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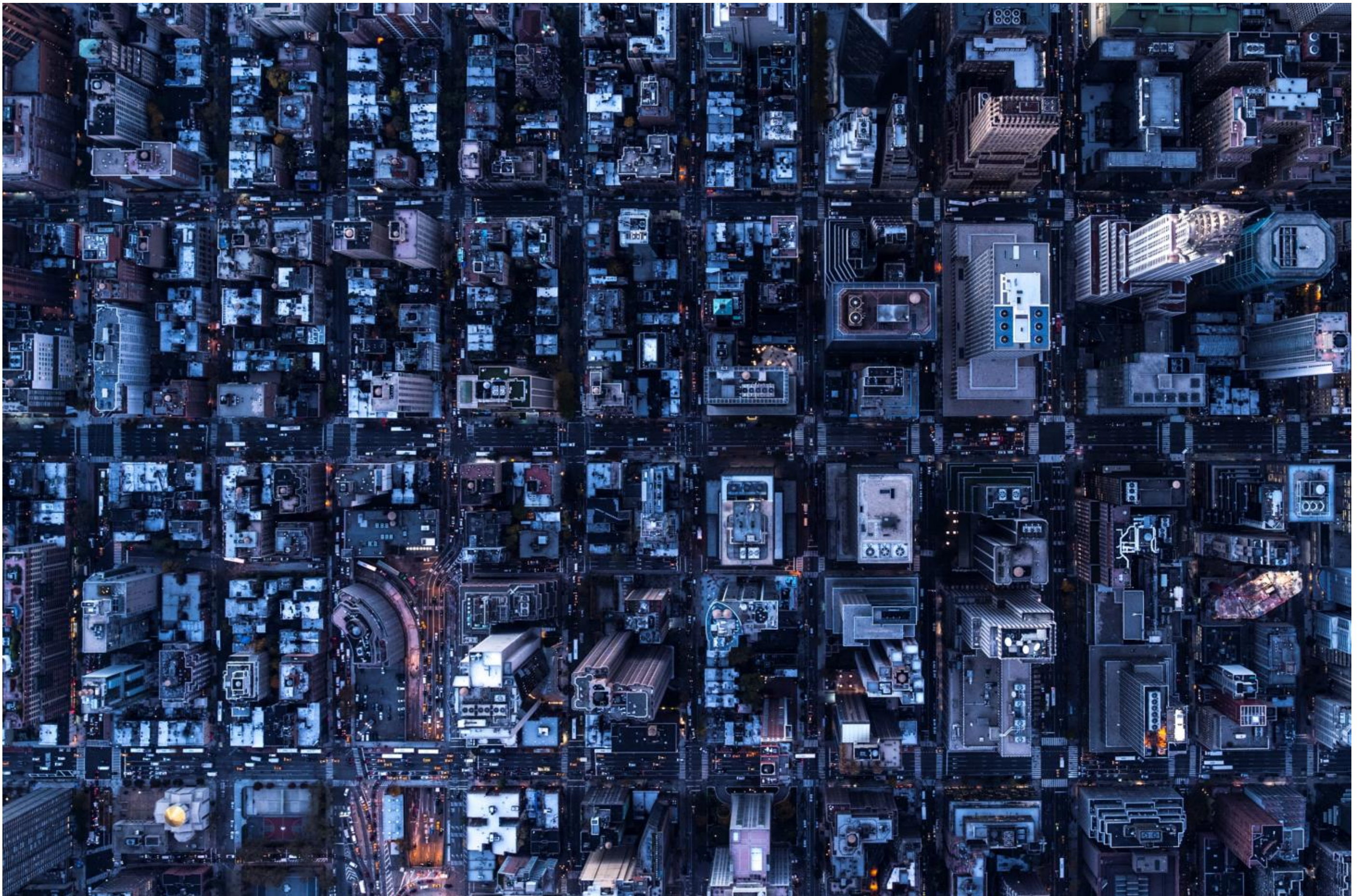
Generation Investment Management Global Equity Quarterly Investor Letter

January 2025



Dear fellow investors

Markets are undergoing profound changes. Despite considerable uncertainty, we believe this is a great environment for long-term capital allocation.

REFLECTIONS ON THE MARKET

The historian Adam Tooze uses the term 'polycrisis' to describe a situation in which multiple problems – from climate change to populism to a resurgence of war – interact in ways that amplify each other, creating destabilising global dynamics. In our view, financial markets are now experiencing their own 'polycrisis.' This is happening on two fronts: political and technological. The polycrisis in markets complicates the process of capital allocation. It creates distortions in market pricing, especially in the short term. The focus of the market veers between the very short term and a couple of years at most.

However, there is a silver lining. It opens up tremendous opportunities for investors who are willing to take a genuinely long-term view. As the saying goes, the market is a voting machine in the short term but a weighing machine in the long term. What ultimately matters are long-term cash flows. We believe that the market has become exceptionally efficient at pricing short-term information, but in a way that amplifies inefficiencies in the long term. We are optimistic that we can capitalise on these inefficiencies to create long-term excess returns.[1]

Let's outline these changes in turn.

First, the politics of investing have undergone a profound change in recent years. Populism is on the march. Companies find it increasingly difficult to operate across international borders, especially when China is involved. Politicians are more willing to enact measures that damage companies for political gain, such as trade restrictions.

The politics of sustainability have always ebbed and flowed. During the COVID pandemic it became wildly popular, even as people had lost interest during the global financial crisis. Sustainability is currently in a down market. An ESG backlash is having a negative impact on sustainable investment and corporate sustainability. In the investment arena, it has weakened the collective voice of asset managers on climate: large US managers have left Climate Action 100+ and reduced the ambition of their engagement. In the corporate arena, the backlash has affected efforts to improve diversity, equity and inclusion, and some companies have loosened their climate commitments. We expect the re-election of President Trump to fuel the backlash.[2]

These are concerning trends. The year 2024 was probably the warmest on record, and we are troubled that finding solutions to the climate crisis has become tribalised. In our view, investments into alleviating the climate crisis are not only good for society; they often stand alone on their economic merits. They have fast paybacks and rely little on subsidies. When companies invest to become more efficient and reduce their carbon footprint, they are voting with their wallet.

Second, the technology of financial markets has changed. Technological change is nothing new, of course. First you had the rise of electronic trading, then the rise of hedge funds and then the rise of quantitative trading strategies. All of these have shifted the investment world along a continuum of technological improvement. In our view these shifts have accelerated in recent years.

Thanks to social media, information about companies travels more rapidly than ever before. If the market is a voting machine, then voting happens a lot more rapidly than

[1] A recent paper on this topic caught our eye. The paper concludes: "There is a lack of attention paid to the long-term return profile [of securities]. Investors who don't face career concerns attempt to take advantage of this lack of attention by buying the most attractive stocks within this subset, and then hold them for a long time horizon. Given the lack of focus on these stocks, they expect they will generate higher expected returns over long periods of time. In this paper, I test this theory. I do find that the stocks that are held for the longest period of time tend to outperform those held for shorter periods." See "Career concerns and time arbitrage," Kalash Jain, May 2024.

[2] We plan to publish an Insights piece this year on the consequences of the ESG backlash.

before. The incorporation of artificial intelligence (AI) into investment strategies is another piece of the puzzle. Enabled by technology, passive investment funds in the US recently surpassed active funds in assets under management.

