

January, 2008

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.

Generation has built a global research platform to integrate sustainability research into fundamental equity analysis. We focus on the economic, environmental, social, and governance risks and opportunities that can materially affect a company's ability to sustain profitability and deliver returns. Our research plays an important role in forming our views on the quality of the business, the quality of management, and valuation.

Our Advisory Board, convened by our Chairman the Hon. Al Gore, helps set our long-term thematic research agenda into global sustainability issues, including climate change, poverty and development, ecosystem services and biodiversity, water scarcity, pandemics, demographics and migration, and urbanization.

Generation's vision is to mainstream sustainability in the capital markets. As part of our advocacy efforts, we are pleased to share highlights of our thematic research with the general public via our website. Our core values include a commitment to responsible citizenship, and we also participate in number of initiatives aimed at strengthening sustainability research. Five percent of the profitability of the firm is allocated to the Generation Foundation, which will support global non-profit sustainability initiatives.

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 due to the fact that we are a small and relatively concentrated 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

### Human Rights

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*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 visit our website. 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.

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.

#### **Supporting Innovation to Address the Climate Crisis**

This year, Generation announced a global collaboration with California-based venture capital firm Kleiner Perkins Caufield & Byers (KPCB) to find, fund and accelerate green business, technology and policy solutions with the greatest potential to help solve the current climate crisis.

The partnership will provide funding and global business-building expertise to a range of businesses, both public and private, and to entrepreneurs. This alliance seeks to contribute to the efforts at solving the climate crisis. Together, we have a working understanding of this urgent, multi-dimensional challenge and are resolved to help business and government leaders accelerate the development of sustainable solutions.

The KPCB and Generation alliance represents a landmark alignment of resources to effect global change to protect the environment. It combines the research expertise of both organizations with a track record of successful investments in public and private companies, from early stage to large capitalization business. It aligns the convening power of Mr. Gore, the KPCB Greentech Innovation Network and the Generation Advisory Board towards a common goal. In addition, KPCB's presence in Asia and the U.S., combined with Generation's presence in the U.S., Europe and Australia, will support global scale solutions. The two teams will collaborate on opportunities spanning sectors such as renewable energy technologies, building efficiency, cleaner fossil energy, sustainable agriculture and carbon markets.

#### **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.

While we are a small firm with only 28 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** protecting our climate

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

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*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.

## Further Information

### Memberships and Initiatives

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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 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)

### **Our Values**

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#### **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.