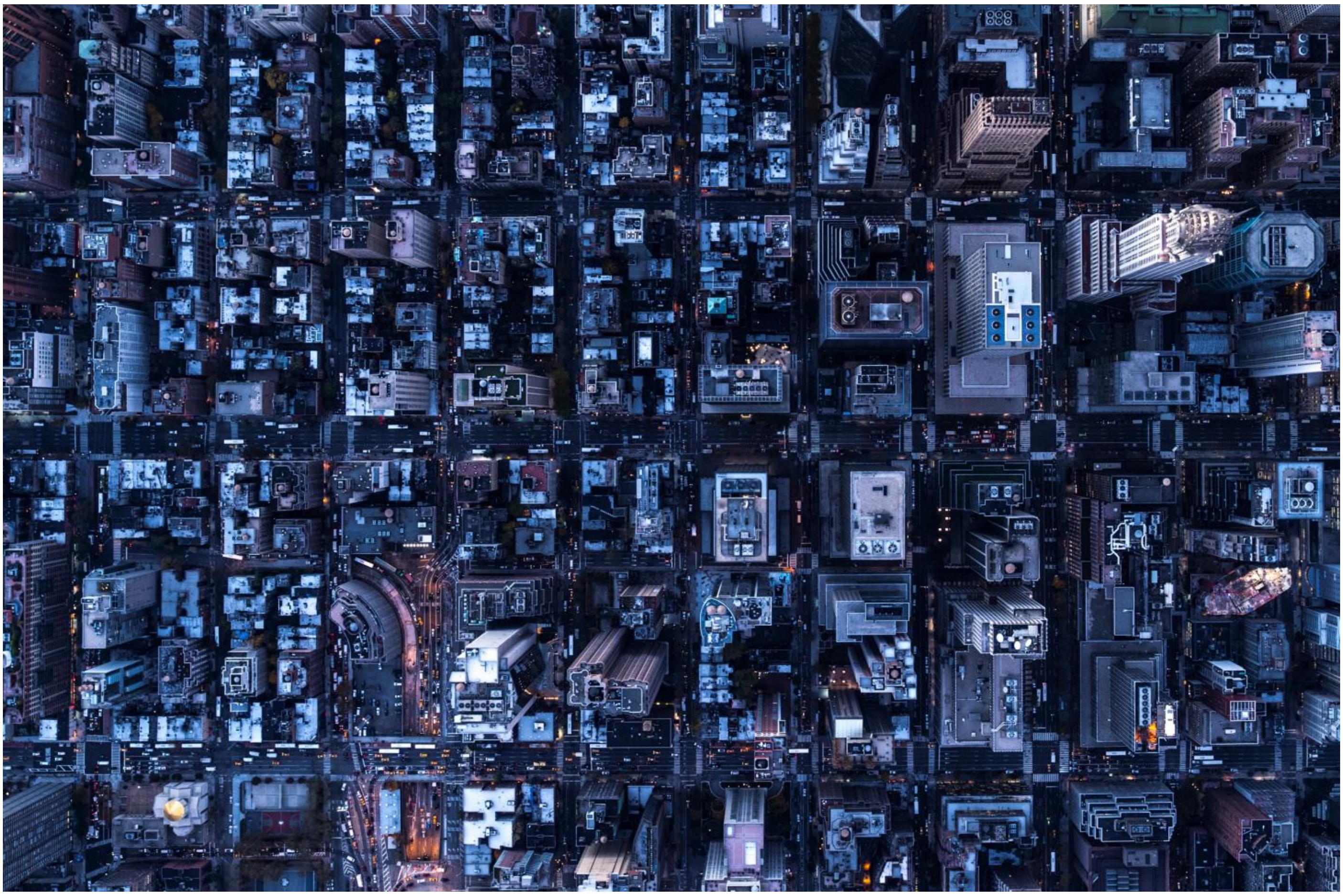
Generation Investment Management Global Equity Quarterly Investor Letter

July 2026



Dear fellow investors

In this quarterly letter, we review a challenging period shaped by AI-driven market concentration and discuss why we see a compelling opportunity for long-term investors ahead.

We believe that the current moment in markets, unusual as it is, strengthens the case for our long-term, quality-focused approach. We are confident that, by the close of this letter, the case will speak for itself.

What follows is comprehensive but concise. Section 1 outlines our investment process. Section 2 describes how unusual today's market really is. Section 3 explains why this is happening. Section 4 shows the risks of passive approaches in today's market. Section 5 outlines the opportunities for active investors. Section 6 describes our learnings.

1: OUR APPROACH

Our investment process rests on a conviction with robust empirical backing. Over time, the market pays for great companies. We seek to identify these companies and then buy them at the right price. We do not use the word 'great' flippantly. We mean something precise, something that has three characteristics.

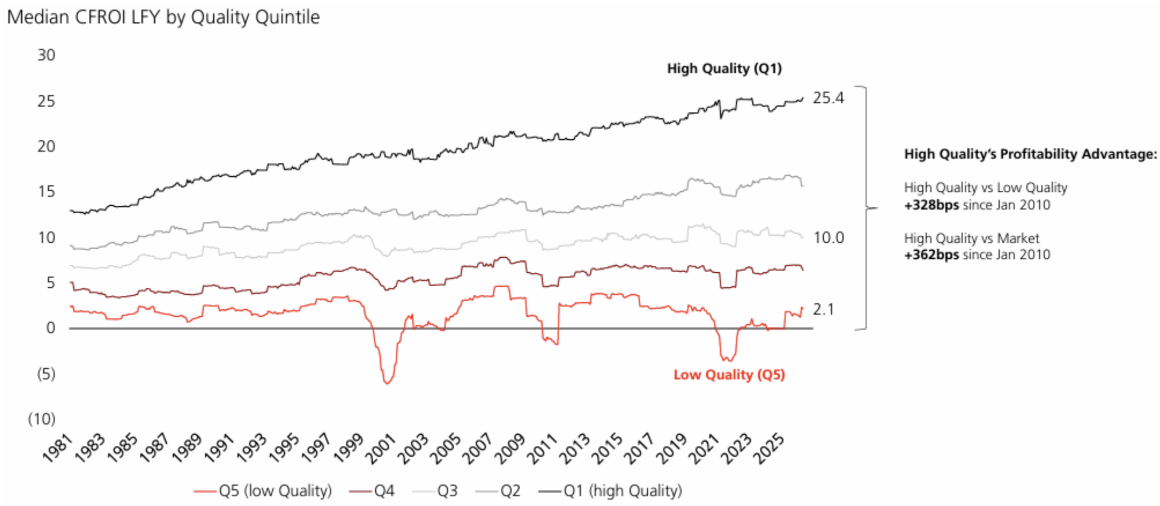
The first is that the company generates a spread between its cost of capital and the returns on that capital. Our favoured companies are, quite simply, value creators.

The second characteristic is persistence. A year of high returns is nice, but we will politely decline to invest in a company if we think those returns will evaporate next year. The companies we admire sustain high spreads year after year, through careful capital deployment and excellent management. Our focus on sustainability allows us to identify these companies, complementing traditional investing techniques to concentrate on companies that can durably compound over many years.

We ask two simple questions with complex answers: what will the world want more of in ten years' time? And what will speed the transition to a fairer and lower-carbon world? To compound high returns durably, companies must position themselves on the right side of regulatory change, resource constraints and shifting consumer values.

