

**COMPANIES HOUSE  
EDINBURGH**

**20 AUG 2019**

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## **GENERATION INVESTMENT MANAGEMENT LLP**

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### **MEMBERS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2018**

**PARTNERSHIP REGISTRATION NUMBER: OC307600**

**TUESDAY**



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**COMPANIES HOUSE**

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## INTRODUCTION

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### LETTER FROM OUR SENIOR PARTNER ABOUT THIS REPORT

Generation is a pure play sustainable investment manager – it is all we do, and all we will ever do. We see long-term investing as best practice and sustainability as the organising construct of the global economy. We use Environment, Social and Governance (ESG) factors as tools to evaluate the quality of business and management. We believe this approach leads to important and relevant insights which other investment frameworks may miss, and ultimately to superior, risk adjusted results. In other words, we are not trading value for values.

Our 2018 report is our second year of integrated reporting – the practice of incorporating salient sustainability metrics into financial reporting. We continue to evolve the way we present these data. We hope our report will help our members and wider stakeholders assess our financial performance, our governance and our relationship to the environment and society in general.

#### **15 year journey with Sustainability**

Generation celebrated its 15th anniversary on April 5th. This milestone is an opportunity to reflect on the past and reimagine the future. As a reminder, our firm's two objectives are: to deliver outstanding investment results and insights to our clients; and to prove that the full integration of sustainability in business and the capital markets is best practice. We know, of course, that these two objectives are linked, and that the best way for us to be credible advocates of sustainable investment is to deliver strong investment results.

In last year's letter, we focused on our investment philosophy and process. This year, we are sharing lessons learned over the last 15 years as advocates of sustainable capitalism.

#### **"Apprehension and Hope"**

These words from Alexis de Tocqueville neatly capture our perspective on the global transition to a sustainable economy. On the positive side, sustainability and integrated ESG investing has reached a tipping point. We estimate that one third of public equity investors now actively consider sustainability and ESG in their investment frameworks. Other mainstream investors will not be far behind.

Moreover, the sustainability revolution, coupled with the accelerating technology revolution, is transforming whole swathes of the economy – from energy and mobility to food systems and the built environment. The business case for sustainability has become more robust and more nuanced as these shifts play out. Most importantly, public concern about climate change has reached record levels – including 72% of Americans in a recent Yale poll.

But while we are encouraged by this gathering momentum, we are keenly aware of the nature of the challenge. The IPCC Report on Global Warming of 1.5 degrees, released in October, stressed that time is running out. With another 15 years of incremental improvement we will not come close to meeting the 2030 Sustainable Development Goals. The scale of the needed transformation is unprecedented. It means transitioning away from an incumbent energy system we have relied upon for more than 150 years – and much more besides.

Meanwhile, we are seeing increased scepticism of capitalism and market solutions. Populism and toxic forms of nationalism are on the rise when what is most needed is international collaboration and cooperation.

**“What has occurred to us lately?”**

Oliver Wendell Holmes Jr was said to greet friends after a long absence with “what has occurred to you lately?” As it happens, quite a bit has occurred to us lately:

- First, even as we celebrate the significant changes we have achieved over the last 15 years, we recognise they are merely the foundation of the truly transformational change we must achieve in the years just ahead.
- Second, we fully understand that sustainable investing is not a panacea. Business and capital alone will not and cannot solve the climate crisis or meet the SDGs – nor is it fair to ask business and investors to do the work that only governments can do. We will need major public policy responses.
- Third, we cannot solve the climate crisis without addressing inequality, poverty, injustice and unfairness. The transition to a low carbon economy must be a ‘just transition’.
- Fourthly, we will need to deploy carbon removal technologies to have any real chance of limiting temperature rises to less than 1.5°C. Sustainable forestry, regenerative agriculture, soil management and responsible land use strategies are proven to be successful and can be implemented now. In addition, while technologies to capture and remove greenhouse gases are still underdeveloped and prohibitively expensive, we will need to invest further in seeking breakthroughs that may make them available sooner rather than later.

Finally, as sustainability and ESG become part of the mainstream, we need to ensure that the rigour of sustainability and ESG analysis is not devalued as some investors rush to claim compliance in word but not in deed. The issues we need to examine will become increasingly complex, and many solutions will require us to face some degree of unintended consequences. Evaluating trade-offs is often an exercise of navigating grey areas. That will require judgement, compromises, openness to new information, a sophisticated understanding of systemic implications and a readiness to learn quickly from practical experience.

**Action required:**

The role of business and society is certainly topical at the moment, and we think extremely important. However, for investors and business leaders, the key overarching question is as follows: are we operating in an environment which is primarily business as usual, or are we in a transformative moment characterised by systems level change? We see the latter. We see a revolution underway.

The Sustainability Revolution coupled with the technology revolution will be deeper and more far reaching than the industrial revolution and will unfold even faster than the digital revolution. Everything we have done and will do today will change. The recent New Climate Economy report estimates this enormous transition represents a \$26 trillion opportunity over the next 10 years. It reminds us that *this* is the “growth story” for our economy.

The IPCC report is clear: limiting temperature increases to 1.5°C is critical and yet we have little time left to ensure this outcome. In light of this, “we” – the entrepreneurs, business leaders and investment professionals – must act. It is indeed our moral duty, but it is also the most significant business opportunity in history.

