

Generation
Investment Management

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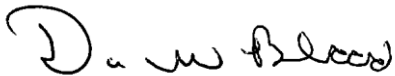
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Dear Secretary General,

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 2020

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 San Francisco. The Firm was founded in 2004 and has three core investment strategies: Global Equity, Asia Equity, and Growth Equity.

We launched our Global Equity product in 2005, shortly after the Firm was founded, to invest in public equities in a concentrated long-only portfolio. Later, we launched our Asia Equity strategy in 2011. Our Growth Equity strategy was launched in 2008 in order to invest in businesses facilitating the transition to a more sustainable economy. Since that time our conviction around the opportunity and urgency of this need has strengthened as we observe increasing disruption across all markets and industries. In 2018, Generation entered into a long-term strategic partnership with La Caisse de Dépôt et Placement du Québec (CDPQ) to make large-scale long-term sustainable investments, and closed the first investment in FNZ Limited. In 2019, we closed our third fund, Sustainable Solutions Fund III. In February 2020, Temasek joined Generation and CDPQ as an investor in FNZ. We continue to develop our Long-Term Equity strategy which will focus on investing in private, later-stage, established businesses.

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 into 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 (the Foundation), the Firm's philanthropic initiative. The Foundation exists to accelerate the transition to a more sustainable form of capitalism; one aligned with a low-carbon, prosperous, equitable, healthy and safe society.

CERTIFIED B CORPORATION (B CORP)

B Corps are businesses that have been verified by the initiative against standards for social and environmental performance, public transparency and legal accountability. Such businesses form a global movement showing how profit can go hand-in-hand with purpose. Generation has been a certified B Corp since 2015.

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.

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. It applies across all our investment strategies. In the case of our third private equity fund, Sustainable Solutions Fund III, we apply a Sustainability Threshold to determine a company's net contribution as a solutions business. To do this we compile information about the total effects of a business model on people and planet, including positive and negative, intended and unintended. The investment team debates aggregated data on how a company provides a net contribution to a more sustainable economy. Where possible, we use a Lifecycle Assessment approach to benchmark company performance against an appropriate baseline.

We expect our investment approach to deliver superior investment returns to our clients¹. 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.

¹ Although Generation seeks to provide superior investment performance, this is an aspiration and there is no guarantee that this goal will be achieved. Similarly, while we naturally hope to provide "outstanding" results, this outcome is not guaranteed and loss of capital may occur.

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.

As a Firm, Generation’s statement with regard to the UK Modern Slavery Act is on our website [here](#).

With respect to our internal operations, Generation is committed to eliminating discrimination from all personnel practices. We consider diversity to be a critical sustainability factor that drives business and investment success and the Firm’s leadership is passionate about fostering a truly diverse, inclusive working environment. We are proud of the diverse group of talented individuals at the Firm, which we feel serves to promote and reward based only on merit and contribution, rather than being influenced by underlying biases. In 2019 the Firm initiated a new returnships programme to support individuals resuming their careers after a long-term break, usually on account of family commitments. We have also partnered with the UK charity The Social Mobility Foundation to support a week-long work experience programme for young people from low-income backgrounds. The Firm is currently more than 50% female overall and the investment team is 41% female. While we are more balanced in this respect

than many of our asset manager peers, we continue to work hard to achieve gender parity and are committed to continuing our efforts in this regard in years to come.

Although we have historically had relatively low staff turnover, we hope that individuals who join the Firm will remain with us for a significant part of their careers. It is, therefore, even more critical that we seek to eliminate biases from our hiring processes. In this respect, we aim to be consistent both across and within hiring processes. A consistent process applies to both junior and lateral hires (with some discretion for fixed term or more junior hires). Hiring leads work closely with our People team in selecting an appropriate recruitment partner, and in generating a pipeline of candidates. We specifically look to our People team and recruitment partners to remove biases from the initial search, both in terms of the job description language and the talent pools we draw potential candidates from.

On an annual basis, we review equality and fairness of pay, taking into account seniority levels and gender and we monitor the gender split during the recruitment process (i.e., how many CVs we get for male and female candidates, and how many progress at each stage). The Firm's management regularly reviews several metrics including turnover, background and gender split by level in order to monitor execution on our diversity aspirations.

In addition to our commitment to diversity in our business, we recognise that our scope for impact extends beyond our direct activities. As such, our investment team considers diversity practices as a key aspect of management quality and engages with companies extensively on the topic.

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 Growth Equity 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 sustainability 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 Growth Equity funds – is critical for the future of the planet. In order for companies to qualify for our third fund, Sustainable Solutions Fund III, they must meet our Sustainability Threshold that we believe makes them net positive as a solutions business.