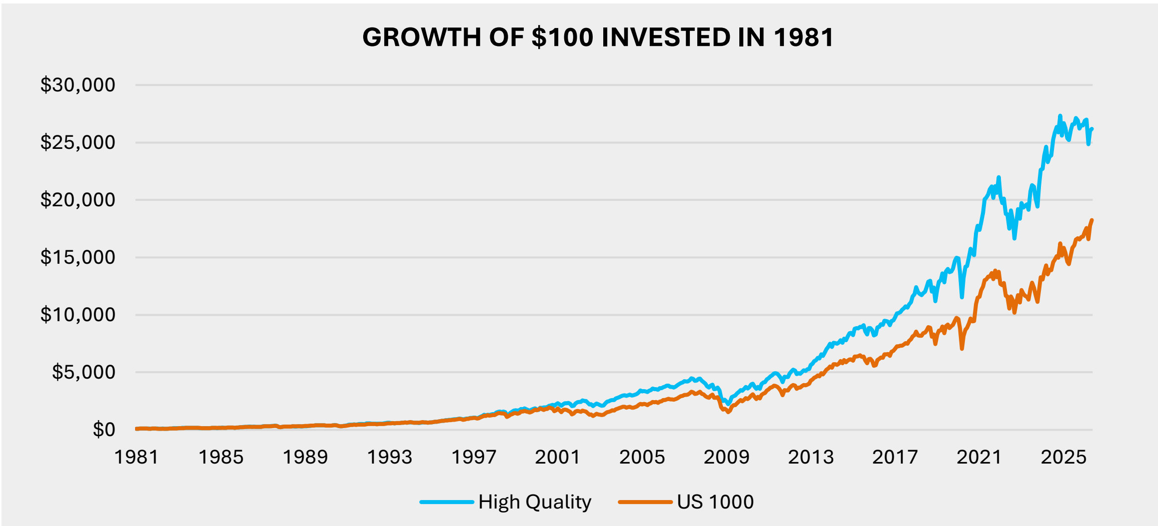
The third characteristic of companies we like is the 'runway' – how much capital a company can deploy against the opportunities it faces. The highest-quality business creates little aggregate value if it cannot reinvest at those high rates of return. We care as much about the size of the opportunity ahead as about the quality of the returns being earned today.

Our approach rests on strong empirical evidence. Research from data provider UBS HOLT shows there is a tremendous difference between companies that can durably compound returns and those that cannot. Some companies generate large returns over many years, while others barely make back their cost of capital (and others still do not even make this back). Furthermore, the profitability advantage of quality companies (as measured by cash flow return on investment, or CFROI) seems to be rising, as the chart shows.



Source: "Quality: From Overvalued to Overlooked?" Sean Burns, UBS HOLT. Data as at May 2026. Universe: Top 1000 US companies by market cap. Region relative Quality Factor Percentiles formed into equal weight quintiles.

Over the medium term, the market rewards the sort of companies we like. The next chart shows the performance of $100 invested in quality companies, against the market, measured on an equally weighted basis. The gap is clear. It does not matter which starting date you choose – 1981 (as the chart does), 1991, 2001 or 2011 – the message is the same. High earnings and high share prices are, ultimately, two sides of the same coin.



Source: UBS HOLT. Data as at May 2026. High Quality as defined by UBS HOLT. US 1000 represents the Top 1000 US companies by market cap.

At Generation, our goal is to identify not just companies that fall into a generic 'quality' bucket, but the best of the best. Our long-term track record speaks to our success in doing that. Since inception, Generation's portfolio has compounded at an average annual rate of 10.9%, versus 9.1% for the benchmark.[1]

We believe the period we are currently experiencing is an anomaly – and we will now explain why.

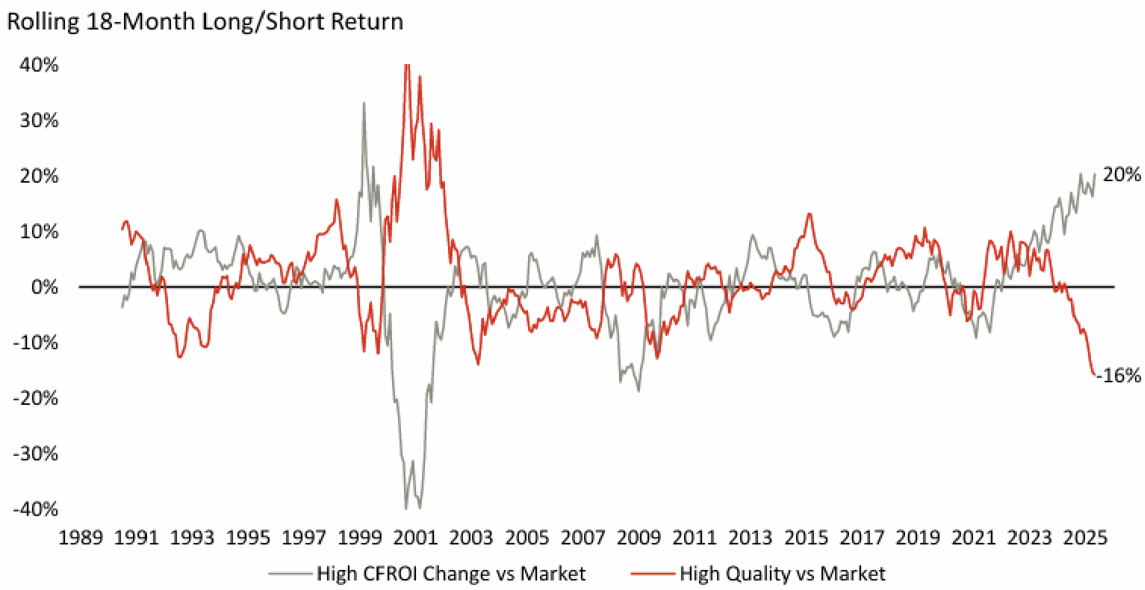
2: THE CURRENT MOMENT

The very best companies are lagging today's market. This is because the returns of almost the entire equity market have compressed into a handful of names – some of which are good companies, in our view, but many of which are not. Momentum and retail investors

[1] As of 30 June 2026, net performance. Past performance is not a reliable indicator of future results

have amplified the trend. Market participants now display the kind of exuberance that, in prior episodes, has tended not to last for long.

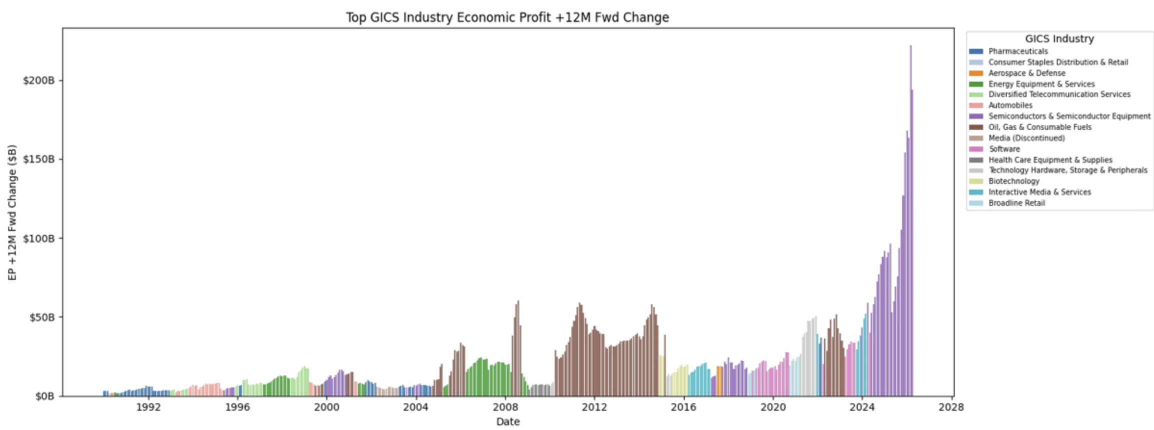
Take each factor in turn. The big winners of recent months are companies that have seen large, often dramatic, upward revisions to near-term profitability. The market seems not to care whether these companies have a reliable track record of sustaining such returns – only that they are rising today.



