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Dear Secretary General,

As Senior Partner of Generation Investment Management ("Generation"), I would like to express our continued support for the United Nations' Global Compact. Enclosed you will find a description of our firm and the actions that we have taken over the past year to support the Principles through our primary business activity, which is equity investing. Given our focus on long-term sustainable investing, we integrate the Principles of the Global Compact into the core of our investment strategy. Through our advocacy work we encourage other asset owners and managers to do the same.



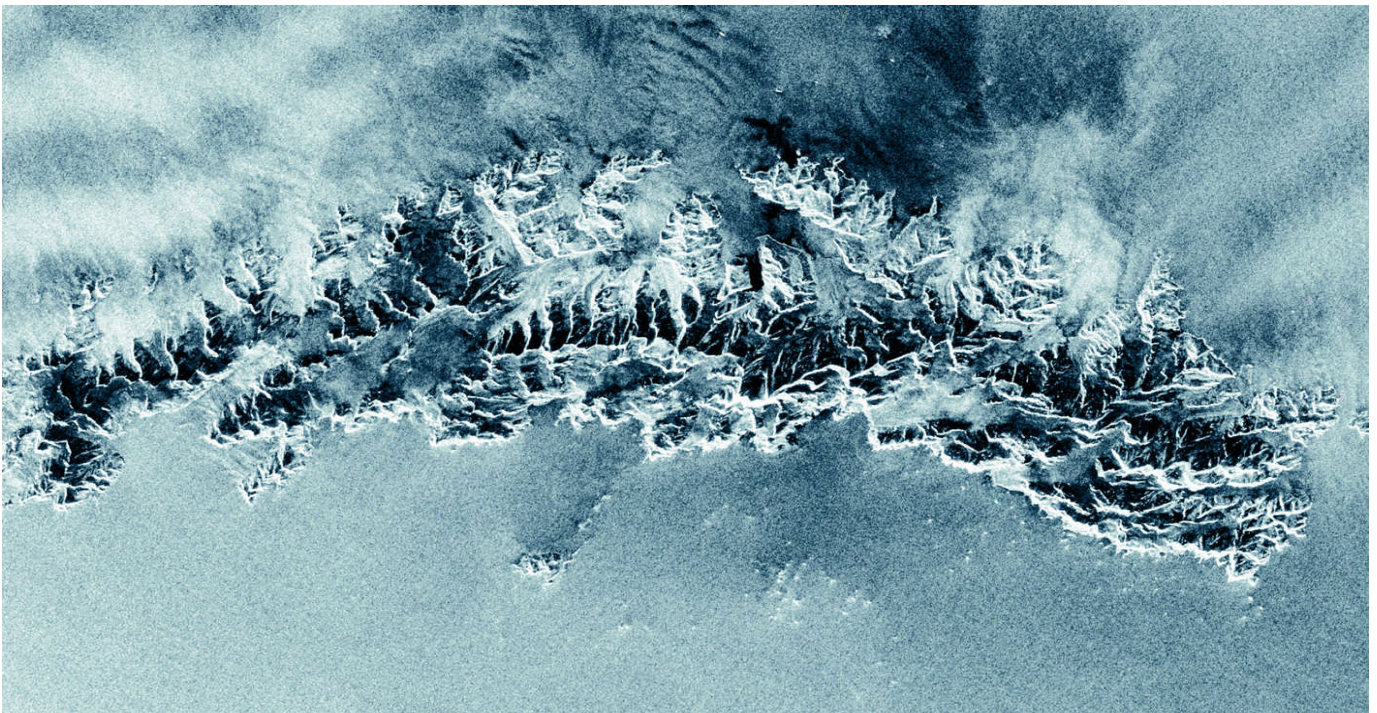
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# UN Global Compact – Communication on Progress

Generation Investment Management LLP

London | January 2012

generation



## COMMUNICATION ON PROGRESS

### About Generation

Generation is dedicated to long-term investing, integrated sustainability research and client alignment. We are an independent, private, owner-managed partnership with offices in London and New York. The firm was co-founded in 2004 and has three investment strategies, Global Equity, Climate Solutions and Asia Equity. Global Equity is Generation's flagship product, which invests in public equities in a concentrated long-only portfolio. Climate Solutions was launched in 2007 (and began investing in 2008), and invests in both private and public companies focused on solving the climate crisis. The Asia Equity strategy, launched in 2011, is a concentrated long-only portfolio investing in publicly listed companies in Asia, and/or companies which have significant revenues coming from the Asia Region.

