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UN GLOBAL COMPACT – COMMUNICATION ON PROGRESS

GENERATION INVESTMENT MANAGEMENT LLP

MARCH 2022

COMMUNICATION ON PROGRESS

ABOUT GENERATION

Generation is a pure-play sustainable investment manager. It is all we do. It is all we will ever do. Since its founding in 2004, Generation has played a pioneering role in the development of sustainable and environmental, social and governance (ESG) investing.

Our mission is to ensure that sustainable investing drives the transformative change required for a net zero, prosperous, equitable, healthy and safe society.

This mission also unites our global client base of asset owners, for whom we manage more than USD 39 billion (as of 31 December 2021).

We are an independent, broadly owned and managed private partnership with an office in London and a presence in San Francisco. We take a long-term perspective and fully integrate sustainability research within a rigorous framework of traditional financial analysis. We operate four complementary strategies investing across public and private equity: Global Equity, Asia Equity, Growth Equity and Long-term Equity.

We believe the next decade will be the most important of our lives. We believe the time for talk about climate and social action has passed. Instead, we will all be judged by our actions.

Collectively, we have established five clear societal objectives to help achieve by 2025:

Carbon prices

A global price on carbon

An inclusive transition

A just and inclusive transition, ensuring workers are empowered through receipt of a living wage

Net zero

Commitments by all asset managers, asset owners, insurance companies and banks to a 2050 or sooner net zero target with robust portfolio alignment reporting

Deforestation

Deforestation free supply chains

Capital allocation frameworks

Capital allocation frameworks to measure risk, return and impact adopted as best practice

SUSTAINABLE INVESTING FOR THE LONG TERM

We are a mission-led firm. We seek transformational change to drive to a net zero, prosperous, equitable, healthy and safe society by:

1. Delivering superior, risk-adjusted investment results
utilising a "systems view" to integrate sustainability and environmental, social and governance (ESG) factors into our investment framework[1]

2. Sharing our experience and voice
to promote sustainable and ESG investment.

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 2019, we closed our third fund, Sustainable Solutions Fund III. In 2018, Generation established its Long-term Equity investment strategy to make large-scale, long-term sustainable investments. In October 2018, a partnership between La Caisse de Dépôt et Placement du Québec and Generation acquired a majority stake in FNZ Limited. More recently in September 2021, the Long-term Equity strategy acquired a 13% equity stake in Octopus Energy. Generation continues to develop its Long-term Equity strategy over the course of 2022.

In addition to strategies managed by Generation, in 2021 Generation launched a new business called Just Climate. It is dedicated to climate-led investing and founded on the belief that, such is the scale and urgency of the climate crisis, capital allocated to climate solutions must now go deeper and broader. Just Climate has the mission of limiting global temperature rise to 1.5C, by catalysing and scaling capital towards the most impactful climate solutions and broadening what capital markets value by institutionalising climate-led investing. Just Climate seeks to deliver appropriate, risk-adjusted returns and we anticipate that it will make its first investments in early 2022.

Generation's investment philosophy is based on the conviction that investment results for long-only equity strategies are maximised by taking a long-term investment horizon. Central to our investment philosophy is the explicit recognition that sustainability factors directly affect long-term business profitability. We define a sustainable business as one whose current earnings do not borrow from its future earnings and provides goods or services consistent with a net zero, prosperous, equitable, healthy and safe society. We are particularly attracted to businesses whose sustainability practices, products and services drive revenues, profitability and competitive positioning, and those businesses that focus their external communication on long-term issues. A company's long-term sustainability is further enhanced if its business thrives by directly meeting some of the world's challenges. 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

[1]Generation seeks to deliver superior performance, but there can be no guarantee this goal will be achieved.

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 prove the business case of our approach through delivering superior investment results to our clients.[2] In this way we hope to encourage more long-term and sustainable behaviour within capital markets – a vision to see "sustainable investing" become mainstream and best practice. A proportion of the firm's profitability is allocated annually to the Generation Foundation (the Foundation), the firm's philanthropic initiative. The Foundation works with grant partners worldwide to identify where their resources and expertise will be most effective in driving transformational change that helps create a net zero, prosperous, equitable, healthy and safe society.

CERTIFIED B CORPORATION (B CORP)

Generation is also a Certified B Corporation. B Corps are businesses that meet the highest standards of verified social and environmental performance, public transparency and legal accountability to balance profit and purpose. B Corps are accelerating a global culture shift to redefine success in business and build a more inclusive and sustainable economy.

