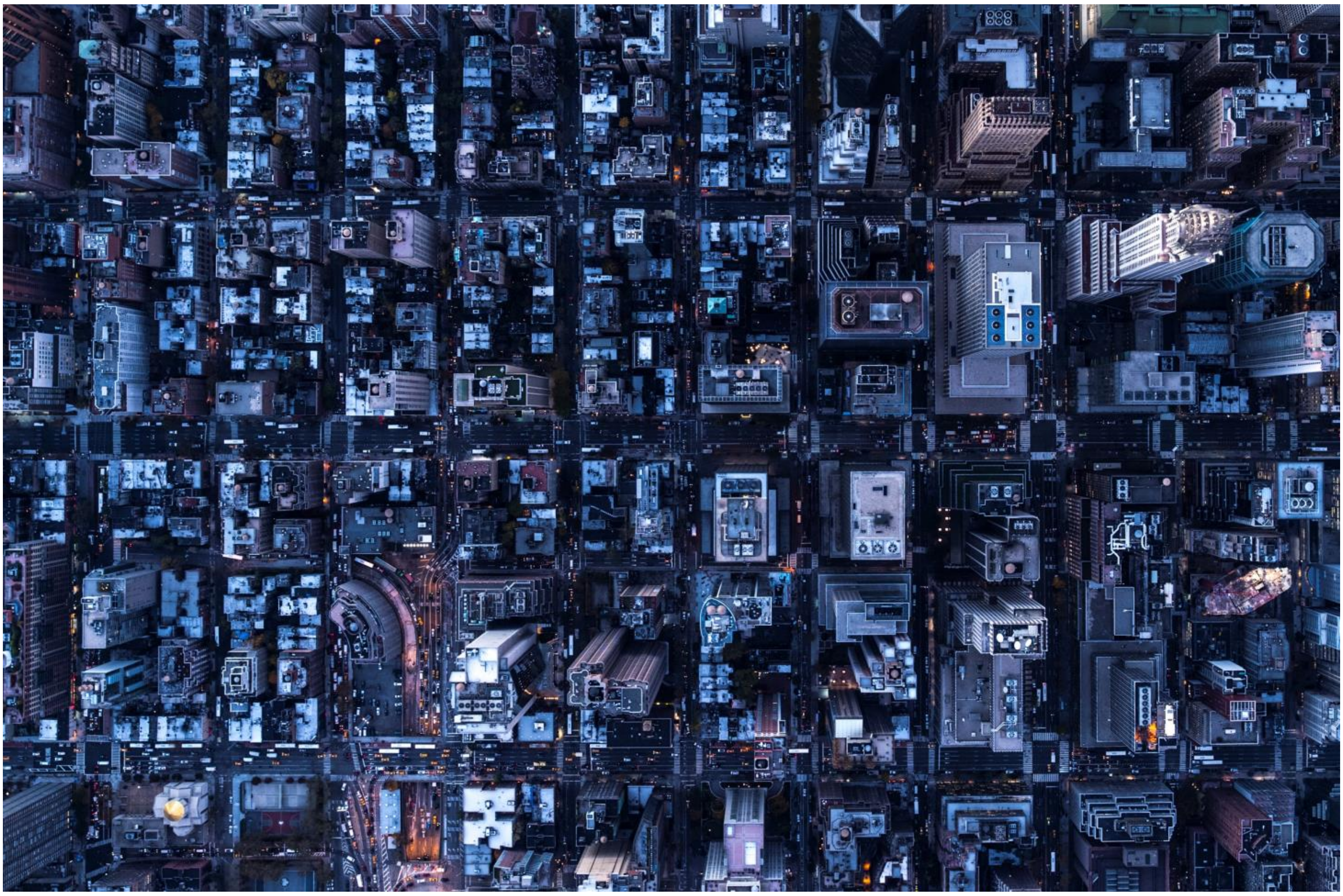
Generation Investment Management Global Equity Quarterly Investor Letter