### Sustainable Investing for the Long Term

Generation's investment approach is based on the idea that sustainability factors— environmental, social and governance criteria—will drive a company's returns over the long-term. By integrating sustainability issues with traditional analysis, we aim to deliver superior investment returns. We are closely aligned with our clients, and our performance is measured over the long-term.

### A Unique Research Platform to Analyze Global Challenges

Generation has built a global research platform to integrate sustainability into fundamental equity analysis.

We focus on key drivers of global change, including climate change and environmental degradation; macroeconomics, poverty and development; water and natural resource scarcity; pandemics and healthcare; and demographics, migration and urbanization.

These global challenges pose risks and opportunities that can materially affect a company's ability to sustain profitability and deliver returns. Our sustainability research plays an important role in forming our views on the quality of the business, the quality of management and valuation.

### Objective

Generation's objective is to help mainstream sustainability in the capital markets, and our core values reflect a commitment to responsible citizenship. Five percent of the profitability of the firm is allocated to the Generation Foundation, which supports global sustainability initiatives and personal philanthropy.

## Generation and the UN Global Compact

In the following pages we outline the way in which we take the Principles of the Global Compact into consideration in our business activity as investment managers. It is important to note that we do not have **direct exposure** to many of the principles. However, by virtue of being long-term investors focused explicitly on the integration of sustainability factors into investment decisions, we do see a responsibility to address the **indirect impacts** of the Global Compact principles in our core business activities.

In terms of measurement and outcomes, we have an internal methodology for assessing the quality of a business and its management team, a framework that reflects both fundamental financial analysis and integrated sustainability research. This approach enables us to monitor the most material sustainability issues (such as those highlighted in the Global Compact) on a company-by-company basis.

We expect our investment approach to deliver superior investment returns to our clients. We believe that sustainable development will be a primary driver of industrial and economic change over the next 50 years, and that shareholders will be best served by companies that maximize their financial return by strategically managing their performance in this new economic, social, environmental and ethical context.

## How We Support the Principles of the Global Compact

### Human Rights

*Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and*

*Principle 2: make sure that they are not complicit in human rights abuses.*

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**Generation Activity:** We have limited investments with exposure in regions where human rights abuses are endemic. We monitor the issue in our investment process by doing research on a sector and country level to determine if there are material human rights issues for any particular company we may be investigating. We favor companies with clear human rights policies and clear procedures for complaint handling in place. In countries where we have identified a significant risk of human rights abuse, and where a company may have exposure, we will probe the issue deeply with management and other constituents (such as local and international NGOs). We have developed a strong research network over the years in this area.

### Labor Standards

*Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;*

*Principle 4: the elimination of all forms of forced and compulsory labor;*

*Principle 5: the effective abolition of child labor; and*

*Principle 6: the elimination of discrimination in respect of employment and occupation.*

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**Generation Activity:** All of the companies that we invest in are expected to adhere to a high labor standard, which is reflected in our assessment of the “Management Quality” of the firm (an internal measure we use to define high quality companies we would like to own). If a company does not pass the “Management Quality” threshold, it will not form part of our investment portfolio. To determine how strong a company’s labor practices really are, we rely on primary research, as well as discussions with NGOs, unions, and other stakeholder groups. In these conversations and when we talk with the company, we will raise the issues that we believe are most material. Integral to our assessment of management quality, we consider how a company manages its human capital and look for best in class practices on a sector by sector basis.