Source: "Extreme Momentum, Real Profits," Sean Burns, UBS HOLT. Data as at 29 April 2026. Top 1000 US companies by market cap, region relative Factor Percentiles used to form equally weighted quintiles, rebalanced monthly.

As the chart shows, the 'High CFROI change' group is generating its strongest relative returns since 1999, shortly before the dotcom bust of 2000. On the other side, the 'High Quality' basket – which roughly approximates the kind of company we own – is suffering its worst relative performance ever.

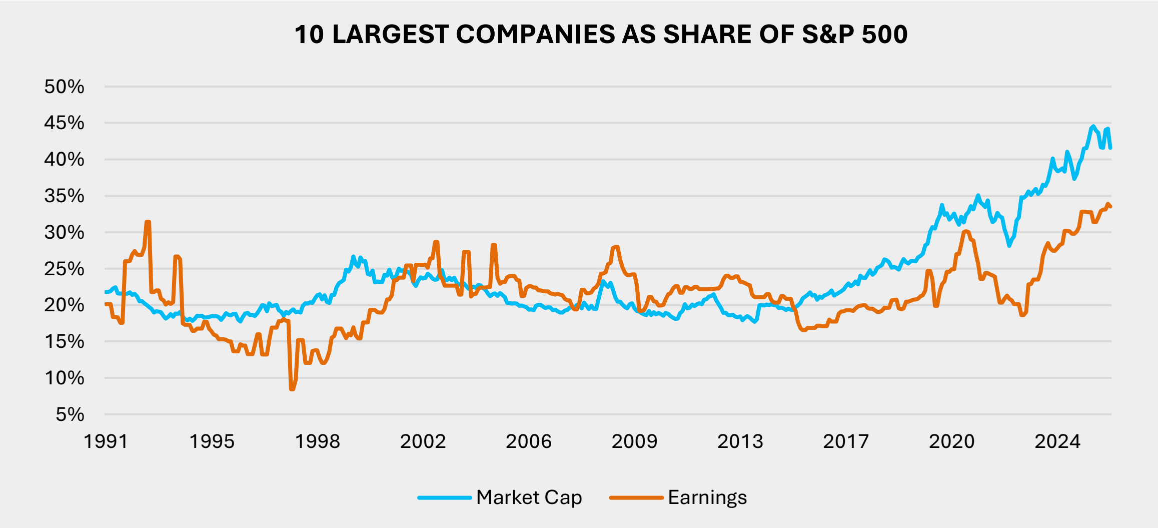
The semiconductor industry is the archetypal 'High CFROI change' sector. According to HOLT data, shown in the chart below, the forecasted near-term profit growth of the semiconductor industry is the highest of any industry since 1990. Extreme next-quarter CFROI revisions are historically rare, yet lately they have become almost commonplace: a US semiconductor firm Sandisk recently saw a revision of +42%, with more than a dozen other names seeing large changes.



Source: "Extreme Momentum, Real Profits," Sean Burns, UBS HOLT. Data as at 29 April 2026. Top 1000 US companies ex CFROE financials, Utilities & REITs. Economic Profit values floored at $0.

Why are investors so keen on these 'hot' firms? In part it is because there is unusually high uncertainty about the path of interest rates, geopolitical disruption and the trajectory of AI. The world seems unknowable in a year's time, let alone in five. This makes it harder than ever to underwrite the terminal value of a business. When you cannot confidently discount cash flows far into the future, you may anchor to what you can observe: near-term earnings revisions.

Great interest in a few names has led to market concentration that is almost without precedent. The ten largest US stocks now account for 42% of S&P 500 market capitalisation – the highest share in decades, and well above the 27% peak reached at the height of the technology bubble in 2000. Over the past 12 months the S&P 500 has appreciated by roughly 30%, but the median constituent has risen by just 12%.[2] A two-tier market has emerged, in which a small number of stocks soar while the majority lag.



Source: Generation IM internal analysis.

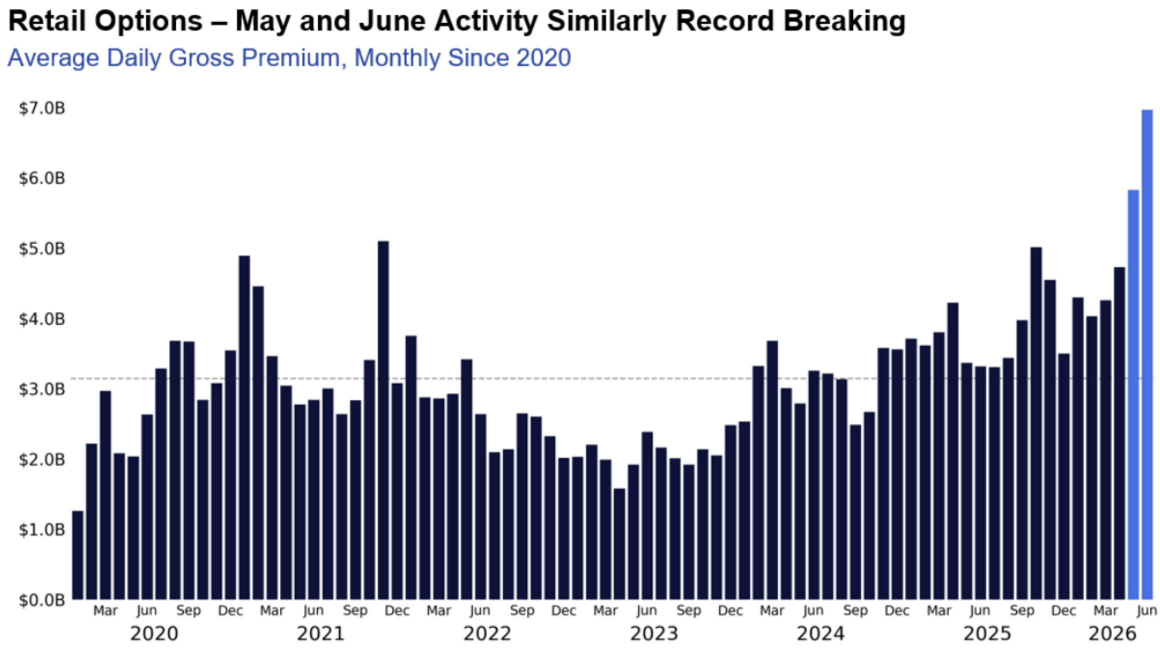
Rising market concentration is working hand-in-glove with price momentum – the notion that "what goes up tomorrow is what went up today." The share prices of companies with price momentum are soaring. Momentum investors pile into trades that are already crowded, pushing up concentration in turn. Hedge-fund net exposure to momentum, for instance, sits near five-year highs.

3: THE RETAIL BID AND THE IPO BOOM

The current market, in sum, is focused on the short term, is highly concentrated and is selecting on momentum. To understand why this new market dynamic has emerged, consider who is doing the buying.