April 2025



Dear fellow investors

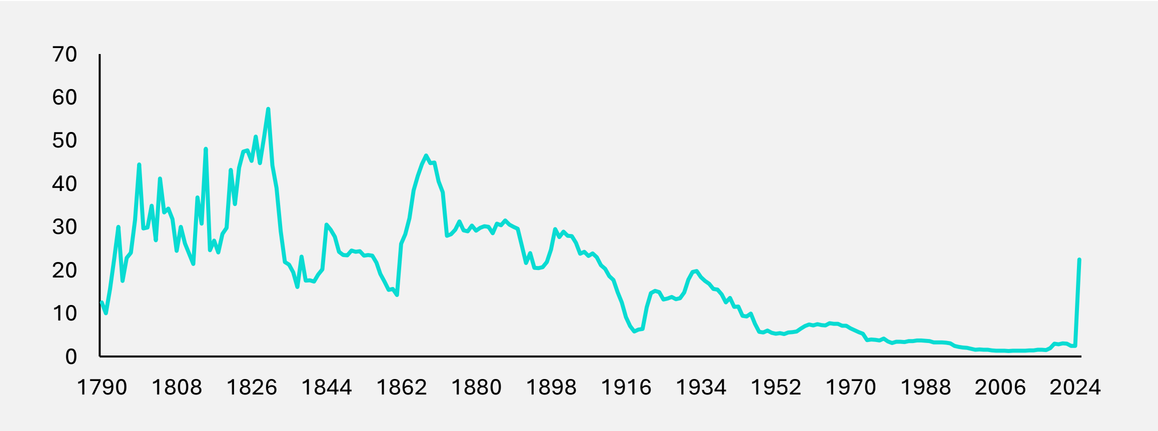
In this quarterly letter, we reflect on market turbulence, assess the impact of rising global trade tensions and reaffirm our long-term strategy focused on resilient, high-quality companies.

The world is, to put it mildly, in flux. Politicians in many countries are thinking about how to respond to the actions of the new administration in Washington, D.C. The tariffs announced on 2 April went far beyond our expectations of their scope and severity – indeed beyond the expectations of almost everyone in the market. The 9 April announcement of a 90-day pause on some tariffs may provide only temporary relief. Our immediate task is to consider how the companies in our portfolio will deal with this unprecedented shock to the global trading system.

IMPACT OF TARIFFS

The changes are much more radical than those under the first Trump administration. Back then tariffs were focused largely on China. In response, many companies relocated production or rerouted goods through other Asian countries (especially Vietnam, but also Thailand and India), allowing them to skirt the tariffs. This time there are few, if any, escape valves. Vietnam, for instance, now faces a 'reciprocal tariff' on its exports to the US of 46%, one of the highest rates of any country. As a back-of-the-envelope calculation, Asia faces an average reciprocal tariff of 30%, compared with Europe's 20%. The effective rate the US must pay on imports could shoot up, as the chart below demonstrates.

US EFFECTIVE TARIFF RATE IF RECRIPROCAL TARIFFS ARE FULLY IMPLEMENTED (%)



Source: The Budget Lab at Yale University.

At this stage, we cannot predict the full effects of the tariffs. It is quite possible the administration will implement further carve-outs that soften the effects. We can say with more certainty, though, that we believe our portfolio is well prepared for what is to come. Since at least 2018, at the start of the Trump administration's first trade war, we have analysed the potential impact of large-scale US tariffs. We have focused on sectors heavily exposed to traded goods – particularly industrials, consumer discretionary and manufacturing-focused healthcare. We have assessed the implications for cost of goods sold (COGS), then moved to examine how companies might respond. Specifically, we have looked at their ability to pass on cost increases versus squeezing their margins – and how quickly they can do this. In short: pricing power.

From there, we have tackled the more complex issue of the extent to which consumer demand may be destroyed or deferred – both of which are likely outcomes when prices rise. This part of the analysis depends heavily on where we are in different economic cycles. These cycles are not synchronised. For instance, the European residential cycle is not in the same place as the US one. We have therefore been working to track the cycles individually.

Ultimately, our goal is to identify companies with two key traits. First, they must have a strong value proposition from the outset. Second, they must have some form of market power. If a company ticks both boxes, they should be able to pass on higher costs while minimising demand destruction.

It is also important to be clear about what we do *not* do. When a crisis strikes, it is tempting to retreat to defensive assets. During a trade war these include many companies involved in the provision of non-tradable services, such as utilities and certain consumer staples. Yet firms in non-tradable sectors tend to be mature and highly capital-intensive. They tend not to compound earnings over many years. We generally have a bias against them, and seek to find capital-light companies with a great value proposition targeting large markets.