[2] 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.

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 clients.[3] 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.

[3] 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 favour companies with clear human rights policies and clear procedures for complaint handling in place. 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. 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 an example of our assessment and engagement, we aim to examine whether companies within the apparel industry are:

> Using ongoing, independent inspection and verification that best practices are being applied;
> Working to fix any issues that may arise at their third-party owned factories and either resolving issues or discontinuing working with these factories;
> Incorporating sustainability and human health practices into their processes for selecting manufacturing partners, and trying to secure progressive improvements (e.g., allocating more work to the best actors); and
> Engaging with and leading their industry to drive systemic change and improvements.

On the sourcing of raw materials, we aim to look at whether the companies are thoughtful about:

> Considering where they source from;
> Designing products to prioritise or develop more sustainable materials (e.g. organic cotton, faux leather); and
> Trying to reduce material waste.

Once a company is on the Focus List or we have invested in it, we continue to monitor by:

> Assessing the company's disclosure of its third-party factory locations and audits;
> Reviewing third-party reports on the industry (e.g., Fair Labor Association and Worker Rights Consortium); and
> Discussing the matter with the company's management and investor relations teams.

Generation takes its commitment to tackle modern slavery and human trafficking seriously. Allegations were published during 2021 concerning exposure to cotton produced from Northwest China's Xinjiang Uygur Autonomous Region in the supply chain of one of our Focus List companies .We have not yet fully satisfied ourselves that the allegations are unfounded, have been remediated or are being remediated. We consider being an engaged shareholder an integral part of responsible ownership and are continuing to engage with the company including on alternative assurance possibilities for cotton and enhanced supply chain systems. Generation's Stewardship and Engagement Policy can be found **here**.

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, including our own, which is why from early days diversity has been one of the firm's core values sustaining our culture:

Inclusion and diversity, in the broadest sense, help drive our success.

We believe culture is a critical driver of fostering diversity and have endeavoured to foster an environment where all individuals feel empowered to share and contribute to the mission of the firm, regardless of gender, ethnicity or background.

While we acknowledge that there remains work to be done within Generation, both as a firm and as part of an industry, the firm's leadership is passionate about and committed to fostering a truly diverse and inclusive working environment. Since the firm's founding in 2004 we have been on a journey to build a more diverse organisation and team of people. Generation has always placed culture as the cornerstone of success. Being a mission-driven organisation is part of this, and we have endeavoured to foster a culture where all individuals feel empowered to share and contribute to the mission of the firm, regardless of gender, ethnicity or background. We have put in place practices, policies and various internal and external initiatives to support this objective.

Nevertheless, we believe 2020 served as a turning point to focus minds on the need for greater progress across diversity and inclusion initiatives. In particular, the disproportionate impact of COVID-19 on ethnic minority communities and the Black Lives Matter movement provided catalysts for further action. For our part, we listened intensively to our colleagues and recognised this as an important step of reflection. This ongoing work has led to several changes, including new recruiting methods aimed at countering unconscious bias and our participation in the #10000BLACKINTERNS initiative (UK) as well as the Impact Capital Management Mosaic Fellowship (US) in 2021, programmes that seek to increase participation of students from underrepresented backgrounds in the investment management industry. We also continued to mentor students from underprivileged socio-economic backgrounds via our Foundation in partnership with the Social Mobility Foundation, and participated in the Social Mobility Index via the Social Mobility Foundation with the view to implement some of their recommendations going forward.

We also note that the Foundation has identified Fairness as a strategic objective. Two of the four strategic priorities for grant-making are related to Fairness: 'Gender inclusion and empowerment' and 'Action on economic inequality' . The Foundation currently has ~GBP 8 million in live grant partnerships dedicated to those programmes. Notable grants include those to The Social Mobility Foundation (GBP 1.4 million), Mama Cash (EUR 1.8 million) and Greyston (USD 1.2 million). Across all of its grants the Foundation considers EDI at the organisations it funds. Depending on the organisation and circumstances, the Foundation will do deep work with them to improve equity, diversity and inclusion (EDI).

At a strategic level, in 2021 Generation worked with Paradigm, an external EDI expert firm, to review our EDI approach, policies and procedures which has produced a long term roadmap that we can use not only as a benchmark for ourselves, but also in our interaction with investee companies, clients or suppliers. We are currently reviewing the recommendations for next steps and examples include proactive sourcing efforts to focus on diversity, a decision on diversity thresholds for key roles and the creation of a process to monitor success by demographics through the interview process. We look forward to sharing our work in this area in the future.