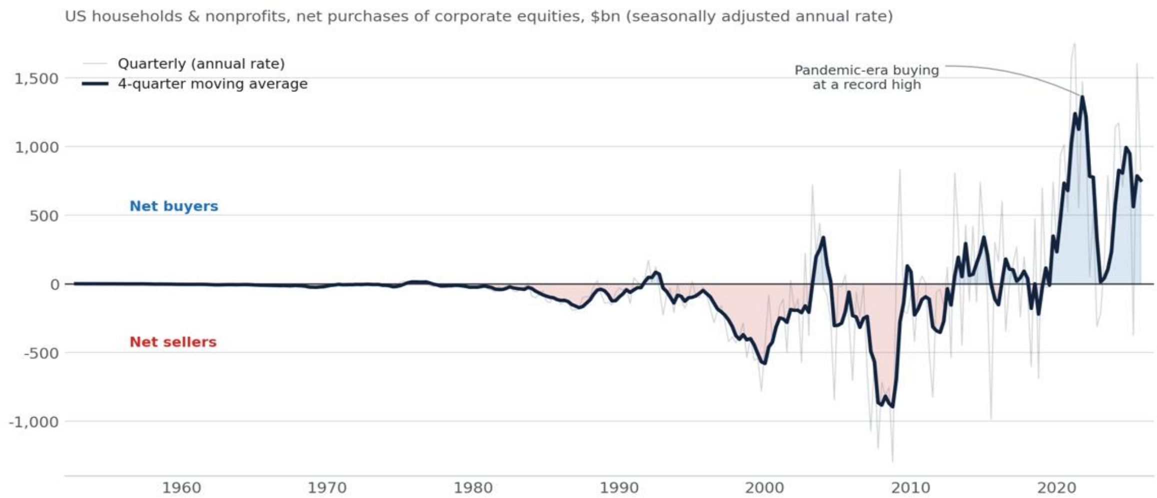
In recent months the participation of retail investors has reached record levels. Citadel Securities, which sees roughly 40% of US retail order flow, reported May as the most active month for retail cash-equity volume on record – busier even than during the COVID-19 pandemic, when many people were forced to stay at home with less to do. Activity rose further in June. Brokerage platforms have lowered the barriers to equity exposure, with some now allowing purchases funded by consumer credit. It is worth dwelling on this point: retail investors can buy stocks on margin using a credit card.

[2] Data as at 31 May 2026.



Source: Citadel Securities, GMI, as at 17 June 2026. Figures are for illustrative purposes only. Past performance figures do not guarantee future results.

The retail surge is, in fact, so large that you can clearly see it in the macroeconomic accounts for the US produced by the Federal Reserve. In recent months American households have bought on the order of $1 trillion of stocks, measured on a net and annualised basis.



Source: Board of Governors of the Federal Reserve System (US) via FRED®.

Crucially, retail investors do not spread their buying equally across the market. Instead, they focus on precisely the ‘hot’ names that we have just described. AI-driven optimism leads both to extreme profitability revisions in chips companies and great interest from retail buyers.

On top of all these trends, which in combination are frankly unprecedented, sits the IPO market. We believe several recent and prospective listings are being priced at levels that reflect the enthusiasm of marginal buyers rather than a sober assessment of long-run value. There may be a reason why so many large private companies are choosing this moment to go public, just as many did at the top of the market in 2020–21. We would point you to Cerebras, an American company that is both in the semiconductor business and recently listed publicly. Cerebras priced its IPO at $185 per share, opened trading at $350, before climbing as high as $385 but now sits below $200.[3]

No law of nature says that IPOs must be optimistically priced. When Google listed in 2004, its offering was, if anything, underpriced. Large gains accrued to investors who bought in. When Facebook listed in 2012, it came to market at around 13 times revenue, on the back of an already highly profitable business with revenue you could actually see. SpaceX recently came to market at a strikingly similar revenue multiple – except that the revenue in question is projected for 2040.

A quotation we heard recently, describing SpaceX's IPO, has convinced us further that the market is in a strange place right now. Describing the heady valuation, someone said the following about the company: "If you don't see it, you can feel it, and if you can't feel it, you don't quite understand."[4] Vibes-based investing may suffice for day traders. It is a million miles from the patient capital deployment that we practise.

4: ACTIVE VERSUS PASSIVE

There is great debate about the optimal strategy for today's market. Some argue that active, sustainability-focused management is an idea whose time has passed. We understand the logic. When the largest benchmark constituents deliver outsized returns year after year, any strategy that does not own them will lag. In that environment, passive indexing can look like the only sensible choice. However, we strongly disagree.

To understand our position, recall what passive investing was originally built to do. The intellectual foundations are formidable. Harry Markowitz showed that diversification reduces idiosyncratic risk without sacrificing expected return. Eugene Fama formalised the idea that market prices already incorporate available information, leaving no systematic edge for active investors. John Bogle neatly summarised the thinking: "Don't look for the needle in the haystack. Just buy the haystack."

It was a sound premise. The haystack once reflected the true diversity of the economy: financials, industrials, energy, healthcare, consumer staples and technology. Today, however, it no longer does. The ten largest US stocks account for around 40% of the S&P 500. The index is no longer a broad cross-section of the economy but one largely dominated by tech firms in quite similar markets. In that world, passive investing no longer diversifies an investor's risk but instead represents a wager on a handful of companies. To use Bogle's metaphor, today's haystack is mainly a collection of needles.

To be clear, we are not arguing that concentrated portfolios are necessarily a problem. Our portfolio is among the most concentrated in its history. We are arguing that when a passive investor believes they are buying 'the market,' they are in fact buying a handful of names.

This leads to the next problem. We argue that passive investing risks collapsing under its own weight. Passive investing works while enough active managers remain to do the 'price discovery' that keeps the index efficient. The rapid growth of passive strategies, however, undermines that corrective process. Over time, passive money in the market has grown exponentially, and now accounts for more than half of investment strategies in the US. When more and more capital floods blindly into the largest names, the more those prices can detach from fundamental value. High-quality research suggests that this

[3] As at 8 July 2026.

[4] SpaceX, OpenAI and Anthropic IPOs set to test limits of AI boom, Financial Times.

effect may be particularly strong for the very largest names – the very names that are driving today's market concentration.[5]

In this environment, we believe rich rewards may await the patient investor who is willing to look elsewhere. On this point, the history is clear: passively holding a highly concentrated market has repeatedly proved a risky strategy. Consider the episodes that most closely resemble today – 1973 and 2000. Each featured low unemployment, strong prior equity returns and concentration rising alongside momentum. Each, for a time, made passive strategies look unbeatable. And on both occasions a severe reversal followed, with the companies the momentum trade had ignored making up ground.

5: THE OPPORTUNITY FOR ACTIVE INVESTORS

We believe many of the companies currently driving returns are unlikely to sustain high profitability. Micron Technology is attracting significant interest on the back of extraordinary near-term earnings revisions.[6] This near-term boom does not change the fact that Micron sells a commodity with essentially no sustainable competitive differentiation and a long history of highly cyclical and poor long-term returns on invested capital. We are well aware of how severe the short-term shortage in memory semiconductors is, but capitalism has a way of solving such shortages faster than one might think. Unless a company can demonstrate real differentiation, it will likely revert to the cost of capital or worse.

Micron is merely one example. Semiconductor stocks in developed markets are expected to deliver a return on invested capital of around 30% this year.[7] That is highly impressive – but we question its sustainability. Semiconductors are among the most cyclical and volatile earners in the market. The business is subject to booms, gluts and brutal price collapses, in which pricing power can evaporate almost immediately. Perhaps most troubling, the largest gains among semiconductor stocks have come from those companies with the greatest cyclicality and the least competitive differentiation.