Thank you to our employees, partners, clients and all who are joining us on this journey. We appreciate the opportunity to share our annual results with you.

David Blood  
Senior Partner, Generation Investment Management.

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## MISSION AND VALUES OF THE FIRM

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### MISSION

- > To deliver superior investment performance by consistently taking a long-term view and fully integrating sustainability research within a rigorous framework of traditional financial analysis. Delivering outstanding investment results will also achieve our goal of proving the business case for Sustainable Capitalism.
- > To create long-term client partnerships by delivering unique investment insights and exceptional client service.
- > To attract, retain and develop the best professionals within a passionate investment culture and with whom we share a commitment to Our Values.

### VALUES

#### COMMITMENT TO CLIENTS

We are committed to providing exceptional client service – above all by delivering superior long-term performance – and by ensuring that our interests are fully aligned with those of our clients.

#### INTEGRITY

Integrity and honesty form the bedrock of our business. We expect the highest ethical standards in our work and personal lives.

#### EXCELLENCE AND INNOVATION

We aim for excellence in all that we do, and ensure that our investment processes encourage rigorous research, curiosity and continuous learning. We believe interdisciplinary, diverse teams are the most likely to yield new insights and produce the best results for our clients over the long-term.

#### TEAMWORK

Teamwork underpins our one-firm culture. We consider each of the women and men with whom we work as individuals entitled to respect and dignity, and we recognise and reward their contributions on the basis of merit.

#### COMMUNICATION

Effective communication is critical to teamwork and to our relationships. We encourage and especially value hearing different viewpoints and respectful challenges to consensus opinions.

#### DIVERSITY

Diversity, in the broadest sense, helps drive our success. A welcoming work environment, where individuals can bring the totality of their experience and perspectives, is an invaluable contributor to greater economic success.

#### SUSTAINABILITY RESEARCH

Our investment philosophy, which integrates sustainability research with traditional financial analysis, affords us the highest opportunity to deliver outstanding investment results.

#### INDEPENDENCE

We have chosen an independent broad-based employee-owned partnership as an enduring business model. Similarly, we are committed to remaining a boutique investment firm focused on continual improvement in our performance.

#### RESPONSIBLE CITIZENSHIP

We recognise and accept our responsibility to live in accordance with our values, to be responsible to the communities in which we live and work, and to the world community. We aim to reduce our environmental footprint where possible; we are mindful of ways to help our employees fulfil their personal responsibilities; and we actively encourage philanthropic engagement.

#### SUSTAINABLE CAPITALISM

Through engagement with our clients, our portfolio companies and the broader financial markets, we strive to promote a more sustainable form of capitalism. The Generation Foundation is an important element of this work.

## MEMBERS AND PROFESSIONAL ADVISORS

The Partners who served the Partnership during the year and up to the date of signing the financial statements were as follows:

### DESIGNATED MEMBERS AND PROFESSIONAL ADVISORS

**Designated members:**

D W Blood  
 P M Harris (Resigned on 31 December 2018)  
 A M Marshall (member since 2011, Designated member with effect from 30 November 2018)  
 A C Sullivan (Designated member from 1 January 2018)

**Other members:**

L Anderson  
 T J Arnold (Resigned on 30 June 2018)  
 D J Austin (Resigned on 31 December 2018)  
 R D Beaumont  
 J D Bernstein  
 M K Bray  
 P Coates  
 D Deme (Appointed 1 January 2019)  
 K Dicker  
 B P Dineen  
 M Ferguson  
 E Gilmore  
 A A Gore  
 P Harris  
 P R Jain  
 V Jain  
 N Kukrika  
 C M le Duc  
 D M Lowish (Resigned on 31 December 2018)  
 M K McBrinn  
 H A Mehn  
 M C Mills  
 R Narayanan (Appointed 1 January 2019)  
 M R Nogales  
 L M Preston  
 R Rajeswaran  
 E N Rosenthal (Appointed 1 January 2019)  
 N N Rosinski (Resigned 23 March 2018)  
 J M Tuffield (Appointed 1 January 2019)  
 G S Wasserman (Resigned 23 February 2018)  
 L Wollman  
 Z Yin

**Registered office and business address:**

20 Air Street  
 London  
 W1B 5AN

**Independent auditors:**

PricewaterhouseCoopers LLP  
 Chartered Accountants and Statutory Auditors  
 7 More London Riverside  
 London  
 SE1 2RT

## MEMBERS' REPORT

The members have pleasure in presenting their report and the audited consolidated financial statements of Generation Investment Management LLP ("Generation", "Partnership", "limited liability partnership" or "LLP") and its subsidiaries (together the "Group") for the year ended 31 December 2018.

### OUR ORGANISATION AND ITS GOVERNANCE

#### BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Generation Investment Management LLP is an independent, private, owner-managed limited liability partnership.

The Group is dedicated to the principles of long-term investing, integrated sustainability research and client alignment. Its principal activity is the provision of investment management services to institutional clients and other sophisticated investors.

The Partnership is authorised and regulated in the United Kingdom by the Financial Conduct Authority. Although the Partnership is not registered with the U.S Securities and Exchange Commission ("SEC") as a Registered Investment Advisor, it files reports as an Exempt Reporting Adviser. The Partnership's subsidiary, Generation Investment Management US LLP ('US LLP'), is registered with the SEC as a Registered Investment Advisor.