Another more recent trend is the rise of the multi-manager hedge-fund structure characterised by autonomous teams ('pods') of investors operating independently within a broader organisation. The assets under management of the biggest shops have roughly quadrupled in the past decade, and they now probably account for more than 20% of equity trading volumes – a breathtaking statistic.[3]

A large body of research finds that all these changes are upending financial markets. One recent paper notes that the rise of passive investing has "amplified price movements, decreased liquidity, [created] potential macroeconomic inefficiencies, and [led to] a disproportionate concentration of market influence in a few dominant stocks."[4] We are intrigued by Clifford Asness's idea that social media has made financial markets more prone to bubbles.[5] Information now moves so rapidly that excitement about a company can easily feed on itself. The IMF's latest Financial Stability Report notes that the rise of AI could lead to "increased market speed and volatility under stress, especially if trading strategies of AI models all respond to a shock in a similar manner or shut down in response to an unforeseen event."[6]

There is less academic work on multi-strategy hedge funds, since they are relatively new. Yet, there is a growing consensus that they may increase the market's focus on the short term (and create connected volatility). These funds are highly levered, and recently leverage has become more expensive. The managers therefore need not only to be right, but right *fast*. All these technological changes also interact with each other. If the rise of passive squeezes the potential alpha pool, and more of that alpha pool is driven by multi-strategy funds that are very driven by the short term, that affects the alpha left for long-term investors in the near term.

We are not finance professors, of course. We are practitioners, and we must operate in the market that we have been given. But something is different. You could think of markets as an ecosystem. It is interesting to ask how an ecosystem can evolve or break down (i.e., lose diversity). From our vantage point, we have noticed that several things about investing have changed.

Markets move between cycles of 'greed' and 'fear.' Under a polycrisis, however, we see both cycles existing simultaneously. On the one hand, market participants are enormously concerned about the future of US-China relations and the possibility that we are moving towards a world of structurally higher interest rates and inflation. Quantitative measures of uncertainty are well above historical averages.[7] On the other hand, investors are excited by the potential returns of AI, as well as the ability of corporate America to continue to deliver strong earnings growth. So, you have global instability at the same time as continued strong stock market performance. The market is playing by different rules.

There is little doubt that, in many sectors of the market, pricing is rich. The market capitalisation of cryptocurrencies is now roughly equal to the market capitalisation of the

[3] Internal analysis based on Goldman Sachs research.

[4] This has a range of consequences for market functioning. See von Moltke, Felix, and Torsten Sløk. "Assessing the Impact of Passive Investing over Time: Higher Volatility, Reduced Liquidity, and Increased Concentration." 2024.

[5] Asness, Clifford S. "The Less-Efficient Market Hypothesis." Forthcoming in the 50th Anniversary Issue of The Journal of Portfolio Management, 2024.

[6] International Monetary Fund, "Financial Stability Report," 2024.

[7] See Baker, Scott R., Nicholas Bloom and Steven J. Davis. "Measuring economic policy uncertainty." The Quarterly Journal of Economics 131, no. 4 (2016): 1593-1636 and follow-up data.

Russell 2000.[8] There are around 1,200 start-ups worth more than USD 1 billion, even as there are fewer than 2,000 public companies valued the same. MicroStrategy, a business-intelligence firm that had a market capitalisation of USD 50 billion, recently announced plans to raise USD 21 billion over three years to buy bitcoin. Following this, its stock surged 74%, valuing the company at 292% above the value of its bitcoin holdings, reflecting investor excitement over its strategy despite its struggling software business. In our view, at least some of this market pricing has become detached from underlying economic realities.

In 2024 the S&P 500 posted a historically strong year.[9] A small number of big companies (notably, the 'Magnificent Seven' group) is largely responsible for these returns, sending measures of market concentration to historical highs. The top 10 stocks account for well over a third of the S&P 500's total market capitalisation, easily exceeding the roughly 20% average of recent decades. A single company, Nvidia, was responsible for 5% of the S&P 500's returns in 2024, and recently achieved a bigger weighting in the MSCI World Index than France.[10]

US TOP 10 COMPANIES – MARKET CAP AND EP% TOTAL MARKET

Source: UBS Holt data as at year end 2023. This chart shows the share of total economic profit commanded by the top 10 US companies, as well as their share of total market capitalisation.

Some claim that the strong share price performance of the Magnificent Seven in recent months simply reflects rapidly improving economic fundamentals. Valuations, proxied by the ratio of price-to-earnings, have not blown out. Share prices have appreciated, but crucially earnings have grown rapidly, keeping price-earnings ratios fairly constant.

However, we believe that the market is not sufficiently distinguishing between these companies. The 'Mag7' moniker is one clue here: Tesla is a fundamentally different company to Amazon. Does it make sense to put Tesla and Amazon in the same club?[11] Some companies' future earnings seem more durable than those of others. Microsoft and

[8] For the facts in this paragraph, we are indebted to a recent edition of Grant's Interest Rate Observer, 22 November 2024.

[9] See article here.

[10] For this observation and others, we are again grateful to Grant's Interest Rate Observer, 22 November 2024.

[11] We would note that there is substantial retail participation in Mag7. As noted in a recent Goldman Sachs Financial Services Conference, on some platforms 70% of trading is in these names.

Amazon, we believe, are set up for long-term success. We discuss Microsoft in more detail below. We have more questions about Nvidia.

PERFORMANCE

Generation does not buy meme assets.[12] We do not buy companies with an attractive return profile over merely the next 12–18 months, let alone companies whose share price we expect to pop after the next quarterly earnings. We are not momentum investors. We avoid companies with uncertain future earnings and that carry exceptionally high valuations.

As you know, our investment approach is different, in the following ways. We allocate the capital for the long term. We have held some companies in the portfolio since our founding 20 years ago, but we also remain curious about new companies, adding roughly 10 each year to our Focus List. Our average holding period is six years, with a highly concentrated portfolio. When we back companies, we back them enthusiastically, both in terms of the size and the duration of the investment. Just 10 companies comprise more than 40% of the portfolio.

With time, the market is able to decide what information about a company is just noise, and what information about a company is truly useful. As valuations catch up, we believe we are well positioned for long-term success.

Our reason for believing this is simple. We like companies with exceptional Business Quality (BQ), our term describing profitable and sustainable operations. Companies in the portfolio address the long-term sustainability needs of society, from cutting the carbon emissions of buildings to increasing access to healthcare. The companies have wide moats. A wide moat allows them to pass cost increases on to their customers where necessary. The operating margin of the portfolio, if treated as a single company, is north of 20%. We also look for leadership teams that can execute on the vision of a high BQ. We call this Management Quality.

