

Generation  
Investment Management

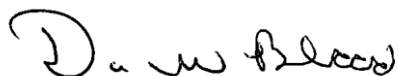
20 Air Street  
London W1B 5AN

Phone +44(0)20 7534  
4700  
Fax +44(0)20 7534  
4701

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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 investment management. 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.



David Blood  
*Senior Partner*  
*Generation Investment Management, LLP*

London  
New York

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## UN GLOBAL COMPACT – COMMUNICATION ON PROGRESS

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GENERATION INVESTMENT MANAGEMENT LLP

MARCH 2017

## COMMUNICATION ON PROGRESS

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### 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 founded in 2004 and has four core investment strategies: Global Equity, Asia Equity, Growth Equity and Global Credit. Global Equity is Generation's flagship product, which invests in public equities in a concentrated long-only portfolio. We founded our Global Equity strategy in 2005 and later launched our Asia Equity strategy in 2011. Climate Solutions Fund I (growth equity) was launched in 2007 (and began investing in 2008), and invests in both private and public companies focused on facilitating the transition to a low carbon economy. 2013 saw the launch of our Global Credit Strategy focused on the supply of credit to SMEs, whose business models, products and services are well-positioned in terms of the long-term sustainability challenges and opportunities within their sectors. In 2015, we closed a second Climate Solutions Fund.

### 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 ANALYSE GLOBAL CHALLENGES

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

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

These global challenges pose risks and opportunities that can materially affect a company's ability to remain profitable 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. A proportion of the Firm's profitability is allocated to the Generation Foundation, which conducts research and advocacy for Sustainable Capitalism, and supports our employees' 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 implications** 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 maximise 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 to 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 favour 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.

### LABOUR 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 LABOUR;

PRINCIPLE 5: THE EFFECTIVE ABOLITION OF CHILD LABOUR; 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 labour 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 labour 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

**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 our Global Equity Fund 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 to 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 environmentally friendly technologies – often we will analyse a company's R&D activity and products to assess the "carbon intensity of profits."

Generation's Climate Solutions strategy is focused on deploying capital to companies that are generating value by facilitating the transition to a low carbon economy. 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 its Climate Solutions strategy- is critical for the future of the planet.

Beyond climate change, Generation takes a systemic view of other sustainability challenges such as poverty, water scarcity and pandemics in the context of a changing climate. 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 holistic approach to sustainability enables us to consider the interplay between long-term environmental challenges in order to identify risks/opportunities to companies across the value chain. We think this awareness provides us with the insight to ask thoughtful questions and become increasingly better long-term investors.

We also participate in a number of global initiatives such as the Carbon Disclosure Project (CDP) and the Institutional Investor Group on Climate Change (IIGCC) which promote market transparency and greater environmental reporting. In addition, we engage closely with our Climate Solutions portfolio companies, often with the aim of encouraging better communication of the environmental benefits of their products and/or services via CDP.

We recognise that our operations and activities have an impact on 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.

### *Sourcing*

Our most significant sourcing choice is that of our offices, in London and New York. Both offices were built with sustainability in mind. With the majority of the team being based out of London, our London office makes the most significant reduction in our environmental impact. Our London office has achieved the "Excellent" rating by BREEAM and the fit-out achieved the gold Ska rating. Our New York office is one of the most energy efficient, ecologically friendly buildings in New York. The building received a Platinum LEED, being the first skyscraper to achieve a Platinum LEED certification for environmental excellence. Design and construction elements of our offices make significant contributions to:

## > Energy Savings

- > A material proportion of the London office building's energy is provided by de-centralised combined cooling, heat and power (CCHP units), including one of the UK's largest installs of fuel cell technology, photovoltaic cells and thermal stores. The CCHP units that provide a significant proportion of the energy consumed by the London office also reduce CO<sub>2</sub> by 40% and NO<sub>x</sub> and SO<sub>x</sub> emissions by 99.9%. The CCHP units utilise gas to generate electricity and heat at efficiencies which reduce greenhouse emissions by 60% compared to electricity from the grid. Our New York office also has a combined heat and power system.
- > Features in both offices include intelligent lighting and glass which reduces solar heat gain and thus reduces the need for cooling.
- > The London office fit-out was designed to further minimise our energy use through technologies that include personalised energy feedback systems and heat recovery processes.