#### DESIGNATED MEMEBERS

The following designated members held office during the year:

- > D W Blood
- > P M Harris (until 31 December 2018)
- > A M Marshall (appointed 30 November 2018)
- > A C Sullivan (appointed 1 January 2018)

#### CHANGE IN GROUP STRUCTURE

With effect from 1 January 2017, the US based individual members of Generation Investment Management LLP became direct partners in Generation Investment Management US LLP in addition to continuing as members of Generation Investment Management LLP. In conjunction with this change, these individuals placed varying amounts of partnership capital into the US LLP and became entitled to allocations of profits from this partnership.

As a result of this, the interests of these members in the US LLP are considered to form a non-controlling interest in the Group results as reflected in these financial statements. The impacts of this include a separate disclosure regarding the allocation of group profits deriving from the US LLP in the Consolidated Statements of Comprehensive Income; and the allocation of Equity interests in the Group balance sheet and the Consolidated Statement of changes in Equity.

#### RESULTS FOR THE YEAR AND ALLOCATION TO MEMBERS

The Group's total consolidated profit for the year was £236.8m (2017: £237.1m), of this the profit for the year available for discretionary division to members of Generation Investment Management LLP was £207.5m (2017: £193.2m). The remaining profit for the year of £29.4m (2017: £44.0m) was available for discretionary division between the members of the partnership who have a direct partnership interest in the US LLP.

The total net assets of the Group as at 31 December 2018 were £128.9m (2017: net assets of £146.7m). Of these £116.2m were attributable to the members for the partnership while £12.7m were attributable to the non-controlling interest as held by the individual direct partners in US LLP. This non-controlling interest in the assets represent the total capital contributions made by these partners into the US LLP together with their allocated share of the undistributed profits of that entity.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group's operations expose it to a variety of financial risks the most significant of which are credit and operational risk. These are explored in more detail in Note 15 to the financial statements. In accordance with the rules of the Financial Conduct Authority, the Group has published information on its risk management objectives and policies and on its regulatory capital requirements and resources. This information is available at [www.generationim.com/disclaimer-and-regulatory-information/](http://www.generationim.com/disclaimer-and-regulatory-information/).

Risk management is an inherent part of Generation's business activities. The Group's risk management framework and governance structure are designed to provide comprehensive controls and ongoing management of its principal risks.

Since June 2016 we have been monitoring developments as the United Kingdom prepares to leave the EU. Some of areas of focus have included the People implications of the change (ensuring that our individuals remain able to freely work in the UK and travel overseas); the Regulatory implications for Generation as a UK based AIFM (ensuring that Generation can continue to provide investment management services to all its EU based clients and funds); and the Financial and Credit challenges (in particular the potential for market disruption as and when the Brexit date arrives). Although this work has required resource commitment we believe that the Group is well placed to continue its business undisrupted by Brexit and we do not anticipate any ongoing significant financial impacts to the Group.

Information security or cybersecurity risk management remains one of the firm's key operational risk areas of focus. We are vigilant and continue to keep abreast of the latest risks, while taking measures to mitigate them. We are working with our technology service provider and other external specialists to ensure our systems are constantly monitored for any potential attacks and put in place plans to effectively manage any breaches.

## POLICY WITH RESPECT TO MEMBERS' DRAWINGS AND THE SUBSCRIPTION AND REPAYMENTS OF MEMBERS' CAPITAL

Distribution of profits can be made at the discretion of the members' Management Committee, taking into account a range of factors including the anticipated liquidity requirements of the LLP and the relevant member shares. Distributions may be paid net of a tax retention which is released to members to pay tax as required. The balance of tax retained from members is shown within Amounts due to members in Note 19. A member may at any time and with the agreement of the Management Committee make a further contribution to the LLP by way of equity or debt. Repayment of members' capital is made at the discretion of the Management Committee.

## CAPITALISATION

The current level of capital is considered to be sufficient to permit Generation to meet its business and regulatory requirements.

## EMPLOYEE INCENTIVE BENEFIT PLAN (EIBP)

The Group promotes the alignment of employee interests with those of its clients. The Group operates an Employee Incentive Benefit Plan to further this alignment as detailed in Note 9. Generally, and subject to the EIBP Rules, the awards vest after three years and after five years the investments may be realised and cash payments made based upon the current redemption value of those investments. In respect of the majority of these awards, Generation has made contributions to an Employee Benefit Trust. This trust currently holds asset valued at £6.5m (2017: £7.2m) with the Group having made an offsetting provision of £4.6m (2017: £5.0m) in respect of the deferred remuneration due to employees and members. For other scheme awards the Group holds current assets on its balance sheet valued at £2.0m (2017: £2.7m) with a provision of £1.6m (2017: £1.6m) in respect of the deferred remuneration due to employees and members.

## FCA REMUNERATION CODE DISCLOSURES

In accordance with the rules of the Financial Conduct Authority, it is the intention of the members to comply with the FCA Remuneration Code disclosures. This information is available at [www.generationim.com](http://www.generationim.com).