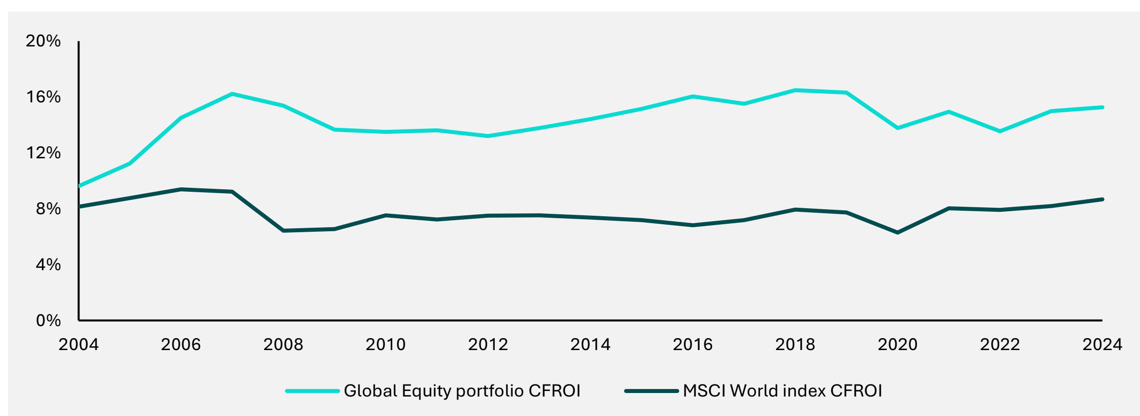
Our internal metric of average Business Quality across the portfolio is currently close to an all-time high. This reflects one of the lessons of our recent annual “Hits and Misses” session: to double down on companies we view as the highest quality. We have retested the BQ scores of approximately 90% of our portfolio. Our metric of Management Quality, meanwhile, is in line with our history. That is to say, we continue to back leadership teams with an ownership mindset who manage their companies for the long term. Good companies, with dedicated management teams, are set up for success.

The portfolio has strong balance sheets. We like to look at the ‘cash flow return on investment’ (CFROI), a broad measure of the rate at which a company creates economic value. Across the portfolio the weighted CFROI is above 15%, close to a historical high when considered against the cost of capital. As the chart below shows, relative to the average company, the portfolio’s CFROI is exceptionally high. Though such comparisons are tricky, if the portfolio were a single company it would be within the top 30% of companies in the sample.[13] We would also note that, at present, we are unusually focused on the European market, where valuations are far less rich than in the US. At present our weight in Europe is 21%, representing close to the highest share since 2015.

[12] A meme stock is a stock that gains popularity among retail investors through social media.

[13] Generation internal analysis based on UBS Holt data. This data point compares the CFROI of the Global Equity portfolio against the largest 1,392 companies in the UBS Holt universe as at 31 December 2024.

CASH FLOW RETURN ON INVESTMENT (CFROI)



Source: UBS Holt. Data as at 31 December 2024.

Our commitment to sustainability is stronger than ever. The ESG backlash has increased scrutiny on investors who claim to be investing behind a more sustainable world. Do managers simply talk about sustainability or do they truly integrate it into their investment process? We recently conducted an exercise that involved looking at other sustainability-focused funds. The goal was to assess whether our process was still differentiated. We learned a lot from these conversations and came away confident that our process is well constructed and distinctive. We are a pure-play sustainable-investment manager. We think it is critical that the people who analyse a company's financials are the same people doing the sustainability analysis.

For years we have estimated the upside in the portfolio: the price premium that it would command, if the market priced at our view of its intrinsic value. This is a calculation based on many factors assessed in our Business Quality and Management Quality framework. The current upside is around 30%. We also project that the earnings of the portfolio will continue to grow at an annual rate of the mid-teens in the coming years, representing a combination of strong revenue growth and sustained margins.

What do these projections mean for future returns? We employ a conservative 'exit multiple' in our calculations. Even so, using simple rules of thumb, backing out these numbers suggests the possibility of continuing our long-term track record of double-digit absolute, net returns in the years to come.

We hope you find this letter helpful. We'd like to leave you with the following thought. Whatever the political weather, Generation will always pursue its vision: 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 will work unwaveringly to continue to prove the case for sustainable investment through sustained outperformance. We will stand up for climate action as fiduciary duty, and we will continue to engage with companies in the portfolio on the issues that matter for both their long-term success and that of the global economy. We will stand up for the right of asset managers to fulfil their legal duties to clients, and we will watch for companies stepping back from the commitments they have made to shareholders and stakeholders.

The total assets under management for the Global Equity strategy as at 31 December 2024 are USD 25.7 billion.

Review of the year

To complete our review of the year, the remainder of this letter will cover the following areas:

Company example	8
Stewardship and engagement	11
Portfolio metrics and mapping to the UN Sustainable Development Goals	13
Firm and Foundation update	19

We usually focus our case studies on a single company. Case studies help bring our investment process to life. This time, however, we feel it is more appropriate to offer a number of different case studies, helping to reinforce the argument that we are making in this letter.

Company example

We have, we hope, demonstrated some key points: that the market is unusually concentrated; that it is focused on near-term earnings rather than the long-term durability of earnings; and that there are plenty of exciting opportunities out there for long-term capital allocation. Below we profile five companies, some of which the market has left behind in recent months. For each of them we consider three aspects: their growth, their profitability and their valuation. We believe that all of them are set up for long-term success.

MICROSOFT

Microsoft, the world's largest software company, has been in the portfolio for over a decade. We like the firm because its products align closely with society's evolving needs. As the world digitises, demand for Microsoft's tools will continue to grow. The company enjoys a wide economic moat – built on its unique market position, deep customer understanding and extensive global footprint.

Microsoft's management team has a long-term vision. It makes bold investments in future growth, most recently in AI. We forecast that the IT intensity of the economy will double over the next 15 years. Microsoft is a rare company with USD 250 billion in revenues, projected to grow at 16% annually over the next five years.[14] Earnings-per-share could grow faster. Despite its near-term valuation appearing high, we believe Microsoft is well positioned to lead in the AI era, potentially doubling or tripling its market share. Additionally, we expect returns on capital (ROC) for its AI-related investments to match historical levels, despite market scepticism.

There are risks. Demand for AI systems may not materialise as expected, and increasing pricing power among suppliers like Nvidia could pressure margins. Still, from our analysis we see substantial long-term value in this name.

ASML

ASML, a Dutch company and a recent addition to our portfolio, is a critical enabler of the semiconductor industry. They provide advanced lithography equipment, which is essential for producing semiconductors. As demand for chips accelerates – driven by AI, electrification and broader applications across the economy – ASML stands to benefit significantly.

ASML operates in a near-monopolistic position in lithography machines, thanks to decades of engineering expertise and innovation. Over the past five years, the company has grown revenues at 20% annually. We expect the company's revenue growth to moderate but continue to grow strongly, in line with the semiconductor industry. Margins are likely to expand over time, underscoring ASML's high quality and earnings potential.

There are risks. Short-term volatility in orders, and geopolitical trade restrictions, could affect growth. Over the long term, disruptive innovation outside of lithography poses a challenge, though we believe ASML's position is secure. We therefore find the valuation of the company attractive. We are confident in its ability to compound value over the coming years.

[14] Generation internal analysis.

ADYEN

Adyen, a fintech company, helps businesses process payments – a field with substantial social benefits. Remarkably, 15% of online payments still fail, and Adyen is addressing this with a superior technology platform.[15] With a EUR 40 billion market cap and EUR 2 billion in annual revenue, the company boasts operating margins exceeding 50%.

Adyen's vertically integrated model delivers an unmatched value proposition. It has a rising Net Promoter Score of 65.[16] Its addressable market continues to grow, pointing to solid growth in revenues. Adyen remains well positioned to compound earnings. Although the valuation is high, it reflects the quality and long-term potential of the business.

Near-term concerns about Adyen meeting guidance have created an attractive entry point. We believe the company's competitive position is strengthening, with revenue projected to grow above 20% annually.[17] In conclusion, Adyen offers a compelling risk-reward profile.

KINGSPAN

Kingspan, a family-founded Irish business, is a global leader in high-performance insulation solutions. Known for its innovative insulated panels, Kingspan provides products that are both structural and insulating, offering faster construction compared to traditional methods. With 40% of global emissions tied to buildings, insulation is critical for tackling climate change.[18] The potential revenue opportunity is huge.