## > Water Usage

- > Our London office has rainwater harvesting tanks to capture rainwater (Sliver Water) which is filtered and cleaned for use in office toilets. The building manager estimates that this achieves a reduction in standard water consumption equal to 20 litres per day per full time employee.
- > Our New York office has a gray-water system that captures and re-uses rainwater, as well as waterless urinals and low-flow fixtures to decrease the use of water.

## > Waste management

- > As part of our aim to provide a productive work environment, our offices include a communal kitchen with a wide range of complimentary healthy-eating options. Whilst we appreciate the benefits this brings, we are mindful that there is resultant waste from the food itself, and its packaging. Therefore, we have on-site processes for the separation, collection and recycling of different types of waste materials, including food waste.
- > In terms of the fit-out of the London office, we used recycled wood wherever possible. Similarly, during the building's construction, recycled content exceeded 20% by value in a variety of materials including superstructure concrete, roof protection from recycled bottles, carpet underlay from old clothes, and recycled content for blockwork.

We also work with building managers on an ongoing basis to prioritise energy efficiency and sustainability practices. Other business-related sourcing decisions include local travel and office supplies, and we source environmentally-friendly suppliers for these wherever possible. For example the supplier of the Firm's in-house food uses a more energy efficient way of delivering groceries. We also assess our suppliers against a checklist which includes questions relating to their own environmental, social and governance practices.

## *Usage*

As part of the induction of new joiners, we make an effort to communicate the environmental practices we have in place around recycling and the personal energy savings individuals can make on a day-to-day basis, as well as providing information on the technology inherent in the office space. 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 alternative forms of communication such as video and teleconference facilities. We continue to work with technology specialists to enhance the quality of our distance meeting systems. Our offices in London and New York are both centrally located and well served by public transport facilities which are close by. Where staff are unable to use public transport, we aim to use taxi services that provide hybrid vehicles.

### *Carbon Off-setting*

As a Firm, we are committed to off-setting what we see as the unavoidable carbon emissions of our business activities on an annual basis. While we strive to manage our usage and sourcing decisions, we recognise the constraints inherent within the necessary business travel, and the associated high carbon emissions of air travel. Furthermore, as a business focused on its people, we appreciate our privileged positions and ability to have attracted individuals from all over the world to London and New York, yet we are also crucially aware of the indirect carbon emissions this may bring and our societal responsibilities. We have therefore chosen to base the measurement and off-setting of the Firm's carbon footprint on our business travel and office use, as well as the carbon emissions created by Generation team members and their families in the course of their personal lives.

We have been thoughtful in the selection of off-set providers, choosing the highest standard of carbon credit instrument and, more importantly, ensuring we are comfortable that the underlying projects offer sustainable, lower-emission alternatives to existing practices. In terms of measurement, we consult third parties to apply widely-accepted emissions factors to our travel, energy use and household data. Whilst we appreciate that carbon credits do not provide a complete solution, we hope that they go some way to mitigating our overall environmental impact.

## 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, as it relates to stewardship of the Industry, as a market participant we take very seriously the issue of bribery and corruption as it relates to Generation. As in every other circumstance where we expect the management of our investment companies to adopt the highest ethical standards and regulatory compliance in the disposition of their responsibilities, we also demand no less from our own people.

All our partners and staff are expected to be conversant with our Core Values, the FCA's guiding Principles and the requirements as set out in our Compliance Manual. The Compliance Manual contains the guidance every partner and staff member needs to ensure they remain in compliance with the UK Bribery Act and the FCA's rules on inducements. When the UK Bribery Act was passed, all staff were required to undertake specific training to ensure they were familiar with the Firm's policies and procedures designed to identify and to prevent bribery and corruption.