## GOVERNANCE & RISK

David Blood (Senior Partner) together with the other members of the Management Committee are responsible for the supervision of the firm with regards to its actions in meeting its Mission and Values. The Senior Partner has specific responsibility for ensuring the firm has an effective organisational structure which is consistent with its goals and objectives. In conjunction with the Management Committee he is tasked with developing the firm's strategic direction and protecting its culture and values. The Management Committee is Generation's senior governing body. Its primary responsibility is to prepare and execute on the firm's business plans. Other key functions include monitoring the performance of the Senior Partner, ensuring the adequacy of the firm's risk management arrangements, agreeing the remuneration arrangements of the staff and members and conducting oversight of the investment committees of Generation's investment strategies. The Management Committee is supported by a committee structure as follows:

- > The Operating Committee (which serves as the oversight group to business heads, who handle daily workflow and manage risk events)
- > The Remuneration Committee (which implements the Remuneration Policy approved by the Management Committee)
- > The Risk Oversight Group ("ROG") (instructed by the Management Committee to provide focused support and governance on risk matters)
- > The Valuation Oversight Group (which implements the Valuation Policy approved by the Management Committee)

In particular, the Management Committee has delegated the oversight of the firm's risk management arrangements to the ROG. The ROG is a senior governance body with the responsibility for ensuring there are suitable and adequate internal financial controls and risk management systems in place (including those required by Alternative Investment Fund Managers Directive) and ensuring that Generation performs an assessment and evaluation of the risks facing the firm and the control procedures to manage these risks. The Management Committee has instructed the ROG to provide focused support, oversight and governance on all risk matters. In this role, Generation considers the ROG to be functionally independent in its oversight.

Where the ROG identifies material matters in respect of its responsibilities and duties, and considers action or improvement is needed, it makes such recommendations as appropriate to the Management Committee. During 2018, the ROG met on six occasions.

Generation has an internal risk function which reports to the ROG and has responsibility to ensure the firm's systems and controls are regularly reviewed to determine whether such arrangements remain effective and appropriate in respect to the risks faced by the firm. In addition, compliance monitoring programs are conducted by independent compliance consultants, who report to the ROG.

The members of Generation instruct the preparation of an annual Report on Internal Controls in accordance with guidelines from the International Auditing and Assurance Standards Board (ISAE 3402) and the Institute of Chartered Accountants of England and Wales (AAF 01/06). The report sets out our key control objectives and the processes and procedures deployed in achieving them. We are pleased to note that the 2018 report contained a positive opinion on the appropriateness and operation of our key controls. The Report is made available to Generation's clients upon request.

## CLIENT SERVICE

"We are committed to providing exceptional client service – above all by delivering superior long-term performance<sup>1</sup> – and by ensuring that our interests are fully aligned with those of our clients."

We recognise the position of trust in which we are held by our clients and our fiduciary duty as stewards of our clients' capital. We manage assets on behalf of institutional investors around the world, including pension funds, foundations, family offices, endowments and high-net-worth individuals. We feel extremely fortunate to have an engaged and like-minded client community who hold us to the highest standards of performance and sustainability research.

We seek enduring client partnerships through the pursuit of superior investment performance, original investment insights and exceptional client service. We achieve this by:

- > Diligently implementing our investment process
- > Aligning our commercial interests with those of our clients
- > Providing insights on sustainability topics
- > Operating a robust compliance, administration and risk management system to protect our mutual interests.

Our commercial arrangements and incentive structures aim to align investment professionals with clients' long-term performance results. As an owner-managed partnership, employees and partners participate in the Firm's profits. All of our investment strategies provide for the performance linked part of our fees to be deferred, contingent on sustained performance. This is designed to align our investment professionals with long-term investment results. In addition, Generation provides opportunities for most<sup>2</sup> staff to be invested in the Funds alongside our clients through direct investment and employee incentive plans.

## PEOPLE

At Generation, our people are our business and we strive to attract, retain and develop the best professionals and foster a healthy, team-oriented, diverse culture that enables us to deliver the best possible results for our clients. We are committed to hiring and retaining the people who share our vision for a more sustainable economy. Our people are a testament to this commitment. Teamwork underpins our one-firm culture. We consider each of the women and men with whom we work as individuals entitled to respect and dignity, and we recognise and reward their contributions on the basis of merit.

To attract, retain and develop our professionals we seek to provide our team members with the opportunity to:

- > interact with highly-skilled professionals in a positive workplace environment;
- > find personal fulfilment from succeeding, learning and developing in challenging roles; and
- > deliver meaningful results to our clients in a way that fulfils our Mission while maintaining our Values and ensuring that our own interests are aligned with our clients.

We pride ourselves on our diverse and inclusive workplace. Diversity, in the broadest sense, helps drive our success. A welcoming work environment, where individuals can bring the totality of their experience and perspectives, is an invaluable contributor to greater economic success. Our strong culture, sense of mission, thoughtful incentive structures and welcoming workplace environment are important contributors to achieving our objectives.

As of 31 December 2018, 82 people worked at Generation from 15 nationalities, speaking 22 languages combined. Overall 57% of our total workforce is female, including 35% of Partners and 25% of the Management Committee. We are proud that women represent a significant proportion of our leadership and we will continue to improve this number as we hire, develop and retain talented people.

<sup>1</sup> Although Generation seeks to provide superior investment performance, potential investors should be aware that this is an aspiration and there is no guarantee that this goal will be obtained.

<sup>2</sup> Subject to suitability considerations.