We believe we are currently in a great environment for investing. At present the markets are driven by fear, responding quickly to the latest news development. People's time horizons have compressed. Asset prices are highly correlated. At the time of writing, we are active in the market, buying companies with strong long-term prospects that have derated.

MARKET ROTATION

The effects of the trade war go beyond short-term moves in market averages. The new administration has also overturned the market narrative of 2024. Last year there was a momentum market. Many stocks appreciated in value because they had appreciated in value: price rises fed on themselves. The market favoured companies with strong projected earnings growth over the next year, or even the next quarter, especially those involved in artificial intelligence. While the S&P 500 rose by 23% in 2024, the stocks with the strongest 12-month momentum were up by 58%.[1]

Now the momentum market appears to have come to a halt. Investors have looked more soberly upon many of the companies that had until recently driven returns. In 2025 these stocks have proven vulnerable to bad news. Consider the emergence of DeepSeek, a Chinese AI competitor. Anyone grounded in AI was aware of the model, and its capabilities, in 2024. Yet the release of the DeepSeek chatbot in January 2025 took many investors by surprise, sending the prices of many hot AI companies sharply lower. The episode reveals an important truth about the market in 2024: it projected an image of strength, yet beneath the surface it was surprisingly fragile.

There has been another important market development in 2025. It concerns the relative strength of the US market. By the end of 2024 many investors were convinced US outperformance had become almost a law of nature, meaning earnings and returns would compound in the US's favour for years to come. We thought this was complacent. As we wrote to you in our final letter of 2024, the US companies that we track had become expensive relative to similar companies in non-US markets. By the end of the year our portfolio was highly exposed to Europe.

[1] https://www.morganstanley.com/ideas/stock-market-rising-momentum

So far this year, ex-US markets have easily outperformed the US. The new administration in Washington is, so far, hurting not helping America. There could be more damage to come. We worry about cuts to the funding of the National Institutes of Health, the lifeblood of many scientific discoveries. We are not economists, but we hear growing worries about a US recession. Many of the new administration's policies are not only damaging in themselves, but also raise uncertainty, which has its own negative effects. On the other side, Europe (and in particular Germany) has developed a taste for infrastructure investment, not only in the military but also in the green transition.

We believe our portfolio is in a strong position, both in 2025 and in the years to come. As always, we are alive to the fact that many of the recent trends discussed in this letter could themselves reverse. We are aware that a global recession, widely predicted in 2023, may eventually come to pass – when America sneezes, after all, the world catches a cold. But we still think there are pockets of attractive valuation, especially outside the US.

We have taken steps to insulate our portfolio from the most acute forms of economic and geopolitical risk. This included trimming exposure to regions where valuations have run ahead of fundamentals and rotating into assets with more resilient cash-flow profiles. We are not trying to time the cycle – we are trying to prepare for it. Above all, we remain focused on assets we believe can compound through periods of volatility as well as in benign conditions. In an uncertain world, we are grateful for the longer time horizon our clients afford us. If the US confirms its entry into a bear market, it will be the sixth in our careers. We will use this upheaval, as we have done in prior periods of market turmoil, to continue to build a portfolio of high-quality companies that have derated and, we believe, will deliver excess returns over the next two decades.

Thank you for the trust you have placed in us.

The total assets under management for the Global Equity strategy as at 31 March 2025 are USD 22.3 billion.

In each quarterly letter we share examples from the portfolio that bring our investment process to life. This quarter we focus on healthcare tools company Agilent Technologies.

Company example

At Generation, we believe that we are living through the age of biology. Our understanding of biological processes – and our ability to tweak them for the benefit of humanity – is improving rapidly. Medicine, and biology in general, is often considered the 'youngest science.' Agilent, an American company in the portfolio, is the latest company that backs this trend.

To uncover biology's secrets, researchers need tools to ask the right questions, develop plausible hypotheses and then run the right experiments. These tools include instruments that can measure at scales previously considered impossible. A development in one domain can often lead to developments in another. For instance, a technique for detecting a chemical can find application in a pharmaceutical lab (e.g., to detect active pharmaceutical ingredients) or in regulation (e.g., to detect contamination in food) or even forensics. These positive 'spillovers' can have large positive sustainability effects.

The ecosystem of companies that provide these research tools is fertile hunting ground for Generation. We currently own four such businesses. The newest investment in this bucket is Agilent.