In addition to our commitment to diversity in our business, we recognise that our scope for impact extends beyond our direct activities. Following our review of the latest research, conversations with experts and team discussions, we constructed a new EDI engagement framework that we will deploy with our Focus List companies. We rejected adopting an engagement framework based on a one-size-fits-all approach, because we did not want to foster a compliance mentality. We decided our core ask should be that, alongside disclosing comprehensive EDI data, companies should publish their own ambitious plans for improvement.

We engage with companies on the basis of clear ideas about what disclosures and plans should include. We believe disclosure should cover the gender and racial/ethnic diversity of the board, executive committee, key managerial and professional populations and the workforce as a whole, as well as information on EDI policies and programmes in operation. We expect EDI plans to be championed by the CEO and each company to set out a long-term vision for diversity, covering at least gender and racial diversity, and a date by which this is to be realised.

Specifically, EDI plans should:

> include shorter-term targets for gender and racial diversity, linked to compensation and/or performance reviews

> address with utmost urgency any glaring deficiencies in basic diversity at governance and senior leadership level (i.e., board and executive committee), which we define as a minimum of a one-third representation of women, and including at least one person from a minority racial or ethnic group (interpreted according to geography and company context)

> include the collection of hiring, promotion and attrition data; the examination of pay equity and pay ratios, and the establishment via employee surveys of the employee experience of EDI

> include a comprehensive suite of interventions covering, at a minimum: programmes for the sponsorship of diverse talent; training on inclusive behaviour; anti-discrimination, abuse and harassment policies; initiatives to grow the pipeline of diverse talent in industries and professions that lack diversity, and policies and benefits to enable all employees to combine careers and parenting/caring responsibilities

> be resourced with sufficient dedicated headcount.

On climate change, we have a clear definition of 'good': net zero emissions no later than 2040. On EDI our vision of good is a plan that includes targets to achieve, by 2030 or sooner:

> gender parity on the board, executive committee and throughout the organisation

> racial and ethnic representation on the board, executive committee and throughout the organisation that reflects the societies from which the company recruits and the customers that the company serves

> no structural differences in the roles performed by women and minority candidates.

While in 2022 we will continue to take egregious EDI shortcomings into account in our proxy voting decisions on director elections, from 2023 we will step up our voting practices, so that where companies do not meet our new expectations, this will generally be reflected in our voting on the re-election of the appropriate director.

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. As a firm we are 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.

In our public equity (Global and Asia) strategies, we have long participated in CDP's annual non-disclosers engagement programme. However, given the urgency of the climate crisis, we know we need to do more. In 2020 we introduced a more systematic, high ambition plan for engagement. This included:

> developing a framework to assess the current status of disclosure and climate action for every company;
> writing to all Focus List companies to communicate our expectations and aspirations based on where they sit in this framework;
> enhancing our systems to track progress and conversations with companies over time; and
> integrating the framework within our investment process. For instance, our engagement will impact our voting behaviour and gating decisions around business and management quality analysis.

We are very clear that rapid improvement in disclosure and action is an important issue for us. We have begun reporting on the improvements made through this engagement and we were pleased to see the number of Focus List companies participating in the Science Based Targets initiative and/or with 2040 net zero commitments increase from 27% to 43% in 2021.

In 2020 we also confirmed our commitment to aligning our Global and Asia Equity investment portfolios with net zero greenhouse gas (GHG) emissions by 2040 or sooner, in line with the goals of the Paris Agreement on climate change.

Our Growth Equity funds are focused on deploying capital to companies that are generating value by facilitating the transition to a more sustainable, 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.

Our firm's direct environmental impact and associated climate risk exposure is primarily driven by 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 compensation program, as well as through promoting behavioural changes amongst our employees, suppliers and other stakeholders.