Our staff turnover in 2018 was 16% (2017: 10%); this was accounted for through natural attrition and planned departures as a result of a strategic decision to divest parts of the business and relocate our US office from New York to San Francisco.

Our lowest base annual salary is more than twice the London Living Wage.

All staff are eligible to request further job related training and are encouraged to consider learning as a lifelong process. The firm covers course costs and materials for staff studying a number of business relevant professional qualifications and undertaking a number of other technical courses as well as costs to attend industry seminars. Professional membership fees are also paid for by the firm.

## ENVIRONMENTAL FOOTPRINT OF OUR OPERATIONS

We aim to minimise our carbon footprint and use of environmental resources through our sourcing decisions and our carbon off-setting program, as well as encouraging behavioural changes amongst our employees, suppliers and other stakeholders. We assess our suppliers against a checklist, which includes questions relating to their own ESG practices. Our Firm's direct environmental impact is primarily due to the operation of our offices and business travel, and we are very aware of the significant role air travel has on the Firm's emissions profile. While we believe travel is a necessary part of our business for investment and client service purposes, we encourage our employees to evaluate their travel arrangements, develop efficient travel itineraries or use alternative forms of communication such as videoconferencing.

### CARBON OFF-SETTING

Generation is committed to off-setting the carbon emissions of our business activities on an annual basis. We acknowledge that business travel is an often-unavoidable requirement of our work. We base the measurement and off-setting of the Firm's carbon footprint on our business travel, office energy use, and an estimate of the carbon emissions created by Generation team households.

Carbon Footprint Ltd evaluated our greenhouse gas (GHG) emissions from 1st January 2018 to 31st December 2018, based on a dataset provided by the Firm. The table below demonstrates comparative results showing:

- > A broadly flat absolute emission levels compared to 2017.
- > An increase in emissions per GIM individual of 3% compared to 2017.

ELEMENT	APPRAISAL YEAR		% CHANGE
	2018 TONNES CO <sub>2</sub> E	2017 TONNES CO <sub>2</sub> E	
Flights	1,722	1,758	(2%)
Site electricity	108	85	27%
Site district heating	14	14	nil
Hotel stays	22	Not measured	n/a
<b>Total Tonnes CO<sub>2</sub>e</b>	<b>1,866</b>	<b>1,857</b>	<b>nil</b>
<b>Total Tonnes CO<sub>2</sub>e per person</b>	<b>20.73</b>	<b>20.19</b>	<b>3%</b>

Emissions from electricity increased as energy consumption at the new San Francisco site is larger than the previous smaller New York site. This increase was mitigated by a slight reduction in consumption at the London site and reduction in the associated emission factors as the UK continues to decarbonise their grid.

Carbon offsets are chosen through an organisation-wide vote from a menu of VCS certified and Gold Standard Certified credits. We support a variety of projects around the world, and are working to build deeper direct relationships with certain projects for increased impact. Whilst we appreciate that carbon credits do not provide a complete solution to addressing carbon emissions, they contribute to mitigate our overall environmental impact.

Our offices in London and San Francisco were chosen due to their central locations which are well-served by public transport. Both offices were purpose-built with sustainability in mind. In London, our office meets the BREEAM Excellent sustainability standard (Building Research Establishment Environmental Assessment Method). A rainwater harvesting system, leak detection measures and low-flow sanitary fittings allow 30% better water efficiency than an average new building. Green roof space improves insulation and enhances biodiversity. The main energy supplies at the building come from renewable resources. The London office fit out achieved a Ska Gold rating (an environmental assessment ratings for fit-outs developed by the Royal Institute of Chartered Surveyors).

Our San Francisco office is located in a building which has been successfully re-certified as Platinum for the LEED E-BOM which applies to existing builds. The fit out of that office was completed following the latest LEED ID+C v.4 specifications (Interior Design & Construction) and we await the results of our formal certification application with the aim of achieving the Platinum. This office also was designed to meet the International WELL Building standard, this not only consists of the design and operations of buildings, but also how they impact and influence human behaviours related to health and well-being. We await the results of the formal certification process with the aim of achieving Gold.

## RESPONSIBILITY TOWARDS OUR COMMUNITY

*"We recognise and accept our responsibility to live in accordance with our values; to be responsible to the communities in which we live and work, and to the world community. We aim to reduce our environmental footprint where possible; we are mindful of ways to help our employees fulfil their personal responsibilities, and we actively encourage philanthropic engagement."*

Where possible we try to engage local suppliers, or those that already service our building with the aim of reducing travel and consolidating deliveries. We have our own vendor questionnaire which we use to screen possible business partners. The checklist acts as a guide to make sure all companies we work with can answer questions about their various policies including the Modern Slavery Act; the Bribery Act; ESG; carbon offsetting; fair wages and benefit provision; and health and safety. This enables us to screen for positive and negative practices and offer guidance to encourage our suppliers to operate more sustainably.

Philanthropic engagement is actively encouraged (see the Generation Foundation report below).

## THE GENERATION FOUNDATION

Generation is committed to pursuing a more sustainable form of capitalism. A key part of that commitment is achieved through The Generation Foundation, a charity registered in England and Wales funded solely by an annual distribution from Generation. The Foundation's key objective is to accelerate the transition to a more sustainable form of capitalism; one aligned with a low-carbon, prosperous, healthy, safe and fair society.