Kingspan has grown revenues at over 10% annually for many years, and earnings faster than this, supported by its exceptional operational efficiency. Despite its history of acquiring lower-return businesses, the company consistently delivers stable returns. Looking ahead, we see a long runway for growth, driven by three factors. First, low insulation penetration globally. Second, stricter building regulations. And third, the possibility of the company expanding into new markets.

There are risks. Acquisition-led growth can be challenging, and sustained inflation may pressure profitability. However, Kingspan remains an outstanding operator, and is currently priced at an attractive valuation. It has significant compounding potential.

BECTON DICKINSON

Becton Dickinson (BD) is a US-based medical device company with USD 20 billion in revenue. A staple in our portfolio for 18 years, BD produces essential consumables like syringes and infusion systems. While not a flashy growth story, BD has delivered consistent 5% revenue growth per decade since the 1990s.

The company has a commanding 60% market share in its segments, providing a stable foundation for future revenue growth. Moreover, BD is improving its margins after navigating supply chain disruptions and COVID-related volatility. With its 'pricing muscle memory' now firmly in place, we expect steady earnings growth.

BD's recent underperformance, combined with market apathy toward steady growers, creates an attractive entry point from a valuation perspective. Challenges include inflationary pressures and a mixed history with large acquisitions, but we are confident in BD's ability to deliver strong, long-term returns.

[15] Adyen, 2023.

[16] Adyen, March 2023.

[17] Generation internal analysis.

[18] "Building Materials and the Climate: Constructing a New Future," UN. See report here.

Stewardship and engagement

Every analyst at Generation undertakes engagement and proxy voting as part of their ongoing coverage of companies. The analyst team is supported on stewardship strategy and execution by our Head of Engagement Edward Mason and our Engagement Associate Jessica Marker.

We were pleased to be accepted again in 2024 by the Financial Reporting Council as signatories to the UK Stewardship Code, based on our Stewardship Report for 2023.

ENGAGEMENT OVERVIEW

In 2024 we undertook **423** meetings with Global Equity Focus List companies. Our meetings have one of two fundamental objectives. The first is 'monitoring,' to ensure that our investment thesis remains intact. The second is 'engagement,' where we talk with the company about it achieving a specific outcome.

In 2024, **85** of our meetings included engagement in relation to a specific outcome. We engaged on environmental issues in **60** meetings, social issues in **24** meetings, governance issues in **31** meetings and business issues in **12** meetings.

We will provide a complete picture of our engagement in 2024, and the engagement outcomes, in our upcoming Stewardship Report. For now, we will share an overview of our activities over the past year.

Climate change

The climate crisis remains the issue on which we engage most. We seek to align the portfolio with net-zero emissions by 2040. In total, climate action was discussed in **50** engagement meetings in 2024.

We continued to use proxy voting to underline our expectation that all companies in the Global Equity portfolio should set externally validated emissions-reduction targets aligned with a 1.5°C pathway. In total, we exercised votes against the Chair, or other responsible non-executive directors, at **nine** portfolio companies on climate grounds in 2024.

In 2022, as a founding signatory of the Net Zero Asset Managers initiative, Generation set an interim target for 2025, as a firm, for 60% of assets to be represented by companies with emissions-reduction targets validated by the Science Based Targets initiative (SBTi).

In December 2024, the percentage of the portfolio covered by validated near-term science-based targets (SBTs) stood at 60% (on a portfolio-weighted basis), with a further 11% of the portfolio represented by companies that have committed to set SBTs with SBTi.

Diversity

Diversity was the issue on which we engaged next most commonly, in **16** meetings. In line with our equity, diversity and inclusion (EDI) framework, we ask that companies disclose comprehensive EDI data and ambitious plans for improvement.

Our vision of good is a plan that includes:

- targets to achieve gender parity on the Board, executive committee and throughout the organisation
- racial and ethnic representation on the Board, executive committee and throughout the organisation that reflects the societies from which the company recruits and the customers that the company serves
- no structural differences in the roles performed by women and minority candidates.

We recognise that advancing EDI to this degree will take time. It will require not only sustained effort from companies on the Focus List, but also persistent drive and support from Generation as an investor with strong conviction on the business benefits of EDI.

Deforestation

As members of the Finance Sector Deforestation Action initiative (FSDA), Generation has committed to use best efforts to end commodity-driven deforestation in our investment portfolios and to report publicly on the progress we make by 2025.

We have embarked on an intensive engagement programme to encourage urgent corporate action since joining the initiative as a founder member at COP26 in Glasgow in 2021.

In 2024, this programme involved **14** meetings with companies at material risk of exposure to agricultural commodity-driven deforestation.

While we are seeing progress from almost all the Focus List companies in scope, we remain focused on achieving the maximum possible by the end of 2025.

PROXY VOTING

When voting the proxies of the companies they cover, analysts draw on Generation's Proxy Voting Principles, their own analysis and the support of the engagement team. They have access to research from Institutional Shareholder Services (ISS), but do not automatically adopt its recommendations.

These are the headlines from our voting activity during 2024:

- There were **633** resolutions at portfolio companies on which we qualified to vote.[19]
- We voted **100**% of these proxies.
- For management proposals, we chose not to support management (either voting against or abstaining) on **43** occasions (7% of voting on management proposals).
- **6**% of proposals were filed by shareholders.
- We voted in favour of **35**% of shareholder proposals.

2024 GLOBAL EQUITY PROXY VOTING SUMMARY

		For	Against / withhold	Abstain	Total	% Against management
Management resolutions	Board election & structure	373	18	7	398	6%
	Compensation-related	72	5	0	77	6%
	Auditor-related	36	4	4	44	18%
	Routine business	59	2	0	61	3%
	Other business	10	3	0	13	23%
	Total	**550**	**32**	**11**	**593**	**7%**
Shareholder resolutions[20]	Governance	4	8	1	13	38%
	Environmental	1	1	0	2	50%
	Social	9	16	0	25	36%
	Total	**14**	**25**	**1**	**40**	**38%**

[19] In a limited number of cases, due to registration requirements that lock up shares or other legal reasons, we are sometimes unable to vote. This is a consideration in security selection.

[20] Votes for shareholder resolutions, and abstentions, are recorded as votes against management, unless the votes are in line with management recommendations.

Portfolio metrics[21]

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 to view the portfolio and stimulate internal discussion.

As well as measuring the portfolio against a benchmark, we now measure it against thresholds too. This is because on one or more criteria the portfolio might beat the benchmark, but would still be inadequate for achieving a truly sustainable society. For example: the portfolio has a lower gender pay gap score than the benchmark, but ideally the portfolio, and society more broadly, would eliminate the gender pay gap completely. Therefore, in this situation, our threshold for success would be zero.

E

	Portfolio	Benchmark	Threshold
Carbon intensity, Scopes 1 & 2 (tCO_2e/$m)[22]	21	97	
Carbon intensity, Scopes 1–3 (tCO_2e/Eur m)[22]	410	816	
SBTi target validated (portfolio weight %)[23]	60%	44%	100%
SBTi committed but target not set (portfolio weight %)[23]	11%	8%	
Implied temperature rise (Scopes 1–3, degrees Celsius)[24]	1.8	2.4	1.5

S

	Portfolio	Benchmark	Threshold
Percentage of employees would recommend the company to friend[25]	76%	65%	
Effective tax rate[26]	**20%**	23%	
Commitment to a living wage[27]	**44%**		100%
Gender – female Board % (weighted average)[28]	32%	35%	40–60%
Gender – female executives % (weighted average)[29]	22%	25%	40–60%
Gender pay gap (simple average)[30]	14%	18%	0%
Advanced total race/ethnicity score (weighted average)[31]	63	66	
Pay linked to diversity targets (simple average)[24]	18%	11%	

[21] As at 2 December 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.