Our most significant operational consideration is that of our offices, in London and San Francisco. Both are 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 in London. Generation has consciously designed its offices to minimise the environmental impact of its operations. Both are centrally located and well-served by public transport facilities. In London, our office at 20 Air Street achieved an "Excellent" rating by BREEAM (Building Research Establishment Environmental Assessment Method). In addition to a rainwater harvesting system, an intelligent lighting system is in place to maximise natural light and limit wastage. A biodiverse sedum roof improves insulation and supports the local bee population. The interior modelling has the "SKA Gold" rating. Similarly, our San Francisco office is located in a building which has been successfully re-certified as "Platinum" for its LEED-EBOM rating, which applies to existing builds. Our own fit-out received "LEED Platinum" certification. We used sustainable and non-toxic products and materials, adhering to the WELL standard with its primary focus on the health and wellbeing of occupants. Both our London and San Francisco 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. We were awarded "WELL Gold" certification in San Francisco and are currently pursuing the same standard for our London office.

Business-related sourcing decisions also include local travel and office supplies, where we choose sustainable suppliers as much as possible, which in turn aims to minimise possible climate-related risk. 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-saving decisions individuals can make and the relevant technology available. We aim to engage local suppliers where possible, or those that already service our building, with the aim of reducing travel and consolidating deliveries. In 2021 we gained ISO14001 certification and have implemented an Environmental Management System (EMS), which provides us with a framework to monitor resource use, reduce waste, mitigate environmental risks and improve our sustainability efforts.

Generation is committed to carbon compensation for 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 necessary business travel, especially air travel. We base our measurement of the firm's carbon footprint on our business travel and office use, as well as the carbon emissions created by the households of Generation team members. 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 mitigating our overall environmental impact while we work to reduce our emissions to as close to zero as possible. We are committed to achieving net zero emissions in our business operations by 2040 at least. We are working with external consultants on understanding more deeply all material aspects of our operational emissions and the levers we have, establishing interim targets, and determining how to track progress.

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 an annual 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.

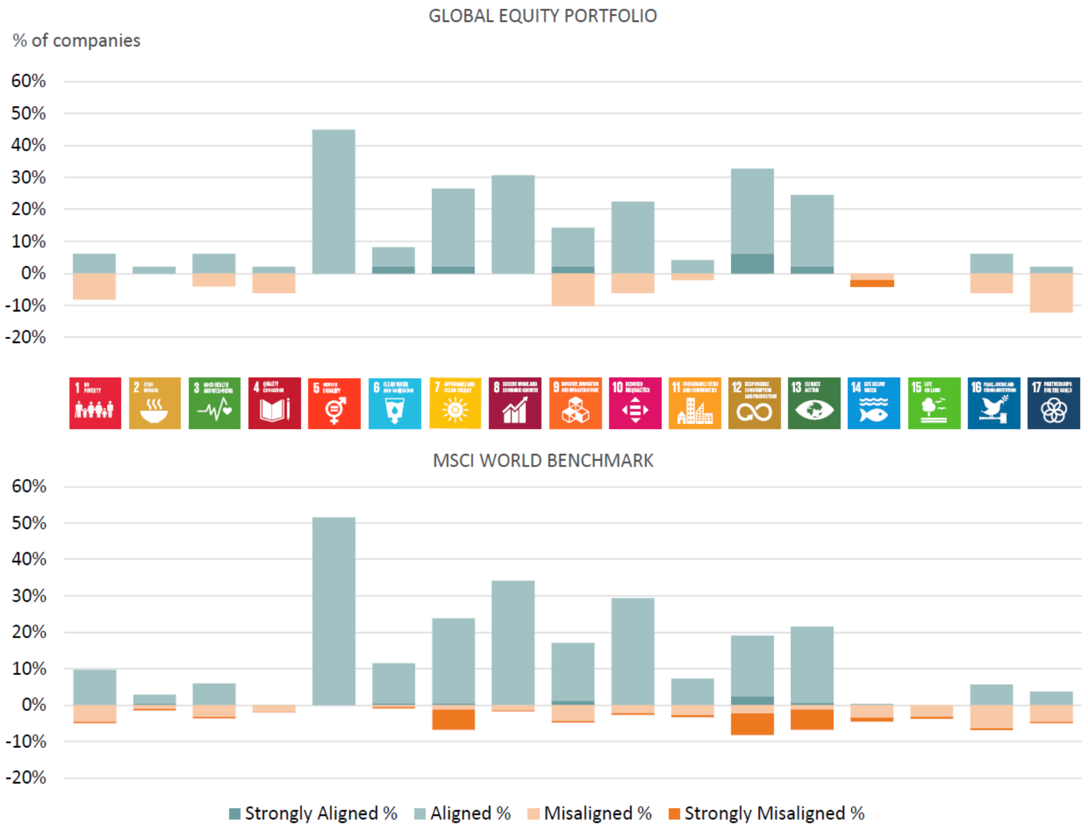
Among these is a mapping of the portfolio to the **UN Sustainable Development Goals** (SDGs) as follows:

