

Generation
Investment Management

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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

UN GLOBAL COMPACT – COMMUNICATION ON PROGRESS

GENERATION INVESTMENT MANAGEMENT LLP

MARCH 2018

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 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 and also the 17 Sustainable Development Goals) 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.

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.

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 funds are 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 funds- 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.

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.

Our Firm’s direct environmental impact is mainly due to the operation of our offices and business travel. We aim to minimise our carbon footprint and use of environmental resources through our sourcing decisions and our carbon off-setting program as well as promoting behavioural changes amongst our employees, suppliers and other stakeholders.

Our most significant sourcing choice is that of our offices. Our offices in London and San Francisco are both centrally located and well served by public transport facilities. Where staff are unable to use public transport, we use taxi services that provide hybrid vehicles. Most of the Generation team is based out of London. Both were purpose-built with sustainability in mind. In London, our office at 20 Air Street achieved the highest standards in energy performance, achieving the “Excellent” rating by BREEAM (Building Research Establishment Environmental Assessment Method). A proportion of energy and heat is sourced from photovoltaic cells, thermal stores and combined cooling, heat and power units. A rainwater harvesting system, captures rainwater (Silver 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. An intelligent lighting system is in place as to maximise natural light and limit wastage. A biodiverse sedum roof improves insulation and supports the local bee population.

Generation consciously designed the London office fit-out to further minimise the environmental impact of its operations and achieved the gold “Ska” rating. Technologies include personalised energy feedback systems, heat recovery processes, low VOC paints, and the use of sustainability certified or recycled wood wherever possible. Similarly, our recently opened San Francisco office is located in a building which has been successfully re-certified as Platinum for the LEED E-BOM which applies to existing builds. Our own fit out of that office was completed following the highest LEED specifications and we are currently awaiting the results of our formal certification application. Our

aim is to reach the highest level of Platinum. Both offices have on-site processes for the separation, collection and recycling of different types of waste materials, including food waste. Both also work with building management on an ongoing basis to prioritise energy efficiency and sustainable practices.

Business-related sourcing decisions also include local travel and office supplies, where we choose environmentally-friendly suppliers as much as possible. We assess our suppliers against a checklist, which includes questions relating to their own ESG practices. As part of the induction for new joiners, we communicate the environmental practices we have in place for recycling and provide training on the energy savings decisions individuals can make on a daily basis and on the relevant technology available.

Generation is 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 especially air travel. We 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 consult with third parties to apply widely-accepted emissions factors to measure our travel, energy use and household data. Whilst we appreciate that carbon credits do not provide a complete solution, they contribute to mitigate our overall environmental impact.

Travel is a necessary part of our business for investment and client service purposes, but we do encourage our employees to constantly evaluate their travel arrangements and, where possible, develop efficient travel itineraries and/or use alternative forms of communication such as video and teleconference technologies. We continue to work with technology specialists to enhance the quality of our distance meeting systems.

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, 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 2017

Generation remains committed to raising awareness of sustainability issues, and in 2017 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 2017, the Foundation produced research and made grants in line with our five-year strategic priorities outlined in the 2015 white paper, *Allocating Capital for Long-term Returns*: carbon pricing, fiduciary duty and enhancing investment analysis with sustainability research. This included continued work on *Carbon Pricing Unlocked* partnership with Ecofys, through which we delivered resources such as a step-by-step guide to internal carbon pricing for businesses. We also made progress on the *Fiduciary Duty in the 21st Century* initiative in collaboration with the UN-backed Principles for Responsible Investment and the UN Environmental Program Financial Initiative. This project seeks to identify and overcome region-specific barriers to implementing a modern interpretation of fiduciary duty, one requiring a fiduciary to consider material environmental, social and governance issues in the investment process.

The Foundation also published a white paper, *The Transformation of Growth*, in which we emphasised the risks growing income inequality at the national level poses to economic systems and individual businesses. In the report, we highlight some of the ways in which sustainable businesses can mitigate these risks by investing in employees, communities and innovative business models.

To learn more about The Generation Foundation's work, please visit 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.