[22] Source: MSCI, weighted average calculation. As at 2 December 2024.

[23] Generation analysis based on data from the Science Based Targets initiative.

[24] Source: MSCI. As at 2 December 2024.

[25] Source: Glassdoor.

[26] 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.

[27] Source: Denominator. Coverage is poor for this metric and not adequately representative of the benchmark, therefore no comparison is made.

[28] Source: Denominator.

[29] 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 that of another.

[30] Source: Denominator. This metric is a simple average of gender pay gap data disclosed by companies. Coverage is poor and pay gaps are not measured in a consistent way. Nonetheless, we think it is important to show the data available on this metric.

[31] 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).

G

	Portfolio	Benchmark
Percentage of shares owned by executives (median)[32]	0.18%	0.09%
Independent Board (weighted average)[33]	76%	81%
Independent Chair or lead non-executive director (simple average)[33]	90%	76%
Board not entrenched (simple average)[33]	74%	82%
All non-executive Board members on no more than four public company Boards (simple average)[33]	92%	94%
Equal shareholder voting rights (simple average)[33]	92%	89%
Independent compensation committee (simple average)[33]	77%	72%
Companies with regular 'say on pay' votes (simple average)[33]	97%	82%
Fewer than 10% votes against executive pay (simple average)[33]	67%	74%
Pay linked to sustainability targets (simple average)[33]	59%	30%

F

	Portfolio	Benchmark
Three-year revenue growth (weighted average)[32]	14%	15%
Gross margin (weighted average)[32]	59%	53%
Cash flow return on invested capital[34]	15%	9%

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

[32] Source: CapIQ.
[33] Source: MSCI. As at 2 December 2024.
[34] Source: UBS Holt.

CLIMATE METRICS

In addition to the regular quarterly portfolio metrics, in our year-end letter we present additional climate metrics in order to give a picture of where greenhouse-gas (GHG) emissions are concentrated in the portfolio, emissions targets and trends at these higher emitting companies and the avoided emissions that the companies enable.

Top portfolio emitters	Total emissions in thousands of metric tonnes (Scopes 1–3)[35]	% of total portfolio emissions	SBTi status[36]	Year-on-year trend[37]
Amazon	68,820[38]	23%	Removed	Down
Schneider Electric	56,980	19%	Targets Set	Down
Microsoft	24,846	8%	Targets Set	Up
TSMC	19,400	6%	Not Participating	Down
Assa Abloy	16,856	6%	Targets Set	Down
CBRE	16,850	6%	Targets Set	Down
Vestas	15,429	5%	Targets Set	Up
Sika	15,416	5%	Targets Set	Up
ASML	15,061	5%	Targets Set	Up
Legrand	12,985	4%	Targets Set	Down
Total top 10 emissions	**262,643**	**86%**		
Total portfolio emissions	**304,493**			
Share of total portfolio emissions accounted for by top 10 emitters that participate in SBTi	**59%**			

The portfolio's Scopes 1–3 emissions are concentrated in a small number of companies. Just ten holdings are responsible for 86% of emissions. Of these ten companies, six have reduced absolute emissions over the past year and four have seen emissions increase.

The higher emitting companies in the portfolio are overwhelmingly comprised of firms that deliver the avoidance of emissions when their products or services are used.

For example, Schneider Electric, the second-highest emitter in the portfolio, is a provider of solutions for electrification, digitalisation and automation. Its products inevitably involve downstream Scope 3 emissions because they use electricity. At the same time, the company estimates that, due to the efficiency of its products, it enabled emissions of 112 million tonnes of CO_2e to be avoided in 2023, significantly more than the company's Scopes 1–3 emissions.

Similarly, Vestas has the seventh-highest total emissions in the portfolio. Wind turbines require a lot of iron and steel to make, and this material is emissions-intensive to create. However, the company has calculated that the emissions avoided by Vestas wind turbines installed in 2023 will be 396 million tonnes of CO_2e over their lifetimes – many times higher than the emissions that the business produced in 2023 and indeed higher than the portfolio's total emissions for 2023.

Vestas is working to bring down the carbon footprint of its turbines through the use of recycled content. In 2024 Vestas announced a partnership to introduce a low-emissions steel offering to customers. The inclusion of recycled steel has the potential to reduce the emissions associated with onshore turbines by 52% and offshore turbines by 25%.[39]

The calculation of avoided emissions is not yet standardised. This means that although we believe that the numbers produced by Schneider Electric and Vestas are credible, they are not comparable. It would not be appropriate today to combine all the

[35] Source: MSCI plus Generation analysis, 2023 emissions. This year MSCI data, supplemented where necessary by data sourced directly from company reporting, has been used because the latest CDP annual datasets have not yet been released. The change in provider has led to variation in methods of measurement: using CDP data last year, we were able to base all analysis on market-based Scope 2 emissions, whereas MSCI does not currently distinguish between market-based and location-based Scope 2 data.

[36] Generation analysis based on data from the Science Based Targets initiative.

[37] Source: MSCI plus Generation analysis, 2023 vs 2022 emissions.

[38] Generation does not believe that Amazon's Scope 3 disclosures are complete because Amazon only report product-related emissions for Amazon-branded products and devices. In our view, this emissions figure is therefore an underestimate of the company's true footprint. This is a topic of regular engagement with the company.

[39] See report here.

avoided emissions figures from across the portfolio into a single 'total avoided emissions' figure. Generation is committed to investing in climate solutions, even if this involves a carbon footprint.

While we expect all companies in the portfolio to commit to and work to achieve science-based emissions reductions, we do not optimise the portfolio for emissions. We believe that understanding both the emissions created and those avoided by a company is essential for sustainability analysis.

The Generation Foundation is funding the World Business Council for Sustainable Development (WBCSD), which is leading the development of avoided emissions standards. We hope to see more comparability and rigour in the provision of avoided emissions data and will continue to monitor and engage with our companies on this topic.

Portfolio company Scopes 1 and 2 emissions trends 2020–2023[40]

	Emissions intensity by revenue		Absolute emissions	
	Number	**Portfolio weight**	**Number**	**Portfolio weight**
Companies with decreasing emissions	25	59%	12	31%
Companies with increasing emissions	7	22%	15	37%
Companies with stable emissions (+/- 5%)	7	14%	12	27%
Insufficient data	2	5%	2	5%

Looking at the current portfolio as a whole over a three-year period, companies representing 31% of the portfolio have reduced their Scopes 1 and 2 emissions on an absolute basis, and 59% on an intensity basis, since 2020, whereas 37% have seen them increase, falling to 22% on an intensity basis.