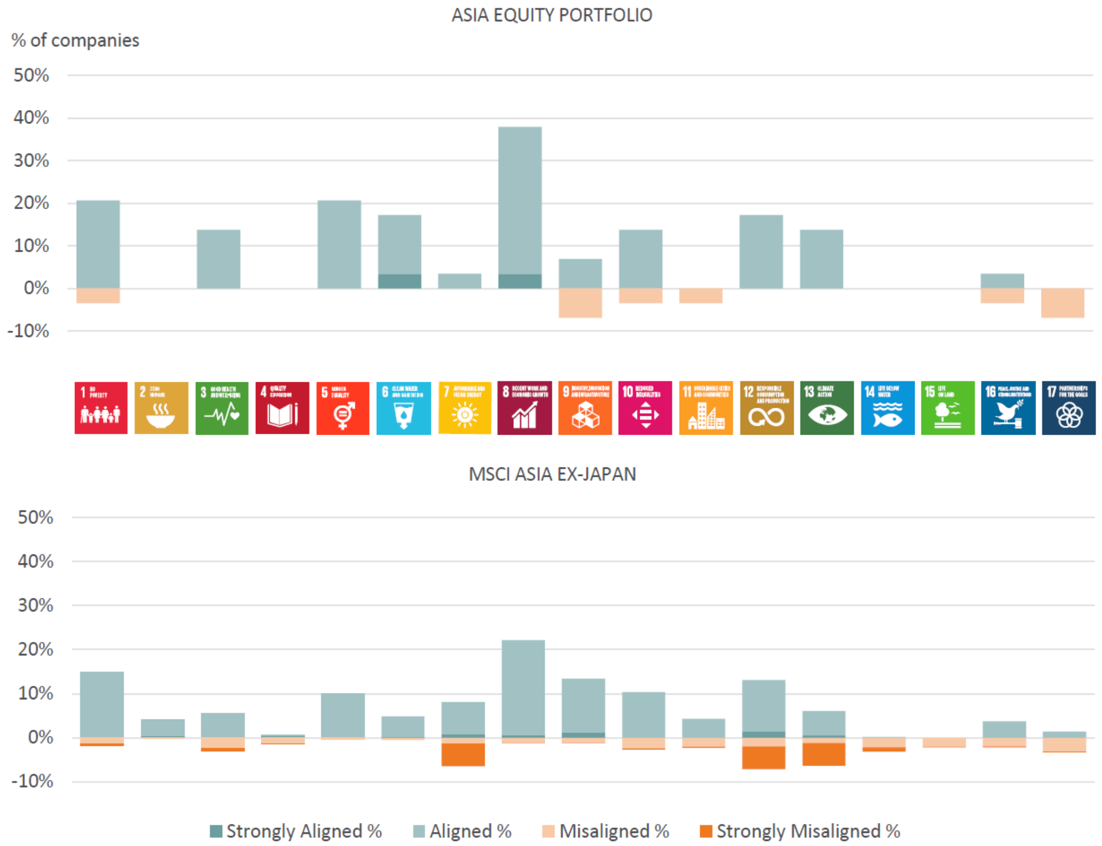
MAPPING METHODOLOGY

We began to use the MSCI SDG Alignment Tool in 2020 to undertake the mapping of the Global Equity and Asia Equity portfolios to the SDGs. This tool takes account of all SDG-aligned revenues at a company, not just the main revenue streams, awarding scores for alignment of products and services according to revenue bands and takes account of the impact of companies' operations as well as their products and services. For each SDG, a company's contribution is weighed in the balance so that, based on its net scores, it can be assessed as Strongly Aligned, Aligned, Neutral, Misaligned or Strongly Misaligned.

MAPPING RESULTS

The charts below shows how the Global Equity and Asia Equity portfolios (as at 1 December 2021) come out using the tool relative to their benchmark, indicating the number of companies assessed by MSCI as Strongly Aligned, Aligned, Misaligned or Strongly Misaligned for each of the 17 SDGs (companies whose alignment with an SDG is assessed to be Neutral are not displayed).