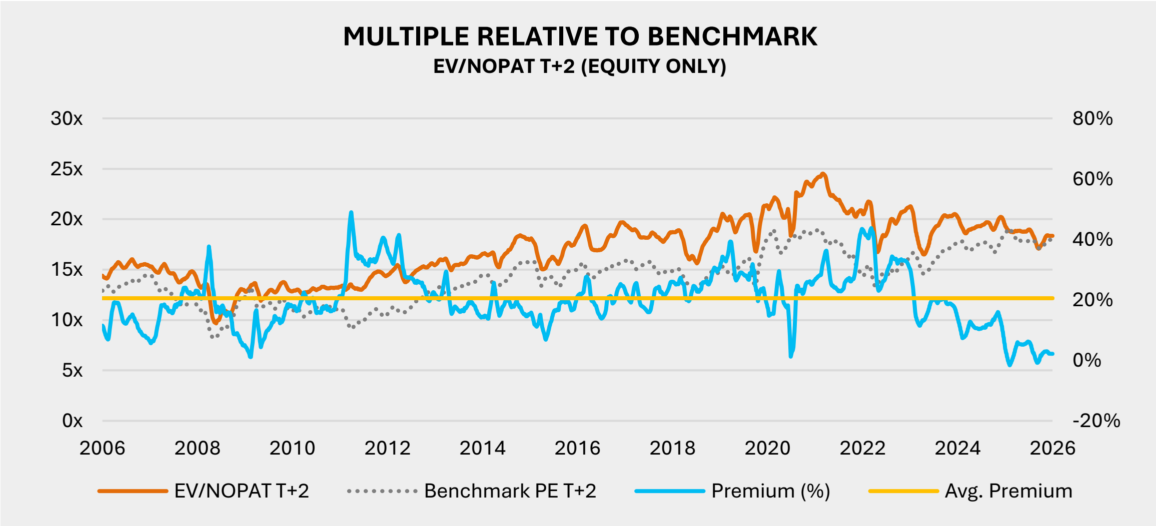
Many businesses we cover, such as Texas Instruments, ASML and Applied Materials, trade on multiples that are stretched versus their own histories and are therefore fraught with risk. At the extreme, Nvidia is expected to deliver a CFROI of over 80% this year – a feat only 0.02% of stocks have managed for a full decade.[7] Nvidia may well prove to be a 0.02% company; in some respects, it already is. Whether an entire suite of companies can meet such lofty expectations is another matter entirely.

This highly unusual market has punished our portfolio of actively managed, sustainable investments. A substantial proportion of our holdings now trade at valuations more than half a standard deviation below their historical averages. The valuation of the portfolio, relative to the benchmark, is hovering around all-time lows.

[5] How Competitive Is the Stock Market? Theory, Evidence from Portfolios, and Implications for the Rise of Passive Investing, American Economic Review, 2025.

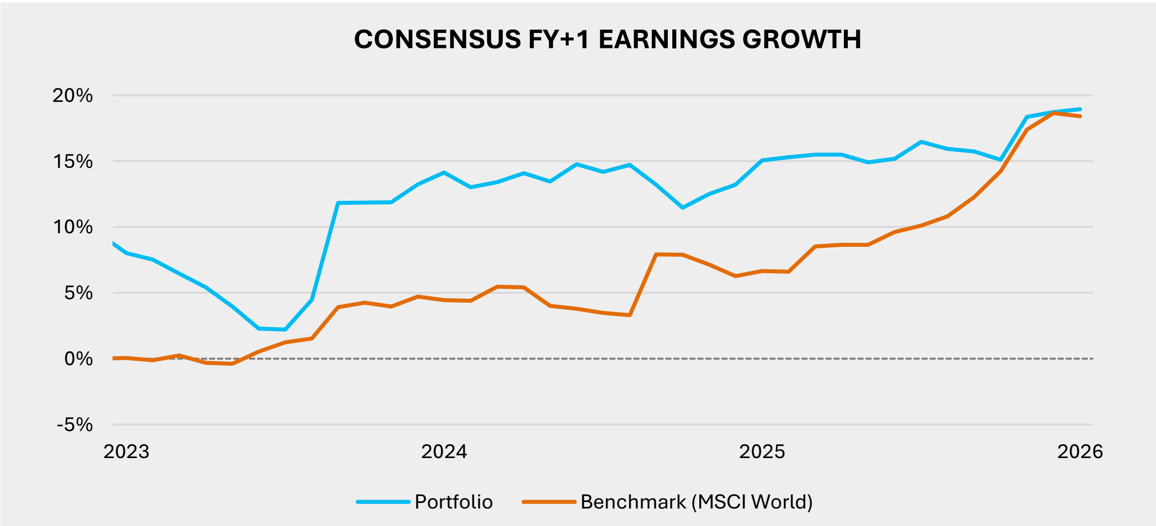
[6] References to securities are for illustrative purposes only, may or may not be held, and should not be viewed as recommendations or complete analysis.

[7] "AI overheat: Three reality checks about competitive lifecycles." UBS HOLT.



Source: Generation IM internal analysis. As at 26 June 2026.

These low valuations have emerged not because the underlying businesses have deteriorated. In fact, as the chart below shows, projected earnings growth across our portfolio compares favourably with the benchmark. Our companies simply lack the near-term revision surprises that the market currently prizes. We believe this represents a significant mispricing, which in turn creates great opportunity for future alpha.



Source: Generation IM internal analysis. As at 26 June 2026.

6: LESSONS FROM RECENT YEARS

We have used this period to learn some crucial lessons, which we are now using to improve our investment process. Three areas stand out. The first concerns our stop loss – the rules governing when we sell a company if its price declines. With our data scientists, who have drawn on 22 years of data from our Focus List, we are improving our method. In short, we now have a better chance of knowing when the stop is probably right (and we should sell) and when the stop is probably wrong (and we should actually buy).

Secondly, we have improved our awareness of industry and style factors. Traditionally, stock-pickers did not consider factors such as ‘momentum’ or ‘high beta’ in their investment decisions, preferring instead to buy a company on the merits of that company alone. Yet as we have discovered, in today’s market that approach is not feasible. Today’s market is more ‘factor-driven’ than ever before, with a great swathe of money investing on precisely that basis.

Without an awareness of factors, portfolio construction can go awry. A fundamental investor may believe that his or her positions are a collection of distinct, company-specific opportunities, when in fact they are all exposed to the same broader force. Such a portfolio could inadvertently be less diversified than the portfolio manager believes. Rather than a series of independent stock-specific theses, it could be an implicit bet on some common factor (such as interest rates or earnings momentum).

Awareness of factors, therefore, allows us to be better fundamental investors. This subtle point is worth emphasising. Stock selection remains grounded, as ever, in the specific investment and sustainability case for the company in question. At the same time, though, we are more keenly aware of how a portfolio comprised of individually great companies may be correlated in unexpected ways. The goal is not to chase factors but to ensure that we are being compensated for the right kind of risk.

Finally, the rise of AI has prompted us to ask ourselves hard questions about the nature of knowledge. Models such as Claude can provide the investor with deep, detailed information about a company in seconds. AI models, however, do not eliminate the need for intellectual engagement. Quite the opposite. They put a premium on other forms of intellectual engagement, including knowing the right questions to ask and how to understand an AI-generated answer in the correct context. This is where we believe that Generation's systems-level approach will prove useful.

A systems-level approach involves understanding how different companies in different industries interact with each other. It also involves understanding 'where the puck is going' in terms of consumer habits, government regulation and more besides. We practise this approach in our work on the mountain of AI capex that is currently underway. We have set up our portfolio to benefit from the value-creation that happens downstream of that capex over many years. Our goal is long-term outperformance, and we believe that our learnings in recent years set up our portfolio for exactly that.

In sum, the improvements to our investment process do not represent a shift away from our fundamental investment philosophy. Instead, we believe that they will protect us on the downside even as we prepare for substantial upside in the future. Sharper deployment of the stop-loss means we can cut genuine mistakes with more accuracy. Greater factor awareness leaves us less exposed to broad-based market shifts. And awareness of the right way to use AI will preserve what is ultimately our key investment edge: research.

7: CONCLUSION

We want to close by telling you why we believe our approach – active management with a sustainability lens – remains the right one. Our team has managed capital through multiple cycles. We have lived through periods when our approach was out of favour and periods when it was in favour. That is the 'nature of the beast' for active management and the price of maintaining a differentiated investment process.

During periods of underperformance, it is crucial to understand the causes. There is a crucial difference between cyclical underperformance driven by an unusual market dynamic and structural underperformance driven by a flawed thesis. As we have set out in this letter, we firmly believe that we are experiencing the former.

We cannot guess when the market context will change. And yet, from our perspective, the combination of extreme market concentration, extreme momentum readings, widening valuation differentials and the lessons of history all point in the same direction. We are confident the market will come to favour exactly the kind of patient, quality, sustainable companies that we look for.

