CONSULTATION ON CLIMATE CHANGE DISCLOSURES

Generation Investment Management LLP is an independent, private, owner-managed partnership dedicated to long-term investing, integrated sustainability research, and client alignment, headquartered in London. It is the parent company to San Francisco based Generation Investment Management US LLP. Collectively both entities are referred to as Generation Investment Management (“Generation”). Founded in 2004, we seek to prove the business case for sustainable capitalism by consistently taking a long-term view and fully integrating sustainability research within a rigorous framework of traditional financial analysis. We invest in both listed and private equity and as at 31 March 2021 Generation was responsible for $32.9bn assets under management. While we invest globally, the US is our most significant investment market.

We were delighted to see the SEC’s call for input on climate change disclosures and are pleased to provide comments in response.

By way of background, Generation operates an investment process that fully integrates sustainability analysis into our decision-making and is focused on long-term performance. We think about the dynamics that drive and influence the performance of companies and construct portfolios of sustainable companies based on deep research and analysis.

We believe that a sustainable company is one:

i. whose current earnings do not borrow from its future earnings

ii. that provides goods and services consistent with a low-carbon, healthy, fair and safe society

iii. whose sustainability practices, products and services drive revenues, profitability and competitive positioning, and

iv. that focuses its external communication on long term issues.

In the 17 years since our inception, Generation has consistently sought to encourage better and more consistent sustainability reporting by companies. We have supported the growth of CDP, SASB and TCFD and have encouraged
companies to report in line with the standards these initiatives have set. Generation’s investment process is best served by the public availability of credible, consistent sustainability reporting.

The urgency of improving climate change disclosures by companies publicly listed in the US cannot be over-estimated. While we see many companies publicly listed in the US, large and small, taking leadership on climate disclosure and strategy, progress has, in the main, been too slow and has not kept pace with investor demand, as has been evidenced this year in the number of majority votes in support of climate-related shareholder proposals.

Generation’s own climate change framework identifies four stages of company responses to climate change, which we represent as follows:

1. Minimum standard of climate disclosure
   - Discloses Scope 1 & 2 emissions
   - (Strongly encouraged) Discloses to CDP: & fully discloses Scope 3 emissions

2. Desired climate disclosure
   - Discloses in line with TCFD recommendations, incl. for Scope 3 emissions
   - (Strongly encouraged) A public supporter of TCFD

3. Desired climate action
   - Science Based Target (SBT), incl. for Scope 3 emissions in line with SBTi methodology
   - Committed to Net Zero Emissions no later than 2050 incl. for Scope 3 emissions in line with SBTi methodology

4. Desired climate action
   - Committed to Net Zero Emissions no later than 2040, incl. for Scope 3 emissions in line with SBTi methodology
   - Net negative goal, investing in nature-based solutions
   - Allowing capital & setting management incentives in line with Net Zero
   - Providing/innovating Net Zero-enabling & climate-resilient products & services
   - Collaborating with peers
   - Actively advocating public policy to realise the Paris goals

Procuring the information we need to assess US-listed companies against our framework is cumbersome and inefficient in the absence of clear, mandatory disclosure requirements. We have to review companies’ public disclosures, CDP disclosure (if the company responds to CDP’s annual questionnaire) and the Science Based Targets initiative website (if the company has a science-based emissions reduction target submitted to SBTi for validation).

Where there are gaps in disclosure and action, we have to engage on a company-by-company basis to request that the gaps are closed. This is a time-consuming process, and cost burden, even for an investment manager like Generation that follows a limited number of listed companies (less than 150 in our largest, global equity, strategy). It requires attention, time and sustained effort from our portfolio managers, investment analysts and engagement director alike.

In addition to conducting company-by-company engagement, we have supported third party campaigns for climate disclosure and science-based targets, such as by CDP, and collaborative engagement, such as by Climate Action 100+.

In order to fill information gaps resulting from lack of disclosure, we also contract with ESG research providers who provide estimated Scope 1, 2 and 3 emissions data for companies who do not disclose this data, disclose it partially or may be disclosing it inaccurately. We thus have to rely on estimated as well as disclosed data to understand the extent to which our listed equity portfolios are aligned with the goals of the Paris Agreement to which the US is a party.

These processes are being repeated across multiple asset owners and investment managers to overcome market information gaps and inefficiencies. 42 asset owners representing $6.6tn of AUM have joined the UN-convened Net
Zero Asset Owner Alliance. 28 asset owners with $1.9tn of AUM have committed to achieve net zero alignment by 2050 or sooner via the Paris Aligned Investment Initiative (PAII). The Net Zero Asset Managers initiative (NZAM), only established in December 2020, now has 87 signatories with $37tn of AUM. Many of our clients are signatories of these initiatives. We believe that it is the mandate of the Commission to assess and remedy the significant market inefficiencies and costs that the status quo imposes on investors.

Given the level of consensus on the requirement to reach net zero emissions no later than 2050 in line with climate science, we believe that it is overdue for the SEC to require of companies publicly listed in the US:

1) the disclosure of Scope 1, 2 and 3 GHG emissions, in line with the GHG Protocol
2) full disclosure in line with the recommendations of the TCFD, including emissions reduction targets and climate-related scenario analysis (where we attach the most importance to a 1.5C warming scenario consistent with the Paris Agreement).

As noted earlier, many companies publicly listed in the US are meeting these disclosure standards, or a significant portion of these standards. We often find companies confused about what they should be disclosing. The time and human capital resource that issuers spend parsing disclosure standards and investor expectations is yet another inefficiency. Making disclosures mandatory, as well as their being filed with or furnished to the SEC, and assured, would ensure that the credible, consistent, decision-useful information that investors need is available across the market, reducing issuer as well as investor costs, and increasing efficiency and benefits for all market participants.

These steps would be consistent with planned disclosure requirements in the European Union and United Kingdom and would help to maintain the attractiveness to international investors of companies publicly listed in the US. In terms of international consistency, we are supportive of the process underway at the International Financial Reporting Standards Foundation to create a Sustainability Standards Board and a global set of internationally recognised sustainability reporting standards, starting with climate-related financial disclosures. We would be most supportive of the SEC having regard to the desirability of consistency between its requirements and those of the IFRS.

Given our focus on sustainability in our investment process, we would of course very much support the SEC also requiring wider ESG disclosures. In this regard, consistency with the SASB disclosure requirements would be desirable. We also commend the broader World Economic Forum ‘Stakeholder Capitalism Metrics’ as a judicious choice of a wider range of ESG metrics material to investors. We would add that we see improved human capital management and diversity disclosure by US publicly listed companies as particularly urgent given the well-researched links between diversity and improved corporate performance.

We have limited these comments to disclosure requirements for publicly listed companies because this is where, for us, the need is most urgent; in our private markets strategies the size of our investment in portfolio companies affords us the opportunity to work with management to secure the climate-related, and wider SASB/WEF Stakeholder Capitalism Metrics disclosures, that we require.

Yours sincerely,

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Generation Investment Management LLP