OUR INVESTMENT THESIS

Agilent began as part of Hewlett-Packard. It developed instruments that came to be routinely used across chemicals, electronics manufacturing and food testing. Agilent was spun off as an independent company in 1999. Eventually, it also split off its electronic testing and measurement business, allowing it to focus on its life sciences business.

The company today has a leading market position in different analytical instruments. The most important of these include gas and liquid chromatography as well as mass spectrometry. Researchers in many areas use these instruments, with the most important ones being pharmaceuticals, chemical and advanced materials, and several 'applied' end-markets covering food and water testing.

Agilent today has one of the largest installed bases of instruments across a highly diversified, global base of customers. This is an enviable starting position. Customers, if treated well, typically tend to stay with their incumbent vendor, creating a steady source of demand. Customers also demand additional services and consumables that allow them to use their instruments most efficiently.

Here it gets a little more complex. When customers face economic uncertainty they can prolong their use of older instruments. In the short run, this can hit revenues.

In the last couple of years, Agilent has experienced a deferral of this 'replacement cycle.' Pharmaceutical customers have faced pressure to rein in spending due to a variety of factors including a greater focus on efficiency with inflation and higher interest rates. Smaller biotech customers, which are highly reliant on external capital, felt these pressures acutely. So did customers in China, where the nascent biopharma industry has been under pressure after a period of heady growth in the early 2020s.

This created a challenging backdrop for Agilent, with revenues declining 5% last year driven by a sharp drop in instrument revenues. But a weak share price also provided the perfect entry point for Generation as a long-term investor.

Our investment case on Agilent is underpinned by three beliefs:

1. **Eventual recovery in instruments.** To the extent that instrument purchases can be deferred but not delayed indefinitely, customers must purchase new instruments at some point. This will kickstart a new replacement cycle. Indeed we may be seeing the first signs of an inflection in demand for instruments. Given the company's market position, we remain confident in its ability to capitalise on this upcycle.
2. **Resilient recurring sources of revenues.** To make the business more resilient through down cycles, Agilent has reduced its exposure to instruments (down from 45% of revenues ten years ago to 36% today) while increasing its recurring sources of revenues, namely consumables, services and software. We believe there is room to further increase the 'attach' rate of these recurring revenues over time (meaning customers' revenue that stays with the business).
3. **New growth drivers.** Additional sources of demand are emerging. On the one hand, there is growing demand for GLP-1 testing as more pharmaceutical companies try to emulate the successes of Novo Nordisk and Eli Lilly. On the other hand, the sustainability transition is creating new testing needs, including battery testing with the rising penetration of electric vehicles. Furthermore, Agilent also occupies a niche position as the manufacturing partner to pharmaceutical companies developing an emerging class of medicines called RNA-based therapies that have promising commercial potential.

Every investment case comes with risks. In the case of Agilent, we are carefully watching collateral damage from ongoing geopolitical uncertainty – i.e., the negative impact of tariffs and reduced governmental support for academic research in the US. As a global company, Agilent will not be immune from these risks. Nonetheless, we maintain that the strength of the business will allow it to weather these storms.

SUSTAINABILITY

We rank Agilent highly on sustainability. The company's solutions, by their very nature, advance science. That mission also resonates with the company's operations. Agilent conducts a comprehensive materiality assessment regarding the key sustainability risks facing the company. The company has a net-zero emission target by 2050 with firmwide interim science-based targets of reducing Scope 1 and 2 emissions by 50% and Scope 3 emissions by 30% by 2030. The company also fares well on diversity, with a minimum 30% representation of women across all levels of the organisation, including senior leadership roles. We look forward to engaging with the company on its sustainability initiatives and supporting it on its journey.

Stewardship and engagement

The first quarter of 2025 has seen a series of negative developments without precedent in the history of sustainable investing.

INDUSTRY ROLLBACK

Given our mission and long-standing commitment to sustainability, we were disheartened by the abrupt reversal in direction by many industry participants at the start of 2025.

The retreat started with the Glasgow Financial Alliance for Net Zero (GFANZ) announcing that it was restructuring. GFANZ said that it had severed its connections with the net-zero alliances for investors, banks and service providers. Indeed, it would no longer require its members to maintain net-zero commitments. Its new role was to address barriers to mobilising capital for the transition, especially in emerging markets and developing countries.