In our view, allocation to a sustainability-minded, long-term manager like Generation matters most precisely when it is least fashionable. We believe a great deal of capital in today's markets is exposed to the same risks, including many portfolios that appear diversified. At Generation, we deliberately lean the other way. We seek out quality that we believe the market has overlooked and businesses whose worth we believe can compound over many years.

We hold a firm conviction that our approach is the best method for generating long-run wealth and a better world.

The total assets under management for the Global Equity strategy as at 30 June 2026 are $14.5 billion.

In each quarterly letter we share examples from our portfolio that bring our investment process to life. This quarter we focus on medical packaging company West Pharmaceutical Services.

Company example

Our investment case for West Pharmaceutical Services is clear: West sits in a uniquely strong position within a structurally growing industry, with the potential to create huge sustainability gains for the world.

Founded more than a century ago, West is a key supplier of packaging and delivery components for injectable medicines. Put more simply, West makes rubber stoppers, seals and plungers – to the order of 50 billion of them a year. These components may not be glamorous, but they facilitate the safe and effective delivery of a growing number of medicines.

OUR INVESTMENT THESIS

A West component represents only about 0.4% of the end cost of a finished drug – a trivial share. Yet if that component fails, the damage can be catastrophic. The classic illustration of this risk comes from the early 2000s. Organic compounds leached from rubber stoppers into a brand of erythropoietin, used to treat kidney disease, and patients developed immune reactions.

To ensure this did not happen again, regulations on drug packaging were tightened significantly. West was the first company to come up with a solution. It offered 'inter-coated' packaging products (comprising a layer that sits between the drug and the rubber) that have since become the industry standard. Internally the company refers to this technology as its 'high-value products' (HVP). West represents around three quarters of this market – and, remarkably, that share is still growing, because it supplies more than 90% of newly approved drugs (in some years, every single one). It also has a near-100% share of GLP-1 drugs. In part for these reasons, we score West a 1 on our internal rating of Business Quality, the highest score we offer.

At Generation we look for firms that can sustain high returns over time. We believe that there are substantial barriers in the way of competitors who would encroach on West's business. The first relates to economics. Because a stopper is so cheap, customers have little incentive even to consider the products of other suppliers. The second is certainty of supply. A pharma company's worst nightmare is a packaging shortage, meaning that they often gravitate towards the largest supplier. The third is risk aversion. Having heard about or lived through the problems of the early 2000s, no customer wants to take a chance with an inferior product again.

We believe that West is likely to benefit from two big tailwinds in the coming years. The first is regulation. Europe's Annex 1 rules, tightened in 2023, demand far 'cleaner' packaging products. High-performing companies like West are likely to be the biggest beneficiaries of these regulatory shifts.

The second tailwind is the nature of pharmaceutical innovation. All the R&D action is happening in biologics – large, fragile molecules that are almost always injected – ranging from treatments for chronic inflammatory conditions to extremely rare diseases. These products require the most sophisticated packaging. This is helpful for West, because margins on HVPs are roughly double those on its other product lines.

A further potential upside comes from 'biosimilars' – generic versions of biologic drugs. For a pharmaceutical company, a drug going off-patent often represents a financial drag. For West, however, the opposite is true. Biosimilars tend to be cheaper than the original drug, leading to higher unit sales. A drug going generic therefore makes West's franchise more valuable, not less.

In recent years the healthcare industry has faced many ups and downs. West is no different. The company's share price boomed in 2021 as demand soared for vaccine components. The shares then roughly halved in 2022. It then jumped around some more. By April 2025, we felt that the market was under-pricing the company and initiated a position. In the past year the shares have appreciated by about 50%, but we believe that the shares remain attractively valued. In our base case we model around 8% revenue and 16% unlevered earnings growth annually over the next five years.

We are impressed with West's management team, which receives a 2 on our rating of Management Quality. This August the company will appoint only its seventh chief executive in more than a century – testament to the long-term culture of the business. The incoming CEO, Michel Lagarde of Thermo Fisher Scientific, is a serious hire. Management also allocates capital responsibly. In the past two decades West has made essentially no acquisitions. Rather, they have funded growth almost entirely through internal capital expenditure, at returns of around 40%. Surplus cash has been returned to shareholders.

SUSTAINABILITY

We are even more impressed with the way in which management engages on sustainability. We have a longstanding dialogue with the company on the question of per- and polyfluoroalkyl substances (or PFAS, in the jargon). PFAS is an ingredient of West's HVPs, and these 'forever chemicals' pose long-term risks to human health and ecosystems. Perhaps more than any other investor, we have pushed the company to find ways of reducing PFAS use. We now understand that this is a top R&D priority for the company. Our research shows that customers want PFAS-free products and will be willing to pay for the sustainability benefits, making this a genuine sustainability and financial win-win.

These are not the only ways in which West drives the world towards a more sustainable future. West's components enable the safe delivery of injectable medicines, increasing the length and quality of human life. West's key role in biosimilars is a particularly important sustainability plus, in our view. Patients across Eastern Europe, Asia and Africa often gain their first access to life-saving cancer drugs only when those drugs 'go generic' and their costs decline. West's components help make that access possible.

In addition, the company is improving how it operates. West recently achieved validation of its near-term science-based greenhouse gas reduction targets, aligned to the Science Based Targets initiative (SBTi). It also has goals surrounding the reduction of water and waste. In sum, West is a company that in both word and deed acts sustainably. At current prices, we think the company represents a tremendous opportunity.

Stewardship and engagement

This quarter, we share highlights from our recent webinar, 'Stewardship in a Shifting World.' We cover three themes from the session: how we think about engagement, the progress captured in our 2025 Stewardship Report and how we are navigating a challenging political backdrop.

ENGAGEMENT AS THE ROUTE TO IMPACT

We set out how we think about engagement in public markets at Generation. Investing in quality, sustainable companies is not the same as saying they are the finished article – no business is. The purpose of our engagement is to help, support and encourage the companies in which we invest to become more sustainable and better run, thereby creating value for our clients.

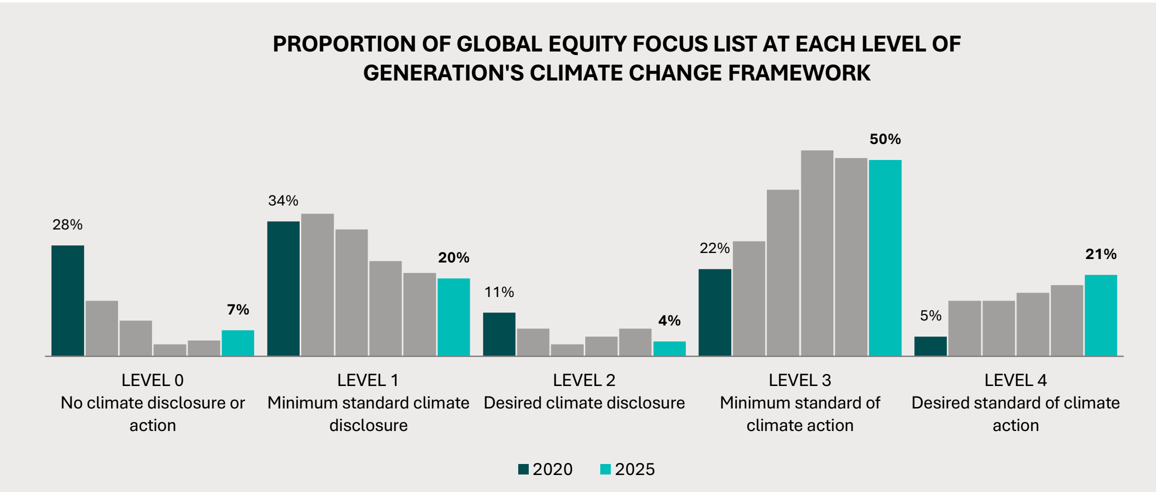
We also explained how stewardship works in practice. It is always a partnership between the analyst who covers the company and our engagement function. The analyst knows the company best and has the ear of management, so engagement is most powerful when performed by them as a core part of the investment process. Our engagement team provides the frameworks that keep this work consistent and systematic, supports analysts in execution and keeps us connected to peer investors and collaborative initiatives.

