

# generation\_\_

January, 2007

Dear Secretary General,

As Managing Partner of Generation Investment Management, I would like to express our continued support for the United Nations' Global Compact. Below you will find a description of our firm and of the actions that we have taken over the past year to support the principles through our primary business activity, which is global equity investing. In addition, we are members of several industry initiatives (see list of memberships below) including the United Nations Environment Programme's *Principles for Responsible Investment* (PRI). Given our focus on long-term sustainable investing, we integrate the principles into the core of our investment strategy, and we encourage other asset owners and managers to do the same.

David Blood

Managing Partner

Generation Investment Management, LLP

## Communication on Progress

### **About Generation**

Generation is an independent, private, employee-owned partnership established in April 2004. The firm is dedicated to the principles of long-term investing, integrated sustainability research and client alignment. Based in London and Washington, DC, Generation manages investments for institutions and select individuals. We have a single global portfolio of 30-50 companies.

Through our investment activity, we seek to own high quality businesses with strong management teams that understand the changing context for business and are positioned to be part of the solution to global challenges.

In addition to integrating sustainability research throughout our investment process, Generation also has a Foundation where 5% of the firm's profitability will be allocated to support global non-profit sustainability initiatives.

Below, 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 due to the fact that we are a small and relatively new firm. However, by virtue of being long-term investors, we do see a responsibility to address the indirect impacts of the Global Compact principles in our role as asset owners.

In terms of measurement and outcomes, we have an internal methodology for assessing the quality of a business and its management team which 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 the outcome of our investment approach to be the ability 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**

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#### **Human Rights**

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

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

- **Generation Activity:** We do not have investments with major exposure in regions where human rights abuses are endemic. However, we still 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).

## Labour Standards

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*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 labour;

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

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

- **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). 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

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*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

- **Generation Activity:** We systematically integrate environmental considerations (such as climate change) into our company-level analysis where we believe it is a material long-term value driver. For example, we have engaged in dialogues with several about climate change – both to understand their commitments and to help them 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 have experience in carbon trading and make capital allocation decisions with an understanding of the price of carbon (depending upon geographic location). 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 product pipeline to assess the “carbon intensity of profits”.

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 (please see: <http://www.generationim.com/media/pdf-thematic-research-highlights.pdf>). This “systems view” 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.

Finally, we participate in industry groups such as the Carbon Disclosure Project (CDP), the Institutional Investor Group on Climate Change (IIGCC), and the Enhanced Analytics

Initiative (EAI) in order to encourage broader transparency and integration of sustainability research into mainstream investment analysis.

- **Our Internal Environmental Commitments as a Firm:** In addition to looking at environmental issues in our investment process, we also have committed to “walk the talk” internally. This is why we work to reduce our own carbon footprint as a firm, and offset emissions once we have reduced as much as possible. See below:

#### **A Carbon Neutral Firm**

While we are still a small firm with only 23 employees, Generation is committed to reducing the energy use of operations, both direct and indirect. We do this by minimizing non-essential air travel and by managing our building operations (lighting, recycling, and procurement). We have also had conversations with suppliers about energy efficiency. For the remainder of our carbon footprint, we work with two offset providers (The Chicago Climate Exchange and the CarbonNeutral Company) to ensure our London and Washington D.C. offices are fully carbon neutral. In addition, Generation has sponsored a full energy efficiency audit for each employee's residence, including suggestions for ways they can make home energy improvements.



As an Associate member of the Chicago Climate Exchange, Generation has made a legally binding commitment to purchase Carbon Financial Instruments (CFIs) sufficient to 100% offset the greenhouse gas emissions caused annually by our firm's electricity use and business travel for the period 2005-2010.



The CarbonNeutral Company is a voluntary offset provider with whom Generation works to offset emissions, particularly for the partners and families of Generation's employees.

#### **Anti-Corruption**

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

- **Generation Activity:** Corruption risk can be significant, especially in certain business models and geographies. In our analysis of companies for ownership, 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.