The Foundation executes its mission through its research, major partnerships, grant-making, and the matched giving programme for Generation employees. In 2018, the Foundation produced research and provided grants in line with the strategic priorities laid out in its white papers, *Allocating Capital for Long-term Returns* (2015) and *The Transformation of Growth* (2017). Those strategic priorities are:

- Carbon Pricing: Assess carbon risk and price carbon in all capital allocation decisions;
- Fiduciary Duty: Uphold the full remit of fiduciary duty by incorporating ESG risks and opportunities in investment decision-making; and
- Transformation of Growth: ensure that the transition to a low-carbon economy benefits all members of society and develop the business case for addressing socio-economic inequality.

Carbon pricing and fiduciary duty continued to play a central role in the Foundation's grant-making activities in 2018. It was a successful year for the application of research produced in partnership with grantees such as Navigant (formerly Ecofys) as well as the UN Environment Programme Finance Initiative (UNEP FI) and the UN-backed Principles for Responsible Investment (PRI). The latest publication in the *Carbon Pricing Unlocked* series with Navigant, a research paper on carbon pricing scheme design, was presented by the Foundation's Director at the 24<sup>th</sup> Conference of the Parties to in Poland. Additionally, the Fiduciary Duty in the 21<sup>st</sup> Century project with UNEP FI and PRI continued to gain momentum. Research papers in key economies were produced, informed by market participants' perspectives. The research gained traction, and was drawn upon by the architects of Europe's first Sustainable Finance Action Plan, ultimately leading to the legislative proposals on investors' duties tabled by the European Commission. Actors in the global economy have begun to move swiftly on investor duties in recognition that ESG risks must be incorporated in investment decision-making. The Foundation's research focus in this space will now shift to an evaluation of financial regulatory landscapes and their compatibility with sustainability imperatives such as the restriction of global warming to 1.5 degrees, and the achievement of the UN Sustainable Development Goals.

One example of the Transformation of Growth strategy in action in 2018 was the initiation of an ambitious three-year partnership between the Foundation and Greyston Social Enterprise. Greyston is perhaps best known as the maker of brownies for Ben & Jerry's ice cream. Their ethos is that they "don't hire people to bake brownies; they bake brownies to hire people." Over the past 35 years Greyston has successfully created social value and profit using Open Hiring™, a simple strategy of hiring workers on a first-come-first-served basis, without background checks that preclude so many people from accessing meaningful work. This partnership seeks to expand on that success by funding Greyston's Center for Open Hiring, which will encourage more companies to use Open Hiring and further develop the business case for social value creation.

In 2019, the Foundation plans to further its advocacy for sustainable capitalism through ambitious efforts like these alongside complementary grant-making activities and research.

## THE FOUNDATION'S STRATEGIC GRANTS AT A GLANCE

Strategic grants are sourced by identifying organisations that align to the strategic priorities outlined in the Foundation's strategy. These grants fall into two categories: Major Grants, through which the Foundation partners with organisations to deliver research or programme outcomes; or Capacity Building Grants, in which unrestricted grants are provided to great organisations that align to our strategic priorities and which could benefit from the freedom to innovate afforded by unrestricted core funding.

Challenge

To accelerate the transition to a more sustainable form of capitalising one aligned with a low-carbon, prosperous, equitable, healthy and safe society.



Carbon Risk and Pricing

Fiduciary Duty

Transforming Growth



ENGAGING GENERATION'S EMPLOYEES IN THE WORK OF THE FOUNDATION

Smaller grant-making activities are driven by input from Generation Investment Management employees. Generation team members with a demonstrable commitment to a charitable organisation may apply for a Sustainable Community Grant of up to £25,000. In this way, the Foundation encourages Generation's employees to support great organisations and apply their skills and expertise to improving the communities they care about – anywhere in the world. One example of a grant in this category was Gather Hub whose mission is to improve access to sanitation in the developing world. Gather was awarded £25,000 to fund core business activities including adding permanent data-scientist resource to the small team.

The Foundation also matches charitable gifts and volunteer hours donated by Generation employees to eligible charities. This year, the Foundation matched donations at a 1:2 ratio (for every £1 donated to charity, the Foundation paid an additional £2 to that charity), and made an effort to raise awareness of the matched giving programme. This campaign succeeded in raising employee participation from 90% in 2017 to 96% in 2018.

#### STATEMENT OF MEMBERS' RESPONSIBILITIES

The members are responsible for preparing this report and the financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts and Audit)(Application of Companies Act 2006) Regulations 2008 ("the Regulations") require the designated members to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the LLP and the Group and of the profit or loss of the Group for that year. Under the Regulations, the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102). In preparing financial statements, the designated members are required to:

- > select suitable accounting policies and then apply them consistently;
- > make judgements and estimates that are reasonable and prudent;
- > state whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- > prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Partnership will continue in business.

The designated members are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the LLP and of the Group and to enable them to ensure that the financial statements comply with the Regulations, subject to any material departures disclosed and explained in the financial statements. They are also responsible for safeguarding the assets of the LLP and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. These responsibilities are fulfilled by the members.

The designated members confirm that the above requirements have been met in preparing the financial statements.

#### STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

As so far as the designated members are aware, there is no relevant audit information of which the LLP's auditors are unaware. The designated members have taken all the steps they ought to have taken as designated members in order to make themselves aware of any relevant audit information and to establish that the LLP's auditors are aware of that information.