HIGHLIGHTS FROM OUR 2025 STEWARDSHIP REPORT

We also shared the headlines from our 2025 Stewardship Report. Our Global Equity Focus List currently comprises 106 companies and the portfolio 31. In 2025 we met with Focus List companies 463 times, and 88 of these meetings included engagement, where we asked for improvement in company practice. We run three structured engagement programmes, on climate, deforestation, and equity, diversity and inclusion (EDI), alongside company-specific work on issues from governance at Charles Schwab to PFAS usage at West Pharmaceutical Services.

Climate: our largest engagement programme
Climate change remains our most important engagement programme, as we work towards net-zero portfolio emissions by 2040. We take companies through a range of expectations, from emissions disclosure and TCFD/ISSB reporting to participation in the Science Based Targets initiative (SBTi) and, ultimately, alignment with our 2040 net-zero goal. SBTi sits at the heart of this framework because validated targets show a company has assessed its full climate impact, can demonstrate near-term abatement and has followed a transition methodology comparable with its peers.

Climate featured in 34 Global Equity engagement meetings in 2025, and we voted against the Chair or another Non-Executive Director on climate grounds at six portfolio companies. With engagement like this, we are making real progress. 71% of the Focus List is now at the top two levels of our framework, up from a minority in 2020, while SBT coverage across the firm's assets reached 64%, ahead of our 60% target.



Texas Instruments: a five-year engagement
Texas Instruments (TI) illustrates what engagement can achieve. We first wrote to the company about our climate framework in December 2020. While TI had excellent climate disclosure, it was initially resistant to commit to SBTi, leading us to vote against its lead independent director in 2023 and 2024. In December 2024, however, TI committed to set a science-based target, validated and published in April of this year, including a 42% cut in absolute Scopes 1 and 2 emissions by 2030 from a 2023 base year.

Climate leadership in the age of AI
Much of our climate dialogue now focuses on execution, particularly among the hyperscalers – Alphabet, Amazon and Microsoft – whose targets are under pressure from AI-driven growth in power and water demand. We wrote to all three CEOs last year urging them to hold to their targets and show new ambition given their outsized role in the system. We have been encouraged by the response: Amazon continues to grow The Climate Pledge, now with nearly 700 signatories; Google reported 65% hourly-matched carbon-free energy usage in 2025; and Microsoft became the first hyperscaler to commit to 'community-first' AI infrastructure, alongside contracting 75 million tonnes of carbon removals.

Equity, diversity and inclusion
Diversity has faced a sustained challenge from the US administration this year, but our EDI framework, rooted since 2021 in the business case for diverse teams, is unchanged. EDI featured in 18 Global Equity engagement meetings in 2025, including a meeting with human resources professionals on the impact of federal policy changes. We saw some companies drop targets or close programmes to manage legal risk, but every company with which we spoke remained convinced of the business case for EDI, continuing to collect diversity data, addressing bias in HR processes and maintaining employee resource groups.

ENGAGING AT SYSTEM LEVEL

We are proud of our work at the system level, not just company by company. We helped launch the Net Zero Asset Managers initiative in 2020 and were closely involved in its relaunch in February, which now has more than 250 signatories. We also remain active in deforestation collaboration through the Deforestation Investor Group (DIG).

At our webinar we highlighted risks for the future. The three organisations that provide the infrastructure for investors managing climate risk (the GHG Protocol, ISSB and SBTi) face pressure on a number of fronts. This includes a rival accounting initiative backed by ExxonMobil, patchy adoption of ISSB standards and a 2030 'cliff edge' as many corporate SBTi targets are due. We are supporting all three through engagement, consultation responses and, where needed, funding from the Generation Foundation, and we would encourage clients to do the same.

If you would like to discuss any of these themes further or access a recording of the session, please do get in touch. We would be glad to talk.

Portfolio metrics[8]

We provide select Environmental, Social and Governance (ESG) as well as Financial (F) metrics, which we believe best represent the data we use to inform our Business and Management Quality process, out of those currently available for the majority of our portfolio and the benchmark. While they are best viewed as an output of our process rather than direct inputs, they also provide us with an additional lens through which to view our portfolio and stimulate internal discussion.

As well as measuring the portfolio against a benchmark, we measure it against thresholds too. This is because our portfolio might beat its benchmark in one of the criteria below, but this still might not achieve what is needed for a truly sustainable society. For example: our portfolio has a lower gender pay gap score than the benchmark, but really we want our portfolio, and society more broadly, to move towards eliminating the gender pay gap completely. Therefore, in this situation, our threshold for success would be zero.

E

	Portfolio	Benchmark	Threshold
Carbon intensity, Scopes 1 & 2 (tCO_2e/\$m)[9]	**28**	90	
Carbon intensity, Scopes 1–3 (tCO_2e/€m)[9]	**388**	848	
SBTi target validated (portfolio weight %)[10]	**56%**	50%	100%
SBTi committed but target not set (portfolio weight %)[10]	**12%**	1%	
Implied temperature rise (Scopes 1–3, degrees Celsius)[11]	**2.1**	3.0	1.5

S

	Portfolio	Benchmark	Threshold
Percentage of employees would recommend the company to friend[12]	**73%**	69%	
Effective tax rate[13]	**19%**	21%	
Commitment to a living wage[14]	**23%**		100%
Gender – female Board % (weighted average)[15]	**32%**	33%	40–60%
Gender – female executives % (weighted average)[16]	**27%**	25%	40–60%
Gender pay gap (simple average)[17]	**11%**	15%	0%
Advanced total race/ethnicity score (weighted average)[18]	**70**	67	
Pay linked to diversity targets (simple average)[19]	**10%**	6%	

[8] As at 29 June 2026. This information may no longer be current. To the extent not sourced from Generation, it is from sources believed reliable. However, Generation does not represent that it is accurate or complete and it should not be relied upon. It should not be deemed representative of future characteristics for the portfolio. For definitions of each metric, please refer to the appendix.
[9] Source: MSCI, weighted average calculation.
[10] Generation analysis based on data from the Science Based Targets initiative.
[11] Source: MSCI.
[12] Source: Glassdoor.
[13] Source: CapIQ. This metric is not shown as above or below benchmark, as one cannot deduce from the number alone whether a company's effective tax rate is a positive or negative; company profits are taxed in a range of jurisdictions with a range of tax rates and permissible deductions. For comparison, the global average Effective Average Tax Rate (EATR) published by the OECD in November 2025 was 20.5%. This was calculated on the basis of data for 2024 from 104 jurisdictions.
[14] Source: Denominator. Coverage is poor for this metric and not adequately representative of the benchmark, therefore no comparison is made.
[15] Source: Denominator.
[16] Source: Denominator. This is a Denominator calculated data point because there is no universally agreed definition of an 'executive' and therefore without a standard method one company's disclosure might represent something significantly different to another.
[17] Source: Denominator. This metric is a simple average of gender pay gap data disclosed by companies. Coverage is poor and pay gaps are not measured in a consistent way. Nonetheless, we think it is important to show the data available on this metric.
[18] Source: Denominator. This metric is a score out of 100 that measures the company's total performance on racial/ethnic diversity across the Board, executives and company as a whole. Comparison to background race/ethnicity is calibrated to the country of operations: a company with 100% Caucasian leadership in the US scores less than a company with same ratio in Denmark, due to the different race/ethnicity composition of the background population (higher % of Caucasian in Denmark).
[19] Source: MSCI.