Within our Growth Equity strategy which invests in private equity, we apply an internal methodology to determine how the portfolios map to the UN SDGs. 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

FURTHER INFORMATION

ADVOCACY AND ENGAGEMENT IN 2021

We stepped up our advocacy activities further throughout 2021:

Finance at Countdown

We co-organised the 'Finance at Countdown' event with TED on 12 October, which precedes their major Countdown Summit designed to catalyse action in the run-up to COP26. This was a day-long, virtual event to address how capital markets can help lead the drive towards a just transition to net zero. We had some incredible speakers including Jacinda Ardern, Kristalina Georgieva, Mark Carney, Janet Yellen, Christine Lagarde and our Chairman, Al Gore. The event saw presentations from central bank heads, cabinet secretaries, advocates, investors and many more. We focused on issues such as the financing and impact gaps and how to address them, how to ensure a just transition and how companies are leading the way to net zero. Our note of the key messages from the event can be found **here**.

Deforestation

Generation has had a long-standing interest in tackling deforestation. We have recently been stepping up our activities in this area and achieving deforestation-free supply chains is one of our priorities.

It's clear that we cannot get to net zero without fundamentally reimagining our relationship with nature to support its carbon sequestration, biodiversity and community-building capacities. We must work urgently to halt the ongoing degradation of nature, specifically deforestation, and investors and companies have an important role to play.
We are working actively with other stakeholders on this issue, including through the PRI Investor Working Group on Sustainable Commodities. We'll provide more updates in future letters as this work evolves.

Listed Company Emissions – Insights piece

Earlier this year, we worked with an external expert, John Ward, to conduct our own analysis on "What proportion of greenhouse gas emissions are listed companies responsible for?" as we realised the answer to this question, which is surely a critical one for investors in listed equities to know, was less than obvious. The full article is available on our website: https://www.generationim.com/our-thinking/insights/listed-company-emissions/

A look back through previous research showed that the typical estimate is around 20% of emissions, once we adjust for different denominators. MSCI published analysis earlier last year consistent with this. All these previous analyses have been based on 'Scope 1' emissions, which cover only the direct emissions by a company – for instance, using fuels to heat a building or in an industrial process.

There are two other scopes to consider. 'Scope 2' comprises purchases of electricity, heat or cooling services while 'Scope 3' covers all other indirect emissions such as the energy used by a supplier, the use of equipment by customers or the transportation of goods by a third party. Scope 3 is notoriously complicated, involving 15 subcategories and going up the supply chain to the source of minerals or food production, and all the way down to the end use by consumers and what happens at a product's end-of-life.

Our analysis explores Scope 3 in particular. The challenge here is avoiding double counting, since, for example, the Scope 2 emissions of one company are another company's Scope 1 emissions. The following questions will give you a sense of how we approached the double counting challenge: What share of global steel production by listed companies is fuelled by state-owned coal suppliers? What proportion of a company's Scope 2 emissions overlap with the Scope 1 emissions of a listed utility? What proportion of household energy consumption is provided by listed companies? What share of global food production passes through listed companies at key stages in the value chain?

We find that listed companies account for 40% of greenhouse gas emissions, as a conservative estimate. This underscores the importance of investor action on climate change through our engagement and capital allocation choices. As you know, listed equities come with opportunities to engage that are less available in private companies.

Collaborative engagement

Generation became the first investment manager – indeed the first financial services company – to join The Climate Pledge. The great thing about this initiative is that it provides a platform to work with others committed to rapid climate action, maximising impact while avoiding duplicated effort. The Climate Pledge was co-founded in 2019 by Amazon and Global Optimism – an NGO founded by Christiana Figueres, who was Executive Secretary of the UN Framework Convention on Climate Change when the Paris Agreement was concluded in 2015.

The pledge is a commitment to reach net zero emissions by 2040, ten years ahead of the 2050 net zero target date normally associated with the Paris Agreement. It is therefore a perfect fit with Generation's commitment to our clients: we will align the investment portfolios we manage with net zero greenhouse gas (GHG emissions by 2040 or sooner). In joining the pledge we become part of a community of businesses that shares our high ambition, as well as knowledge, ideas and best practices. We hope this will prove useful as we encourage all the companies in your portfolios to commit to net zero emissions and put the necessary short-term measures in place for 2025 and 2030.

In 2021 we also continued to support the Net Zero Asset Managers (NZAM) initiative, sitting on the advisory group and helping drive growth in membership through engagement with our peers, including some of the world's largest asset managers. At COP26, the initiative reached 220 signatories with USD 57 trillion in assets under management.