Training on Financial Crime, including bribery and corruption, is a regular feature in the Firm's calendar. In addition, all partners and staff are encouraged to communicate with the Compliance Officer and/or the General Counsel if they have any doubts about the interpretation of the rules or find themselves in a position where they think they have become aware of a situation that might be in contravention of the relevant rules and legislation.



## FURTHER INFORMATION

### ADVOCACY AND ENGAGEMENT IN 2016

Generation remains committed to raising awareness of sustainability issues, and in 2016 we continued to advocate in-line with many of the Global Compact principles. This includes our continuation to Chair a collaborative engagement group orchestrated through the UNPRI. This particular Investor Working Group seeks to facilitate a sustainable Palm Oil industry.

Generation is committed to pursuing a more sustainable form of capitalism. A key part of that commitment is The Generation Foundation, the advocacy initiative funded by an annual distribution from Generation Investment Management. The Foundation aims to accelerate the transition to a more sustainable form of capitalism; one aligned with a low-carbon, prosperous, equitable, healthy and safe society.

The Generation Foundation executes its mission by sharing insights, forming partnerships to deliver research, and deploying catalytic capital. In 2016, the Foundation identified three strategic priorities for the advancement of a more sustainable form of capitalism, and focused its work to align with the three priorities:

- > Use sustainability analysis to enhance investment frameworks
- > Accelerate the transition to a low carbon economy by assessing carbon risk and pricing carbon in all capital allocation decisions
- > Overcome structural barriers to a sustainable economy by upholding the full remit of fiduciary duty and exploring the role of corporate form in sustainable capitalism

Work included major partnerships, such as the Foundation's work with 2 Degrees Investing Institute to use quantitative analysis to examine the beneficial effects of long-termism in capital markets; and its work with Ecofys to analyse carbon productivity along value chains. Another key piece of generation's work is catalytic capital to build capacity for organisations doing crucial work for the advancement of sustainable capitalism.

The smaller grant-making activity is driven by input from Generation employees to support sustainability projects globally. Grants in 2016 included Theatre for a Change, an organisation that empowers vulnerable women and girls using interactive and participatory programmes. The Foundation also matches charitable gifts made by Generation employees to eligible charities.

To learn more about The Generation Foundation's work, please visit [www.genfound.org](http://www.genfound.org)

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>

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

### COMMITMENT TO CLIENTS

We are committed to providing exceptional client service — above all by delivering superior long-term performance — and by ensuring that our interests are fully aligned with those of our clients.

### INTEGRITY

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

### EXCELLENCE AND INNOVATION

We aim for excellence in all that we do, and ensure that our investment processes encourage rigorous research, curiosity and continuous learning. We believe interdisciplinary, diverse teams are the most likely to yield new insights and produce the best results for our clients over the long-term.

### TEAMWORK

Teamwork underpins our one-firm culture. We consider each of the women and men with whom we work as individuals entitled to respect and dignity, and we recognise and reward their contributions on the basis of merit.

### COMMUNICATION

Effective communication is critical to teamwork and to our relationships. We encourage and especially value hearing different viewpoints and respectful challenges to consensus opinions.

### DIVERSITY

Diversity, in the broadest sense, helps drive our success. A welcoming work environment, where individuals can bring the totality of their experience and perspectives, is an invaluable contributor to greater economic success.

### SUSTAINABILITY RESEARCH

Our investment philosophy, which integrates sustainability research with traditional financial analysis, affords us the highest opportunity to deliver outstanding investment results.

### INDEPENDENCE

We have chosen an independent broad-based employee-owned partnership as an enduring business model. Similarly, we are committed to remaining a boutique investment firm focused on continual improvement in our performance.

### RESPONSIBLE CITIZENSHIP

We recognise and accept 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. We aim to reduce our environmental footprint where possible; we are mindful of ways to help our employees fulfil their personal responsibilities; and we actively encourage philanthropic engagement.

### SUSTAINABLE CAPITALISM

Through engagement with our clients, our portfolio companies and the broader financial markets, we strive to promote a more sustainable form of capitalism. [The Generation Foundation](#) is an important element of this work.