## Memberships and Initiatives

To support Generation's commitment to strengthening the field of sustainability research, we participate in the following initiatives:

- [Asian SRI Association](#)
- [Carbon Disclosure Project](#)
- [Enhanced Analytics Initiative](#)
- [European SRI Association](#)
- [Extractive Industry Transparency Initiative](#)
- [Global Business Coalition on HIV/AIDS](#)
- [Institutional Investors Group on Climate Change](#)
- [International Corporate Governance Network](#)
- [UK Social Investment Forum](#)
- [UN Global Compact](#)
- [United Nations Environment Programme, Finance Initiative — Principles for Responsible Investment](#)
- [US Social Investment Forum](#)

### Asian SRI Association (ASrIA)

ASrIA is a not for profit, membership association dedicated to promoting corporate responsibility and sustainable investment practice in the Asia Pacific region. ASrIA's members include investment institutions managing over US\$2 trillion in assets, however membership is open to any organisation which has an interest in sustainable investment. [www.asria.org](http://www.asria.org)

### Carbon Disclosure Project

The Carbon Disclosure Project provides a secretariat for the world's largest institutional investor collaboration on the business implications of climate change. CDP represents a process whereby institutional investors collectively sign a single global request for disclosure of information on Greenhouse Gas Emissions. [www.cdproject.net](http://www.cdproject.net)

### Enhanced Analytics Initiative

The EAI is an international collaboration between asset owners and asset managers aimed at encouraging better investment research, in particular research that takes account of the impact of extra-financial issues on long-term investment. The Initiative currently represents total assets under management of €1.8 trillion. EAI incentivises research providers to compile better and more detailed analysis of extra financial issues *within* mainstream research. David Blood, Generation's Managing Partner, serves as the Chair of EAI. [www.enhanced-analytics.com](http://www.enhanced-analytics.com)

### European SRI Association

The European Social Investment Forum is the pan-European stakeholder network whose mission is to encourage and develop sustainable and responsible investment and better corporate governance. [www.eurosif.org](http://www.eurosif.org)

## **Extractive Industry Transparency Initiative (EITI)**

The EITI has designed principles to promote the use of natural resource wealth to create positive economic and social impacts. The principles were designed primarily for companies in the extractive industry however investors and governments also support them and their transparency. Generation endorses the initiative and views adoption of the principles as an indication of management quality for firms in the extractive industry. [www.eitransparency.org](http://www.eitransparency.org)

## **Global Business Coalition on HIV/AIDS**

The Global Business Coalition on HIV/AIDS is the pre-eminent organization leading the business fight against HIV/AIDS. Generation participates in the Coalition's finance working group. [www.businessfightsaids.org](http://www.businessfightsaids.org)

## **Institutional Investors Group on Climate Change**

The Institutional Investors Group on Climate Change is a UK based collaborative organisation of institutional investors focused on helping investors to better understand the implications of climate change and of climate change policy for investment portfolios. [www.iigcc.org](http://www.iigcc.org)

## **International Corporate Governance Network (ICGN)**

The ICGN is the leading investor-led authority on corporate governance and a network for the exchange of views and information about corporate governance issues internationally. [www.icgn.org](http://www.icgn.org)

## **UK Social Investment Forum**

Part of the broader Social Investment Forum network, UKSIF promotes Socially Responsible Investment in the UK. [www.uksif.org](http://www.uksif.org)

## **UN Global Compact**

The Global Compact is a voluntary international corporate citizenship network initiated to support the participation of both the private sector and other social actors to advance responsible corporate citizenship and universal social and environmental principles to meet the challenges of globalization. [www.un.org/Depts/ptd/global.htm](http://www.un.org/Depts/ptd/global.htm)

## **United Nations Environment Programme, Finance Initiative—Principles for Responsible Investment (UNEP FI)**

UNEP FI is a global partnership between UNEP and the financial sector to understand the impacts of environmental and social considerations on financial performance. [www.unepfi.org](http://www.unepfi.org)

## **US Social Investment Forum**

The US Social Investment Forum is a national non-profit membership organization promoting the concept, practice and growth of socially responsible investing. [www.socialinvest.org](http://www.socialinvest.org)