We played an active role in the development of the Glasgow Financial Alliance for Net Zero (GFANZ), established in April 2021. We sit on the principals' group and steering group, and lead the portfolio-alignment measurement workstream. At COP26 the alliance announced that it had gained more than 450 signatories, responsible for assets of over USD 130 trillion, across banks, asset owners, asset managers, insurers and financial-sector service providers.

THE GENERATION FOUNDATION

As mentioned, the Generation Foundation is the philanthropic initiative of Generation. It is a distinct charitable entity, entirely funded by a distribution of Generation Investment Management's profits each year. The Foundation's mission is to drive the urgent transition to an equitable society in which global temperatures do not exceed 1.5°C. The Foundation operates by identifying where its resources and expertise will be most effective in delivering transformation change. Through targeted interventions, it acts as a catalyst for realising immediate and long-term impact in four priority areas: investor climate action, carbon pricing, gender inclusion and empowerment, and action on economic inequality. The two principles that guide the Foundation's activities are more relevant than ever. Those principles are impact and urgency. There are too many new partnerships and activities to cover them all, but we will take this opportunity to provide a few examples here.

1. Investing for sustainability impact: This year saw the culmination of a project to overcome the barriers preventing mainstream finance from playing its part in the achievement of societal goals like the SDGs and limiting warming to 1.5C. It sought to answer this question: to what extent are investors permitted, or required, to account for the impact of their activities on sustainability factors, not only the impact of sustainability factors, on their portfolios?

The critical output of this project was an analysis prepared by law firm Freshfields Bruckhaus Deringer, commissioned by the PRI, UNEP FI and the Generation Foundation. It presented some surprising findings: most investors are not only permitted, but are actually required, to invest for impact. Investors must take action to achieve a sustainability impact through asset allocation, stewardship or policy engagement when that impact is likely to affect financial performance.

In practice, this could be the beginning of a significant shift for mainstream investors. It is undoubtedly in investors' financial interest to limit global warming to 1.5C, and therefore it is clear that investors have a duty to set goals, take action and assess progress (also called 'Investing for Sustainability Impact' or 'IFSI' in the report).29

The next phase of this work will be a) to support investors to understand their obligations and put them into action and b) to work with policymakers, regulators and governments to make this duty even clearer in law and ensure market characteristics like benchmarks or asset allocation standards do not impede progress.

2. Careers for Good: 2021 was an important year in our partnership with the Social Mobility Foundation (SMF). It saw the launch of the Department for Opportunities, funded by the Generation Foundation, which uses advocacy and campaigning to address systemic social inequalities in the UK. Additionally, the Foundation established a new programme with SMF called Careers for Good. Our Chairman Al Gore kicked off the programme with a closed session for students, moderated by a SMF student who was also an intern at Generation. The programme supports students from low-income backgrounds to access careers in mission-driven organisations.

3. In numbers: The Foundation reached its target of spending ~ GBP 11 million in pursuit of an urgent response to the dual crises of climate change and inequality, matching last year's extraordinary year. The portfolio consisted of 26 grant partners in total, with 12 new projects added over the course of the year. The Foundation's work begins with grant allocation and continues with deep support for our partners to amplify their impact.

4. For 2022: In 2022, the Foundation will accelerate spending and increase its charitable allocation once again. The process for doing so is not as simple as writing a bigger cheque, however. The Foundation operates a proactive grant-making process which is not dissimilar to an investment process. The Foundation conducts deep research to identify the interventions that could catalyse transformative change in each of its four strategic priority areas. Only once it has identified the interventions and outcomes does it seek out organisations to deliver the work, and then works closely with them to design a project or programme. We intend to expand our structured provision of support to partners on issues such as diversity, impact management and strategic communications. To learn more about The Generation Foundation's work, please visit www.genfound.org.

OUR VALUES

ETHICAL STANDARDS

We expect the highest ethical standards in our work and in our personal lives.

TEAMWORK

Teamwork underpins our one-firm culture.

INCLUSION & DIVERSITY

Inclusion and diversity, in the broadest sense, help drive our success.

RESPECT & DIGNITY

Each of the individuals with whom we work are entitled to respect and dignity.

EXCELLENCE

We aim for excellence in all that we do.

COMMITMENT

We are committed to rigorous research, curiosity and continuous learning.

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