#### INDEPENDENT AUDITOR

A resolution to reappoint PricewaterhouseCoopers LLP as auditor will be proposed at the next members' meeting.

Registered office:

20 Air Street  
London  
W1B 5AN

Signed on behalf of the members



A C Sullivan  
Designated member

Approved by the Members on 8 April 2019

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GENERATION INVESTMENT MANAGEMENT LLP

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### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### OPINION

In our opinion, Generation Investment Management LLP's Group financial statements and limited liability partnership financial statements (the "financial statements"):

- > give a true and fair view of the state of the Group's and of the limited liability partnership's affairs as at 31 December 2018 and of the group's profit and cash flows for the year then ended;
- > have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- > have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

We have audited the financial statements, included within the Members' Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated and Partnership Balance Sheets as at 31 December 2018; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated and Partnership Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### INDEPENDENCE

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### CONCLUSIONS RELATING TO GOING CONCERN

ISAs (UK) require us to report to you when:

- > the members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- > the members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and limited liability partnership's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.



However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and limited liability partnership's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

## REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The members are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

### RESPONSIBILITIES OF THE MEMBERS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of Members' Responsibilities set out on page 14, the members are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The members are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members are responsible for assessing the Group's and the limited liability partnership's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the members either intend to liquidate the Group or the limited liability partnership or to cease operations, or have no realistic alternative but to do so.

### AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### USE OF THIS REPORT

This report, including the opinion, has been prepared for and only for the members of the partnership as a body in accordance with the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## OTHER REQUIRED REPORTING

### COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 as applicable to limited liability partnerships we are required to report to you if, in our opinion:

- > we have not received all the information and explanations we require for our audit; or
- > adequate accounting records have not been kept by the limited liability partnership, or returns adequate for our audit have not been received from branches not visited by us; or
- > the limited liability partnership financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

*Sarah Chandler*

Sarah Chandler (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

8 April 2019

## CONSOLIDATED INCOME STATEMENT

		Year ended 31 December 2018	Year ended 31 December 2017
	Note	£'000	£'000
Turnover	2	298,323	293,042
Administrative expenses		(49,903)	(50,146)
Other operating income	3	426	395
Operating profit	4	248,846	243,291
Interest receivable		429	151
(Loss)/gain on investments and derivatives		(3,477)	4,976
Profit on ordinary activities before taxation		245,798	248,418
Tax on profit on ordinary activities	5	(8,991)	(11,307)
Profit for the financial year available for discretionary division among members		236,807	237,111

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December 2018	Year ended 31 December 2017
	Note	£'000	£'000
Profit for the financial year available for discretionary division among members		236,807	237,111
Translation gain/(loss) on consolidation of foreign subsidiaries	19	4,499	(1,688)
Total Comprehensive Income		241,306	235,423
Total comprehensive income for the financial year attributable to:			
Owners of the parent		211,952	191,469
Non-controlling interests		29,354	43,954
		241,306	235,423

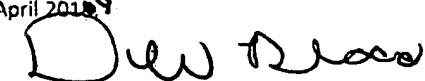
All of the activities of the Group are classed as continuing.

*The notes on pages 24 –41 form part of these financial statements.*

## CONSOLIDATED BALANCE SHEET

		As at 31 December 2018	As at 31 December 2017
	Note	£'000	£'000
<b>Fixed assets</b>			
Tangible assets	7	4,857	5,249
Investments	8	11	10
		4,868	5,259
<b>Current assets</b>			
Employee Incentive Benefit Plan Net Assets	9	1,908	2,289
Debtors	10	75,161	87,366
Investments	11	34,203	51,011
Cash at bank and in hand		33,472	20,196
		144,744	160,862
Creditors: amounts falling due within one year	12	(19,211)	(17,806)
Net current assets		125,533	143,056
Total assets less current liabilities		130,401	148,315
Provisions for liabilities	13	(1,574)	(1,620)
Net assets attributable to members		128,827	146,695
<b>Represented by:</b>			
Loans and other debts due to members within one year			
Other amounts due to members	19	25,766	74,145
<b>Members' other interests</b>			
Members' capital classified as equity	19	18,226	18,200
Foreign exchange translation reserves	19	2,104	(2,395)
Members' other interests- classified as equity	19	70,073	38,740
		90,403	54,545
Non-controlling interests		12,658	18,005
		103,061	72,550
		128,827	146,695
<b>Total members' interests</b>			
Amounts due to members	19	25,766	74,145
Members' other interests	19	90,403	54,545
		116,169	128,690
Non-controlling interests	19	12,658	18,005
		128,827	146,695

The financial statements were approved by all members and signed on their behalf by the designated members on 8 April 2019



D W Blood (Designated member)



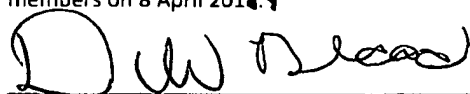
A C Sullivan (Designated member)