Within a week, the Net-Zero Banking Alliance had lost all the major US banks as members. Two days later BlackRock left the Net Zero Asset Managers initiative (NZAM). Before 2025 was two weeks old, with US signatories under intense political pressure, NZAM announced it was suspending activities to track signatory implementation and reporting, and launching a review. Notwithstanding the review, Northern Trust Asset Management and J.P. Morgan Asset Management followed BlackRock in exiting the initiative before the end of the quarter.

Northern Trust Asset Management also left Climate Action 100+, leaving the exodus of major US asset managers from the global Paris-aligned engagement initiative almost complete.

This retreat was not limited to climate. In corporate America, there has been a visible pullback from equity, diversity and inclusion (EDI) efforts. Rollbacks have been reported by Amazon, Google and Meta, amongst others. The financial sector similarly disappointed. Proxy advisor ISS announced it would no longer recommend votes against management at US companies on account of insufficient gender or racial/ethnic diversity on Boards. Large US asset managers appear equally to have dropped their proxy voting rules relating to Board diversity.

These are serious setbacks at a time when progress on sustainability has never been more urgent. But they are not the full story – and they do not alter our direction.

NOT GAME OVER FOR SUSTAINABILITY

Generation's vision is a sustainable world in which prosperity is shared broadly, in a society that achieves wellbeing for all, protects nature and preserves a habitable climate. We believe wholeheartedly that climate change, nature loss and inequality are financial issues that shape long-term outcomes. We founded Generation to demonstrate that sustainable investing is not only responsible – it's essential to delivering long-term financial performance.

We reiterate our conviction that long-term, sustainable investing is best practice. We would ask you, our clients, to bear in mind three points:

1. **Generation's commitments as a firm are unchanged.** On net zero, we remain signatories of NZAM. We are still on course to meet our target for 60% of the firm's AUM to be covered by science-based targets this year.
2. **Engagement in Global Equity proceeds unchanged.** We continue to deploy our longstanding engagement frameworks across climate, deforestation and EDI. We are watching closely for companies retreating from prior commitments and activities. If anything, we expect our engagement and our portfolio companies' approaches to sustainability to be sharpened by this testing period. We, and management, must know and make the financial case for sustainability better than ever before.
3. **Always look beneath the headlines.** While companies in the US are changing their communications, businesses know that sustainability still matters for performance. Drill down beneath the headlines, and you will see that decarbonisation and diversity and inclusion efforts continue.

Setbacks for sustainable investing have happened before, and they will doubtless happen again. Each time sustainable investing comes back stronger and better. As our Chairman Al Gore and Senior Partner David Blood wrote in an opinion piece in *The Wall Street Journal*, "When something is unsustainable, it eventually stops."

"The transition is inevitable," they noted at the conclusion of the article. "There's a need for high-ambition investors to stand firm in their commitment to a sustainable economy and society. Please join us."

Portfolio metrics[2]

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 our portfolio and the 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 measure it against thresholds too. This is because our 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: our 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)[3]	23	95	
Carbon intensity, Scopes 1–3 (tCO_2e/Eur m)[3]	457	832	
SBTi target validated (portfolio weight %)[4]	64%	46%	100%
SBTi committed but target not set (portfolio weight %)[4]	11%	12%	
Implied temperature rise (Scopes 1–3, degrees Celsius)[5]	1.8	2.4	1.5

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	Portfolio	Benchmark	Threshold
Percentage of employees would recommend the company to friend[6]	76%	65%	
Effective tax rate[7]	19%	23%	
Commitment to a living wage[8]	40%		100%
Gender – female Board % (weighted average)[9]	34%	36%	40–60%
Gender – female executives % (weighted average)[10]	24%	26%	40–60%
Gender pay gap (simple average)[11]	14%	19%	0%
Advanced total race/ethnicity score (weighted average)[12]	67	67	
Pay linked to diversity targets (simple average)[13]	12%	11%	

[2] As at 20 March 2025. 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.
[3] Source: MSCI, weighted average calculation.
[4] Generation analysis based on data from the Science Based Targets initiative.
[5] Source: MSCI.
[6] Source: Glassdoor. This data is as at 2 December 2024 due to data unavailability this quarter.
[7] 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 July 2024 was 20.2%. This was calculated on the basis of data for 2023 from 90 jurisdictions.
[8] Source: Denominator. Coverage is poor for this metric and not adequately representative of the benchmark, therefore no comparison is made.
[9] Source: Denominator.
[10] 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.
[11] Source: Denominator. This metric is a simple average of gender pay gap data disclosed by companies. We would note that coverage is poor for this metric. 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.
[12] Source: Denominator. This metric is a score out of 100 that measures the company's total performance on racial/ethnic diversity across the Board, executives 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).
[13] Source: MSCI.

