
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.

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GENERATION INVESTMENT MANAGEMENT LLP
20 Air Street, London W1B 5AN, United Kingdom
Esther Gilmore
Tel: +44 207 534 4727
esther.gilmore@generationim.com

GENERATION INVESTMENT MANAGEMENT U.S. LLP
555 Mission Street, Suite 3400, San Francisco, CA 94105
United States
Michelle Huang
Tel: +1 415 619 3276
michelle.huang@generationim.com