G

	Portfolio	Benchmark
Percentage of shares owned by executives (median)[20]	0.15%	0.00%
Independent Board (weighted average)[21]	80%	78%
Independent chair or lead non-executive director (simple average)[21]	87%	77%
Board not entrenched (simple average)[21]	83%	80%
All non-executive Board members on no more than four public company Boards (simple average)[21]	97%	95%
Equal shareholder voting rights (simple average)[21]	87%	88%
Independent compensation committee (simple average)[21]	83%	73%
Companies with regular 'say on pay' votes (simple average)[21]	97%	82%
Fewer than 10% votes against executive pay (simple average)[21]	**77%**	77%
Pay linked to sustainability targets (simple average)[20]	33%	26%

F

	Portfolio	Benchmark
Three-year revenue growth (weighted average)[20]	11%	13%
Gross margin (weighted average)[20]	60%	53%
Cash flow return on invested capital[22]	17%	10%

Data in green: relative performance above benchmark. Data in red: relative performance below benchmark.

[20] Source: CapIQ.

[21] Source: MSCI.

[22] Source: UBS HOLT.

The firm

Generation has ambitious impact initiatives in addition to our core investment work. We know that to bring about the transformative change required over this decade, we must also motivate others.

LATEST INSIGHTS PIECE

Behavioural biases are an unavoidable part of investing. The challenge is not to eliminate them, but to build an investment process that makes them easier to recognise and less likely to influence important decisions. In our latest Insights piece How We Think About Behavioural Biases in Investing, we explain how we seek to do this at Generation, from the way we structure research discussions and investment meetings to the way we review portfolio decisions over time. We believe that a disciplined approach to behavioural bias strengthens our ability to identify high-quality companies, allocate capital thoughtfully and remain focused on long-term outcomes.

FIRM UPDATE

As at 30 June 2026, Generation, including Just Climate, comprises 196 people and the Generation Foundation includes three people. Assets under management total approximately $22.9 billion.[23,24]


Miguel Nogales,
co-Portfolio Manager

Nick Kukrika,
co-Portfolio Manager

[23] Includes subscriptions and redemptions received by the last business day of the quarter but applied the first business day after the quarter-end.

[24] Assets under management includes Growth Equity, Private Equity and Just Climate assets as at 31 March 2026.

Appendix

Portfolio metrics: definitions

FACTOR	METRIC	SUMMARY DESCRIPTION
Carbon intensity, Scopes 1 & 2 (tCO_2e/$m)	Weighted average	Aggregate tonnes of GHG emissions (expressed as CO_2 equivalent) per $m of company revenue.
Carbon intensity, Scopes 1–3 (tCO_2e/€m)	Weighted average	Aggregate tonnes of GHG emissions (expressed as CO_2 equivalent) relative to the company's most recent sales in million Euro. Scope 3 emissions are estimated.
SBTi target validated (portfolio weight %)	Percentage	The percentage of companies in the portfolio with a validated science-based target.
SBTi committed but target not set (portfolio weight %)	Percentage	The percentage of companies in the portfolio that have committed to setting a science-based target with the Science Based Targets initiative but have not yet had their target validated.
Implied temperature rise (Scopes 1–3, degrees Celsius)	Degrees Celsius	A portfolio level number in degrees Celsius demonstrating how aligned the companies in the portfolio are to global temperature goals. This metric uses an aggregated budget approach: it compares the sum of 'owned' projected GHG emissions on a Scopes 1–3 basis against the sum of 'owned' carbon budgets for underlying holdings. Scope 3 emissions are estimated.
Percentage of employees who would recommend company to a friend	Average	Percentage of participating employees who would recommend the company to a friend. This metric may warrant caution where a small percentage of the workforce report.
Effective tax rate	Weighted average	The effective tax rate is calculated as the company income tax expense divided by earnings before interest and tax (EBIT) including unusual items. We show a three-year average for smoothing purposes and exclude significant outliers.
Commitment to a living wage	Percentage	The percentage of companies in the portfolio that have committed to a living wage. A living wage is defined by the Global Living Wage Coalition as the remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and their family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing and other essential needs including provision for unexpected events.
Gender – female Board	Weighted average	A weighted average calculation of the percentage of female Board directors on each of the Boards in the portfolio.
Gender – female executives	Weighted average	A weighted average calculation of the percentage of female executives at each of the companies in the portfolio. There is no standard definition of an executive, and companies can define the executive level in many different ways. Denominator, our data provider, works to calculate the data point based on standard definitions.
Gender pay gap	Average	The average salary gender pay gap across companies that disclose this metric within the portfolio. The pay gap data used is calculated by each company without any modifications applied. Calculation methods can vary between companies and jurisdictions.
Advanced total race/ethnicity score	Weighted average	This metric is a score out of 100 calculated by our data provider that measures the company's total performance on racial/ethnic diversity across the Board, executive and company as a whole. Comparison to background race/ethnicity is calibrated to the country of operations: a company with 100% Caucasian leadership in the US scores less than a company with same ratio in Denmark, due to the different race/ethnicity composition of the background population (higher % of Caucasian in Denmark).
Pay linked to diversity targets	Percentage	The percentage of companies where there is evidence of a commitment to linking executive pay to diversity and inclusion targets. The metric is calculated as: number of companies where evidence exists divided by the total number of companies in the portfolio.
Percentage of shares owned by executive	Median	Executive share holdings as a percentage of shares outstanding. We show the median for portfolio and benchmark, as the average may be impacted by some companies (often founder-run) with large executive ownership stakes.
Independent Board	Weighted average	Board independence is inferred by MSCI. The following categories of director are not regarded as independent: current and prior employees, those employed by predecessor companies, founders, those with family ties or close relationships to an executive, employees of an entity owned by an executive and those who have provided services to a senior executive or the company within the last three years. The compensation of a non-executive Chair must not be excessive in comparison to that of other non-executives and must be less than half that of the named executives. Where information is insufficient, the director is assumed to be non-independent. For the Board to be classified as independent, a majority of the Board members must be classified as independent.

FACTOR	METRIC	SUMMARY DESCRIPTION
Independent Chair or lead non-executive director	Percentage	Percentage of companies that have an independent Chair or, where the Chair is not independent, an independent lead director.
Board not entrenched	Percentage	Percentage of companies without an entrenched Board. Board entrenchment is inferred by MSCI using a range of criteria including: >35% Board tenure of >15 years, five or more directors with tenure of >15 years, five or more directors >70 years old.
All non-executive Board members on no more than four public company Boards	Percentage	Percentage of companies with no over-boarded non-executives. The threshold is where a Board member serves on five or more public company Boards.
Equal shareholder voting rights	Percentage	Percentage of companies that have equal voting rights.
Independent compensation committee	Percentage	Percentage of companies with independent compensation committee. Please see above for the independence criteria used.
Companies with a regular 'say on pay' vote	Percentage	The percentage of companies in the portfolio that have a policy in place to ensure that a firm's shareholders have the right to vote on the remuneration of executives on a regular basis.
Fewer than 10% shareholder votes against executive pay	Percentage	Percentage of companies that received less than 10% shareholder votes against executive pay at the most recently reported annual shareholder meeting. Only applies to companies that have a 'say on pay' vote.
Pay linked to sustainability targets	Percentage	The percentage of companies where executive remuneration is linked to sustainability targets. This metric is based on the company's own reporting. It considers whether one or more sustainability metrics are used to determine annual and/or long-term incentive pay and does not consider the effectiveness of those metrics.
Three-year revenue growth (annualised)	Weighted average	Aggregate (weighted) three-year revenue growth rate to the last reported fiscal year. Revenue growth is not adjusted for acquisitions and disposals.
Gross margin	Weighted average	Aggregate (weighted) gross margin for the last fiscal year. Gross margin is the difference between revenue and cost of goods sold divided by revenue.
Cash flow return on invested capital (CFROI)	Weighted average	CFROI (cash flow return on investment), a (trademarked) valuation metric.

Important information

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