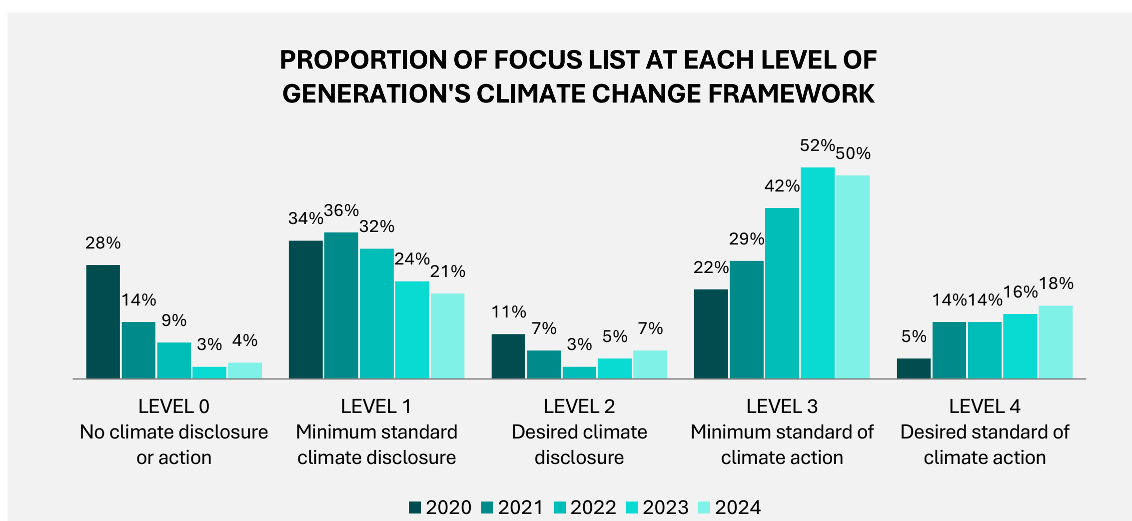
The portfolio contains many fast-growing companies, which can make it hard to reduce emissions on an absolute basis. Furthermore, 2020 is a challenging base year as some emissions were reduced due to COVID lockdowns.

As companies implement their science-based targets for emissions reduction, we expect to see the portfolio increasingly populated with companies achieving absolute emissions reductions, even if they are growing strongly. In terms of emissions intensity, portfolio companies are making clearer progress.

We have conducted this analysis on a Scopes 1 and 2 emissions basis only because of the lack of reliable Scope 3 data over this three-year period.

Generation developed a public markets climate change engagement framework in 2020. This climate 'levels' framework operates as follows. Level 1 companies disclose GHG emissions either to CDP or in their own reporting. At Level 2 they disclose on climate-related risk and opportunity, in line with the recommendations of TCFD/ISSB. Level 3 means they participate in the Science Based Targets initiative. Companies at Level 4 are aligned with our goal of net-zero emissions no later than 2040 and are, in our opinion, showing leadership on climate action.

Since the initiation of the framework, there has been significant progress across the Focus List. Non-disclosure of emissions has almost vanished. Companies have migrated up the climate levels with most companies now at Level 3 or Level 4. We will continue to engage on the need for all companies to undertake accelerated, ambitious climate action.



[40] Source: MSCI plus Generation analysis. This year MSCI data, supplemented where necessary by data sourced directly from company reporting, has been used because the latest CDP annual datasets have not yet been released. The change in provider has led to variation in methods of measurement: using CDP data last year, we were able to base all analysis on market-based Scope 2 emissions, whereas MSCI does not currently distinguish between market-based and location-based Scope 2 data.

Portfolio mapping to the UN Sustainable Development goals

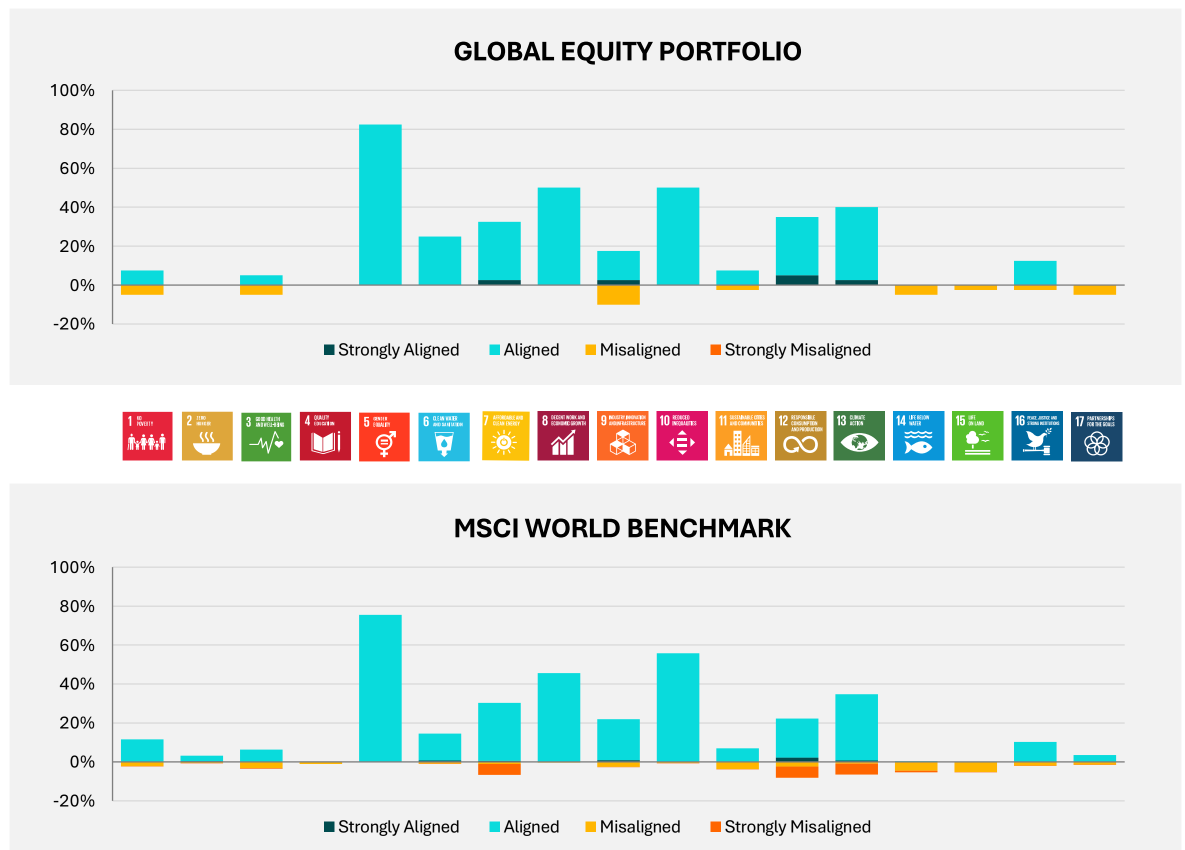
We again report the alignment of the portfolio with the UN Sustainable Development Goals (SDGs) using an external tool: the MSCI SDG Alignment Tool.