## Environment

***Principle 7: Businesses should support a precautionary approach to environmental challenges;***

***Principle 8: undertake initiatives to promote greater environmental responsibility; and***

***Principle 9: encourage the development and diffusion of environmentally friendly technologies***

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**Generation Activity:** We systematically integrate environmental considerations (such as climate change and the transition to a low-carbon economy) into our company-level analysis where we believe it is a material long term value driver. For example, we regularly engage with portfolio companies in the industrials sector regarding climate change – both to understand their existing commitments and to work with them to understand the full risks and opportunities for shareholder value.

We prefer companies who take the precautionary approach to environmental challenges and demonstrate an understanding of the external costs that their activities place upon the environment and society. For example, we look for companies in the industrials sector that are well positioned for the transition from a high-carbon to a low-carbon economy. In addition, we value companies that have foresight in investing in environmental friendly technologies – often we will analyze a company’s R&D activity and products to assess the “carbon intensity of profits.”

In 2008, Generation began investing in its second strategy, focused exclusively on Climate Solutions. This strategy is focused on deploying capital to companies that are part of the solution to the climate crisis. We believe there is a significant gap between the capital needed and the capital currently deployed to create enduring solutions to the climate crisis. Addressing this financing gap will require the efforts of many players, including entrepreneurial ventures, multinational businesses, governments, civil society and investors. We believe that investing in scalable solutions now—as Generation is doing through the Climate Solutions strategy—is critical for the future of the planet. See <http://www.generationim.com/strategy/climate.html> for more information on our priority areas and investment focus.

Beyond climate change, Generation takes a systemic view of other sustainability challenges such as poverty, water scarcity and pandemics as they relate to climate change. For a sample of our thematic work on these global and pressing challenges, please visit our website: [www.generationim.com/sustainability/challenges/](http://www.generationim.com/sustainability/challenges/)

Our “systems view” of sustainability issues enables us to look at the interaction of sustainability challenges in order to determine both first and second order risks/opportunities for companies. We think this awareness helps us ask better questions and be better long-term investors.

We also participate in industry groups such as the Carbon Disclosure Project (CDP) and the Institutional Investor Group on Climate Change (IIGCC).



We also recognize that our operations and activities impact the environment; through our consumption of natural resources, including energy, water and natural materials. This results in externalities including carbon emissions, wastewater and landfill. Our most material environmental impacts arise from the energy-consumption used to run our offices and our travel-related business activities.

Our Objective is to reduce the direct negative environmental impacts of our activities, and influence the indirect negative impacts, through our sourcing, usage, and offsetting decisions.

We achieve our objective through:

- Minimizing our resource use through our sourcing decisions;
- Making responsible resource usage decisions, and
- Offsetting all unavoidable emissions from our operations on an annual basis.

**Sourcing:** Our first priority has always been to minimize the resources consumed by our business operations. The most material consumption is the operation of our offices. Our offices in London and New York were purpose-built with sustainability in mind. In London, our office at One Vine Street was expressly designed to achieve the highest standards in energy performance, and has been recognized as "Excellent" by BREEAM (BRE Environmental Assessment Method). Our New York office at One Bryant Park is one of the most energy efficient, ecologically friendly buildings in New York, and the first skyscraper to achieve a "Platinum" LEED (Leadership in Energy and Environmental Design) Certification for environmental excellence.

Features in the buildings of our New York and London offices include insulating glass and heat recovery systems; green-power electricity purchases; efficient lighting; rainwater harvesting and extensive water management; waste recycling; and the use of sustainable building materials.

In addition, both our London and our New York offices have interior design components with sustainability as the focus. Innovations include automatic daylight dimming and efficient lighting, glass partitions, recycled materials for fabrics, ceiling tiles and carpeting, low VOC paint, energy efficient appliances and equipment, sustainably certified wood for furniture and cabinetry and recycled glass countertops. Our New York office received a LEED Platinum certification for Commercial Interior Design.

Wherever possible, recycled and recyclable materials are utilized, and we work with our building managers on an ongoing basis to prioritize energy efficiency and sustainable practices. Other business-related sourcing decisions include travel and office supplies and we source environmentally-friendly suppliers for these wherever possible.