G

	Portfolio	Benchmark
Percentage of shares owned by executives (median)[14]	**0.18%**	0.09%
Independent Board (weighted average)[15]	**79%**	81%
Independent chair or lead non-executive director (simple average)[15]	**88%**	76%
Board not entrenched (simple average)[15]	**77%**	81%
All non-executive Board members on no more than four public company Boards (simple average)[15]	**97%**	95%
Equal shareholder voting rights (simple average)[15]	**90%**	88%
Independent compensation committee (simple average)[15]	**77%**	73%
Companies with regular 'say on pay' votes (simple average)[15]	**97%**	82%
Fewer than 10% votes against executive pay (simple average)[15]	**67%**	75%
Pay linked to sustainability targets (simple average)[15]	**62%**	29%

F

Three-year revenue growth (weighted average)[14]	**11%**	11%
Gross margin (weighted average)[14]	**61%**	54%
Cash flow return on invested capital[16]	**16%**	9%

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

[14] Source: CapIQ.
[15] Source: MSCI.
[16] Source: UBS 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.

SENIOR PARTNER LETTER

We recently released the firm's Senior Partner Letter 2025. Each year in our letter, we take stock of the sustainable investing landscape, and you will not be surprised to learn we find this year's collective outlook to be very concerning. Our society's deepening climate, nature and inequality challenges are profound, yet efforts to address them are frequently being subverted.

In an opinion piece published by *The Wall Street Journal* in March, our Chairman Al Gore and Senior Partner David Blood sought to call out the challenges as we see them and offer a way forward. You will find their thoughts also in our Senior Partner Letter:

1. Many across the financial services sector are stepping back from their sustainability commitments. These developments couldn't come at a worse time, and it shouldn't be this way.
2. We believe the business case for sustainable investing is beyond question. Fiduciary duty requires investors to consider sustainability factors.
3. While some objections to sustainable investing are self-serving or ill-informed, real problems do exist in the field, including myriad rules, regulations, acronyms and disclosure requirements.
4. We believe the transition to a sustainable economy is inevitable – but whether the world makes a just transition in time to avoid horrific consequences for humanity is not.

There is a need for high-ambition investors to stand firm in their commitment to a sustainable economy and society. We remain optimistic the world will ultimately transition to a sustainable economy. We hoped it would happen faster; but that only makes us more determined to do our part to bring about the changes that are needed so badly.

FIRM AND TEAM UPDATE

We are pleased to announce that Puja Jain, co-Head of Research in Global Equity, has joined our firm's Management Committee (MC). The MC is Generation's senior governing body. The committee consists of 12 members, including Clara Barby, Tom Hodges, Ruth Kent and Nick Kukrika, all of whom joined the MC over the last two years. Clara, Tom, Ruth, Nick and Puja, together with their peers, are outstanding professionals who represent our next generation of senior leaders. In addition, we are delighted to welcome Audrey Choi to the firm as Chair of the Generation Foundation and a Partner of Generation. Audrey was the first chief sustainability officer on Wall Street. She also served as Morgan Stanley's chief marketing officer and was a member of the firm's global management committee.

We remain highly committed to our equity, diversity and inclusion initiatives because they make us a stronger firm. We do not intend to retreat from or reframe our commitment. Instead, we continue to take steps to reflect the population of the locations we are based in and the communities we are part of, and to create an environment where people of all backgrounds can succeed.

As at 31 March 2025, the Generation team comprises 139 people and assets under management total approximately USD 29.5 billion with a further USD 8.4 billion of assets under supervision.[17,18] The Just Climate team comprises 45 permanent people and the Generation Foundation is seven people.

Thank you for the trust you have placed in us.

Miguel Nogales,
co-Portfolio Manager

Nick Kukrika,
co-Portfolio Manager

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

[18] Assets under management as at 31 March 2025 are USD 29.5 billion. Please note that this includes Growth Equity strategy assets under management, Just Climate assets under management and Private Equity strategy assets under management as at 31 December 2024. Assets under supervision (AUS) are USD 8.4 billion as at 31 December 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 Chair 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.

Important information

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