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 are also signatories to organisations such as CDP (formerly the Carbon Disclosure Project) and the Institutional Investor Group on Climate Change (IIGCC) which promote market transparency and greater environmental reporting. Alongside this we engage with our portfolio companies to encourage disclosure to CDP if they have not done so already. For those that do report, as appropriate, we continue to push them to further enhance their reporting and set emissions targets in-line with the Science-based Target initiative.

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.

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 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 received the Platinum certification in August 2019. 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 its 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 Legal and Compliance Team 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.

OUTCOMES

While we have presented how we consider the principles of the UN Global Compact in our investment decisions and provided illustrations of how we do this in practice, we appreciate that our analysis is on a case-by-case basis; however, we do consider the principles as embedded within our world-view. As such, as part of our reporting to our clients, we provide a view of the portfolios that indicate aggregate outcomes on particular areas aligned with the principles.

Among these is a mapping of the portfolio to the **UN Sustainable Development Goals (SDGs)** as follows:

MAPPING METHODOLOGY

- We focus on the primary activity of a company, as defined by it being an explicit part of our investment thesis and/or it being >35% of the company's revenues.
- There is no limit to the number of SDGs attributed for a given activity, but we don't credit second order impacts.
- Impacts are considered looking at the whole lifecycle of a product/service.

MAPPING RESULTS

- Our Global, Asia and Growth Equity portfolios maps to SDGs:



FURTHER INFORMATION

ADVOCACY AND ENGAGEMENT IN 2019

Generation remains committed to raising awareness of sustainability issues, and in 2019 we continued to act in-line with many of the Global Compact principles.

The year saw another iteration of our annual [Sustainability Trends Report](#) as a way to demonstrate the commercial progress across a wide range industries, which we engaged our clients and other market participants on. Our Senior Partner, David Blood, continued to be involved with the Financials stream of the Task Force on Climate-related Financial Disclosures (TCFD) and in the first part of 2020 Generation plans to present our own report aligned with TCFD recommendations. While our investment process already takes account of many of its recommendations, this will be the first time we are doing a formal report. At the start of 2020, Generation joined the not-for-profit organisation Focusing Capital on the Long Term (FCLT), which focuses on encouraging a longer-term focus in business and investment decision-making. Lastly, in 2019 we launched our Sustainability Insight Series and published our first research paper entitled the Future of [ESG Data](#). Our intention with the series is to highlight areas where the investment sector needs to raise the bar in light of the urgency and scale of the sustainability challenges we face. As more and more firms join the mainstream sustainability investing area, we want to make sure standards are maintained. Of course, at Generation we are also pushing ourselves to do more. We will try to shed light on the active debates we have internally on many important topics.

As mentioned, the Generation Foundation is a key part of Generation's commitment to pursuing a more sustainable form of capitalism. The Foundation has matured and developed in the 15 years since its inception. In earlier years, the role of the Foundation was to introduce the idea of sustainable investment to a wider audience. As such, its outputs tended to be explanatory papers. In 2015, the Foundation released the white paper "Allocating Capital for Long-term Returns", shifting its focus to actionable research. The Foundation's role in funding organisations like the Sustainability Accounting Standards Board (SASB), the Impact Management Project and Carbon Tracker initiative meaningfully advanced the field of sustainable investment. The Foundation was also instrumental in launching the B Corp movement in the UK, which now comprises over 3,000 B Corps globally. The Generation Foundation continues to play an important role in supporting the infrastructure of sustainable investment.

In addition to funding the infrastructure, the Foundation's work on fiduciary duty, stranded assets, carbon pricing and business as a force for social good has resulted in meaningful advances in regulatory, investor and corporate behaviour. The impact of this work is tangible and can be seen in European legislation on sustainable finance that draws directly from the research we commissioned to drive ambition in sustainable finance regulation. The practical tools created in partnership with Navigant have been incorporated into CDP's standard disclosures and assisted companies in reducing carbon emissions of their operations and supply chains. By helping Greyston to launch the Center for Open Hiring, several hundred job placements will be filled by formerly 'unemployable' people, and we expect the lives affected by Open Hiring to reach well into the thousands in the years to come.

As we move into 2020 the Foundation's trustees recognise the increasing urgency around the issues we face. They have set impact goals around two key areas and identified priorities for the Foundation to focus on over the coming years:

- CLIMATE: Do whatever we can to limit warming to 1.5°C, preserving human life and the natural systems on which we rely
- FAIRNESS: Ensure equality of opportunity and reduce inequality of outcomes

This is a step-change in the Foundation's work, and it intends to tackle these challenges with the full weight of the Foundation's resources and the Firm's wholehearted support.

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

OUR VALUES

COMMITMENT TO CLIENTS

We are committed to providing exceptional client service — above all by delivering superior long-term performance¹ — 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, private owner-managed 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.