**Usage:** We look to actively manage our environmental impacts from our business activities. After our offices, the largest of our impacts arise from business travel. While we regard travel as a necessary part of our business for investment and client-service purposes, we encourage our team to constantly evaluate their travel arrangements and where possible, develop efficient travel itineraries and use alternate forms of communication such as video and teleconference facilities.

**Carbon Offsets:** As a firm, we are committed to offsetting all remaining emissions from our activities. We purchase Carbon Financial Instruments (CFIs) sufficient to offset all emissions from electricity use, commuting, and business travel on an annual basis. Our environmental commitments extend beyond business operations to the personal emissions of our team members and families. Generation works with a portfolio of offset providers to ensure the emissions generated by team members and their families outside the office are measured and neutralized.

## Anti-Corruption

**Principle 10:** *Businesses should work against all forms of corruption, including extortion and bribery.*

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**Generation Activity:** Corruption risk can be significant, especially in certain business models and geographies. In our analysis of companies, we do extensive research into issues of corruption and bribery, leaning on NGOs that have expertise in this area. In certain cases, we have excluded companies from investment due to identification of corruption risk where we believe the company has not appropriately addressed the issue in their business model. Sometimes we will look at a company's lobbying activities to determine if there is consistency between external and internal commitments. Again, this is just one of the many indicators we may look at in our in-depth research to determine the quality of a management team.

## Further Information

### Engagement and Advocacy in 2011

Generation remains committed to raising awareness of sustainability issues, and in 2011 we continued to advocate in line with many of the Global Compact principles.

In particular we engaged a number of industry participants on the topic of *Sustainable Capitalism* and produced the attached White Paper on the topic, (to be published in February 2012). We hope to use this as the basis for a number of further engagements in 2012 with the objective of encouraging market participants to move towards a more sustainable model of capitalism. These action items are also likely to form the centerpiece of the business plan for the Generation Foundation.

In December 2011 Al Gore and David Blood co-authored an opinion piece in the *Wall Street Journal* on the topic of Sustainable Capitalism. This, along with other articles, can be viewed on our website:

<http://www.generationim.com/sustainability/advocacy/>.

We also continue to share our research into key global challenges, and include highlights of these efforts for the public on our website: <http://www.generationim.com/sustainability/challenges/>

Information on our participation in sustainability-related initiatives (including the UN's Global Compact) is also featured on our website: <http://www.generationim.com/citizenship/partnerships.html>

And, finally, we provide the general public with an overview of the importance of sustainability to long-term investing:

<http://www.generationim.com/strategy/philosophy.html>

<http://www.generationim.com/sustainability/investing.html>

We hope our website will help further the goals of the UN's Global Compact by serving as another means of advocating for the mainstreaming of sustainability issues within the investment community.



**Our Values**

Our values remain core to the Generation approach, and have not changed since our founding.

**Commitment to Clients**

Our first commitment is to provide exceptional service to our clients. The best way to achieve this is to deliver superior long-term performance.

**Integrity**

Integrity and honesty are the bedrock of our business. We demand the highest ethical standards in our work and in our personal lives.

**Excellence and Innovation**

We aim for excellence in all that we do. We are committed to hard work, creativity and innovation in our effort to improve our investment processes and to provide the highest quality service to our clients.

**Teamwork**

We especially value teamwork. We consider each of the women and men with whom we work as individuals entitled to respect, dignity and recognition on the basis of merit.

**Diversity**

We want our team to reflect the diversity of the communities and cultures in which we operate in order to draw from the wisdom of many different backgrounds and perspectives.

**Sustainability Research**

We are committed to an investment philosophy that integrates sustainability research with rigorous fundamental equity analysis. This is the best method of long-term investing to protect the interests of our clients. We also believe that just as economic success must be sustainable, sustainability must include economic success.

**Independence**

We are committed to an independent employee owned partnership as an enduring business model.

**Responsible Citizenship**

We recognize our responsibility to live in accordance with our values, to be responsible to the communities in which we live and work and to the world community as well. We endeavor to be good citizens, support charities, be mindful of ways to help our employees fulfill their family responsibilities and serve their communities, and protect our environment and natural resources.