As a reminder, the tool:

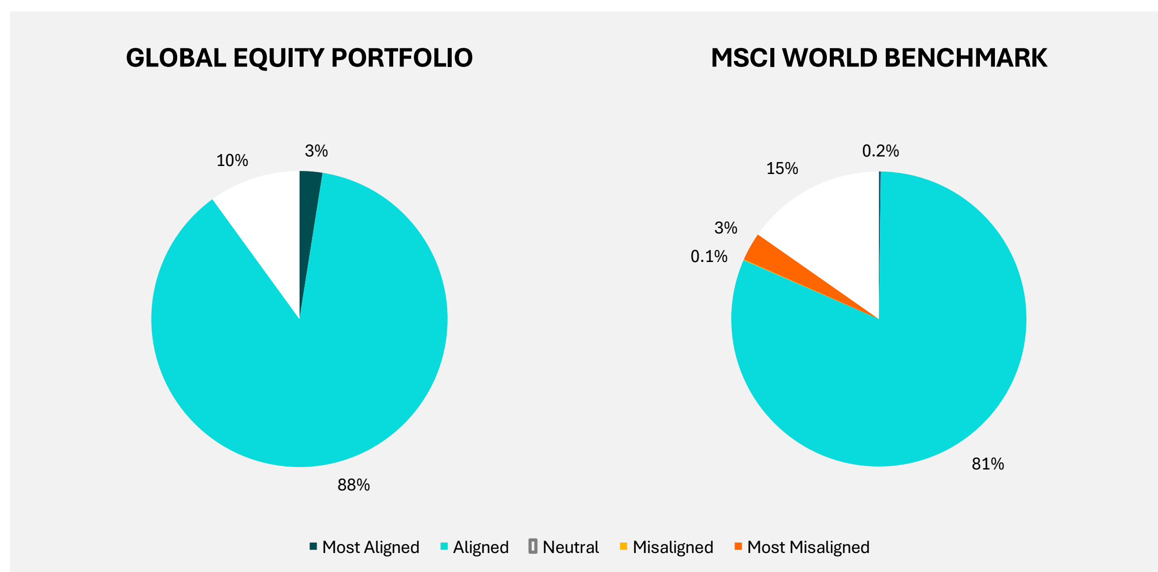
- takes account of all SDG-aligned revenues at a company, awarding scores for alignment of products and services according to revenue bands
- takes account of the impact of companies' operations as well as their products and services
- assesses negative as well as positive impacts for both products and services, and operations
- looks at historical as well as current data to ascribe a performance score according to whether the company is on an improving or deteriorating trend, taking account of the previous three years
- leverages MSCI's relevant data capabilities, including Sustainable Impact Metrics, Controversies & ESG data points, as well as business involvement research to ensure that revenues from products and services with negative impacts are identified (e.g., tobacco, arms, fossil fuels).

For each SDG, a company's contribution is weighed in the balance so that, based on their net scores, companies can be assessed as Strongly Aligned, Aligned, Neutral, Misaligned or Strongly Misaligned.

The charts below show how the Global Equity portfolio (as at 2 December 2024) comes out using the tool, relative to the MSCI World benchmark, for each of the 17 SDGs. Companies whose alignment with an SDG is assessed to be Neutral are not displayed.



A pie chart showing the Global Equity portfolio is on the left below and another showing MSCI World companies as a whole is on the right. These are based on the same data as the bar charts (again unweighted), but the criteria used to assign companies to categories are different.[41]



We draw the following conclusions from the 2024 SDG alignment assessment. Looking at the portfolio through the criteria used for the bar chart:

- The portfolio demonstrates higher levels of strong alignment than the benchmark with SDGs 7 (Affordable and Clean Energy), 9 (Industry Innovation and Infrastructure),12 (Responsible Consumption and Production) and 13 (Climate Action).
- The portfolio shows greater alignment than its benchmark with many of the SDGs, including SDG 5 (Gender Equality), SDG 8 (Decent Work and Economic Growth), SDG 12 (Responsible Consumption and Production) and SDG 13 (Climate Action).

Looking at the portfolio through the criteria used for the pie charts:

- The portfolio continues to hold more Most Aligned and Aligned and fewer Most Misaligned and Misaligned companies than its benchmark. Indeed, this year the analysis shows that the portfolio does not hold any companies deemed to be Misaligned or Most Misaligned.
- This year the portfolio contains more companies assessed as Aligned than last year (88% Aligned vs 70% last year). All eight of this year's new portfolio additions achieve Aligned ratings. These are: **Assa Abloy**, a lock manufacturer and access specialist; **Adyen**, a payments company; **Agilent**, a medical equipment provider; **ASML**, a capital goods provider to the semiconductor industry; **TSMC**, the leading manufacturer of semiconductors; **Visa**, a payments company; **H World**, a hotel group; and **Workday**, a software company.
- The company in the portfolio that scores best, as Most Aligned, is **Vestas**, which is assessed as Strongly Aligned on four SDGs and Aligned on two, with no misalignment.

The results of the SDG alignment tool should be viewed with the usual caveats. Its assessments of companies are inevitably less sophisticated than those based on primary research and engagement.

[41] Criteria used for pie charts: Most Aligned: no Strongly Misaligned assessments on any SDGs; at least three SDGs identified as Strongly Aligned; higher overall number of Aligned SDGs than Misaligned. Aligned: no Strongly Misaligned assessments on any SDGs; higher overall number of Aligned SDGs than Misaligned. Misaligned: at least one SDG is assessed as Strongly Misaligned; higher overall number of Misaligned SDGs than Aligned. Most Misaligned: three or more SDGs identified as Strongly Misaligned; higher overall number of Misaligned SDGs than Aligned. Companies not fitting into these categories are assigned to Neutral. We exclude from these charts companies that are not assessed for SDG alignment by MSCI.

Firm and Foundation update

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 seek to pursue our vision with urgency by:

- Delivering long-term, attractive, risk-adjusted investment returns and positive impact [42]
- Advocating for the adoption of sustainable investing by the wider market.

[42] Generation seeks to deliver attractive returns and positive impact, but there can be no guarantee this goal will be achieved.

ADVOCACY UPDATE

At our Global Client Conference in March 2024, we celebrated our firm's 20th anniversary. In remarks there, and in the Senior Partner Letter, David Blood was clear that we would not shy away from our identity. He said that we are proud to be a sustainable investment firm – it is all we do, and all we will ever do – and that our intention for the remainder of this critical decade is to double down on our mission. This is to deliver long-term, attractive, risk-adjusted investment returns and positive impact, and to advocate for the adoption of sustainable investing by the wider market.[43]

Our eighth annual Sustainability Trends Report, published in September 2024 in advance of Climate Week NYC, called out just how far the world is off track to meet its climate promises. We observed that in large part this was due to the sheer power of human and economic inertia. However, we saw not only inertia, but also a lack of fortitude, threatening meaningfully to undermine the net-zero transition.

Nowhere is fortitude more needed than in the face of the fossil-fuel interests which continue to create severe political headwinds for sustainable finance and investment, particularly in the US. Throughout 2024 Generation has continued to serve on the governance bodies of the Net Zero Asset Managers initiative (NZAM) and the Glasgow Financial Alliance for Net Zero (GFANZ), and we will carry on supporting these voluntary market initiatives in 2025.

A significant bright spot in the climate discourse remains the increasing recognition of the imperative to conserve and restore nature to achieve the Paris Agreement goals. Generation co-chaired work at GFANZ in 2024 to develop voluntary guidance on incorporating nature into net-zero transition plans. The consultation on this guidance remains open until 27 January.

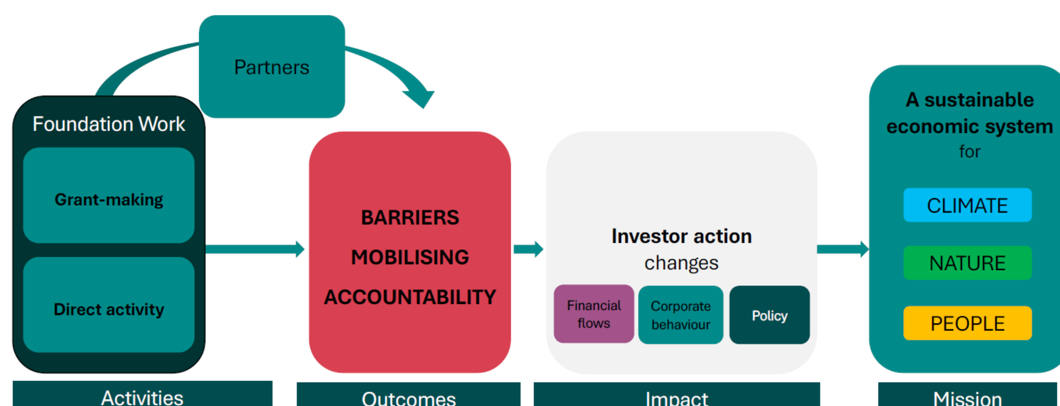
David closed his remarks at our Global Client Conference quoting the English-American activist and philosopher Thomas Paine, who said: "If there must be trouble, let it be in my day, that my child may have peace." Never has this quote seemed more apposite to us as sustainable investors.

GENERATION FOUNDATION

The Generation Foundation continues to pursue its shared vision with Generation Investment Management. Its mission is to use strategic research, grant-making and advocacy to unlock the power of capital markets to drive a more sustainable economic system.

2024 activities

The Foundation seeks to mobilise investors to maintain the social and ecological systems on which we depend by addressing the key risks to those systems – climate change, nature loss and inequality – at their root cause.



[43] Generation seeks to deliver attractive returns and positive impact, but there can be no guarantee this goal will be achieved.

The Foundation's flagship project, A Legal Framework for Impact (LFI), addresses the legal basis and the mechanisms for investors and businesses to take action to meet societal needs and ambitions. The groundbreaking LFI legal report written by Freshfields and commissioned by the Foundation alongside the Principles for Responsible Investment (PRI) and the United Nations Environment Programme Finance Initiative (UNEP FI) showed that, across 11 key jurisdictions, the pursuit of impact cannot remain a specialist practice. Investors should feel empowered to set impact goals and take action to achieve them through their asset allocation, stewardship and policy advocacy.

We certainly face headwinds, but hard-won progress has been achieved and there are opportunities to do more. Alongside regular grant-making activities, the Foundation is conducting research in-house and working with other funders and partners to further embed the LFI legal findings and the consideration of sustainability impact in investment policy and practice. During 2024 this involved convening senior investment professionals as well as other NGOs and funders to identify the barriers and opportunities for action.

Additions to the Generation Foundation portfolio

The Foundation deployed GBP 9.5 million across its grant-making, research and employee matching programmes. Five new research roadmaps were created, and 11 new grants were added to the strategic portfolio. One such roadmap examined how calculation of avoided emissions (or 'Scope 4') could support mainstream investors' allocation to climate solutions. A new partnership with World Business Council for Sustainable Development, as referenced in the Climate Metrics section of this letter, is a result of this work. This funding is supporting the creation of an avoided emissions standard so that companies' positive contributions to climate mitigation can be captured.

OPERATIONS AND CONTROL UPDATE

Our Investment and Client teams work with our Platform teams to deliver a controlled execution environment for the firm to conduct its business.

We continue to work on initiatives to improve our clients' experiences, both through the ongoing deployment of automation and by harnessing technology solutions to enhance the governance and control environment. This work has focused on creating efficiency with our outsource providers and ensuring we adopt technology-enabled workflows. The work is ongoing and will continue in 2025. A particular focus is to create direct data transfers from our outsource providers, which will create further opportunities for direct service improvement for clients.

We also spent time exploring how to harness AI to the benefit of our firm and approved our first AI strategy in 2024. This will see us embark on a number of productivity improvements, utilising ChatGPT enterprise and other AI-enabled applications to improve access to information and data.

Support of our private markets platform with the introduction of IQ-EQ as service provider is fully embedded, with immediate improvements delivered.

We took the opportunity to evolve the leadership of our Operations function in 2024. Flavia Lugangira assumed the Head of Operations Team role in February 2024. Flavia joined Generation in 2008 and was a Partner in the Operations group leading coverage of our private markets platform. Flavia is a deeply experienced operator delivering effectively for our business.

Our Compliance function benefitted from additional resource added in 2023 and early 2024. Zoe Gibbins, our UK Compliance Director, and her US counterpart Montgomery Taylor have effected a number of automations in the effort, increasing our effectiveness

and reach. We consider a well-resourced and senior Compliance team as critical to our success and believe we are well positioned.

For 2025, the Platform teams will maintain their focus on process improvements, regulatory adherence, and compliant and efficient operations.

PEOPLE UPDATE

In November 2023, 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. Since July 2024, Mark has worked alongside Miguel and Nick as an observer. The transition period has ended, and Miguel and Nick are now the sole co-Portfolio Managers involved in the management of the strategy.

Mark continues in his role as co-Chief Investment Officer of Generation alongside Miguel. As such, Mark and Miguel will continue to oversee Generation Investment Management's investment teams and strategies across our public and private markets platforms.

After 18 years with Generation, Rema Rajeswaran, a Partner and Head of our Global Equity Healthcare sector team, retired from the firm for personal reasons at the end of 2024. We thank Rema for her many contributions to Generation in her time with us, including during the handover to Charles Cooper who recently joined Generation as a Director in the Healthcare team. We wish Rema well for the future. Prior to joining us, Charles was a Global Healthcare Analyst at Intermede Investment Partners. Before this he was an Analyst at Berenberg.

Hamish Low, a Director in our Trading & Analytics team, also left the firm at the end of the year. We thank Hamish for his numerous contributions over his years with the firm.

We had two further joiners to the Global Equity team in the last quarter of 2024. Anna Sayers joined Brian Dineen in our Financials sector team as an Associate. Prior to joining us, Anna worked with Advent Global Opportunities as a Senior Associate. Before this, she worked with Greenhill & Co as an Investment Banking Analyst. Morgan Elsmore also joined the team as an Associate, following an internship in the summer. Morgan will work alongside our co-Portfolio Managers Miguel and Nick, supporting their stock coverage in the Healthcare and Technology sectors. Morgan joined us following the completion of an MBA at Harvard Business School and was previously a consultant for Boston Consulting Group (BCG).

At a firm level, we remain steadfast in our commitment to Generation as an equitable, diverse and inclusive place to work. Our internal Equity, Diversity and Inclusion (EDI) Working Group and EDI Champions Group established in 2023 progressed the review of our EDI roadmap in 2024 and launched refreshed guidelines and training for all Generation colleagues.

As at 31 December 2024, the Generation team comprises 133 people and assets under management and supervision total approximately USD 41.7 billion.[44,45] The Just Climate team comprises 42 permanent people and the Generation Foundation is seven people.

Miguel Nogales,
co-Portfolio Manager

Nick Kukrika,
co-Portfolio Manager

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

[45] Assets under management as at 31 December 2024 are USD 32.9 billion and assets under supervision ("AUS") as at 30 September 2024 are USD 8.7 billion. 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, health care, 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. The pay gap data used is calculated by each company without any modifications applied. Calculation methods can vary between companies and jurisdictions.
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.
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.

FACTOR	METRIC	SUMMARY DESCRIPTION
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.

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If you require more information, please contact Generation Client Service (clientservice@generationim.com or +44 207 534 4700).

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