*The notes on pages 24 –41 form part of these financial statements*

## PARTNERSHIP BALANCE SHEET

		As at 31 December 2018	As at 31 December 2017
	Note	£'000	£'000
<b>Fixed assets</b>			
Tangible assets	7	1,861	2,022
Investments	8	2,002	1,972
		3,863	3,994
<b>Current assets</b>			
Employee Incentive Benefit Plan Net Assets	9	1,908	2,289
Debtors	10	72,908	92,127
Investments	11	32,347	34,764
Cash at bank and in hand		14,966	11,451
		122,129	140,631
Creditors: amounts falling due within one year	12	(17,573)	(16,898)
Net current assets		104,556	123,733
Total assets less current liabilities		108,419	127,727
Provisions for liabilities	13	(1,020)	(990)
Net assets attributable to members		107,399	126,737
<b>Represented by:</b>			
Loans and other debts due to members within one year			
Other amounts due to members	19	25,766	74,145
<b>Members' other interests</b>			
Members' capital	19	18,226	18,200
Other reserves	19	63,407	34,392
		81,633	52,592
		107,399	126,737
<b>Total members' interests</b>			
Amounts due to members	19	25,766	74,145
Members' other interests	19	81,633	52,592
		107,399	126,737

As permitted by Section 408 Companies Act 2006 (as modified for application to LLPs) the LLP is exempt from presenting its own Income Statement. The profit of the LLP for the financial year amounted to £205.1m (2017: £188.8m). The financial statements were approved by all members and signed on their behalf by the designated members on 8 April 2018.



D W Blood (Designated member)



A C Sullivan (Designated member)

The notes on pages 24 –41 form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Members' capital	Foreign exchange translation Reserve	Other reserves	Amount attributable to owners of the LLP	Non-controlling interest	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2017	14,180	(707)	40,870	54,343	-	54,343
Profit for the financial year available for discretionary division among members	-	-	193,157	193,157	43,954	237,111
Other comprehensive expense	-	(1,688)	-	(1,688)	-	(1,688)
Members' interest after profit for the year	14,180	(2,395)	234,027	245,812	43,954	289,766
Capital introduced	5,121	-	-	5,121	1,360	6,481
Capital released	(1,101)	-	-	(1,101)	-	(1,101)
Profit Allocation to members	-	-	(195,287)	(195,287)	-	(195,287)
Amounts paid to non-controlling interests	-	-	-	-	(27,309)	(27,309)
At 31 December 2017 and 1 January 2018	18,200	(2,395)	38,740	54,545	18,005	72,550
Profit for the financial year available for discretionary division among members	-	-	207,453	207,453	29,354	236,807
Other comprehensive income	-	4,499	-	4,499	-	4,499
Members' interest after profit for the year	18,200	2,104	246,193	266,497	47,359	313,856
Capital introduced	2,075	-	-	2,075	-	2,075
Capital released	(2,049)	-	-	(2,049)	(621)	(2,670)
Profit Allocation to members	-	-	(176,120)	(176,120)	-	(176,120)
Amounts paid to non-controlling interests	-	-	-	-	(34,080)	(34,080)
At 31 December 2018	18,226	2,104	70,073	90,403	12,658	103,061

*The notes on pages 24–41 form part of these financial statements.*

## PARTNERSHIP STATEMENT OF CHANGES IN EQUITY

	Members' capital	Other reserves	Total
	£'000	£'000	£'000
At 1 January 2017	14,180	17,645	31,825
Profit for the financial year available for discretionary division among members	-	188,767	188,767
Members' interest after profit for the year	14,180	206,412	220,592
Capital introduced	5,121	-	5,121
Capital Released	(1,101)	-	(1,101)
Transfer of reserves from subsidiary	-	22,727	22,727
Profit Allocation	-	(194,747)	(194,747)
At 31 December 2017 and 1 January 2018	18,200	34,392	52,592
Profit for the financial year available for discretionary division among members	-	205,143	205,143
Members' interest after profit for the year	18,200	239,535	257,735
Capital introduced	2,075	-	2,075
Capital Released	(2,049)	-	(2,049)
Profit Allocation	-	(176,128)	(176,128)
At 31 December 2018	18,226	63,407	81,633

*The notes on pages 24–41 form part of these financial statements.*

## CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December 2018	Year ended 31 December 2017
	Note	£'000	£'000
Operating profit		248,846	243,291
Depreciation	7	741	1,031
Decrease/(Increase) in debtors	10	9,656	(41,186)
(Decrease)/Increase in creditors	12	(498)	4,092
(Decrease)/Increase in provisions	9,13	(424)	992
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>258,321</b>	<b>208,220</b>
Tax paid		(8,257)	(13,875)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>		<b>250,064</b>	<b>194,345</b>
<b>Cash flow from investing activities</b>			
Purchase of tangible fixed assets	7	(349)	(3,328)
Purchase of investments	9,11	(638)	(3,099)
Proceeds from the disposal of current investments	9,11	2,325	1,261
Interest received		429	151
<b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>		<b>1,767</b>	<b>(5,015)</b>
<b>Cash flow from financing activities</b>			
Proceeds from capital introduced by members	19	2,075	5,121
Capital (withdrawn)/introduced by non-controlling interests	19	(621)	1,360
Capital (withdrawn) by members	19	(2,049)	(1,101)
Drawings paid to members	19	(224,500)	(154,718)
Drawings paid to non-controlling interests	19	(34,080)	(27,309)
<b>NET CASH OUTFLOW FROM FINANCING ACTIVITIES</b>		<b>(259,175)</b>	<b>(176,647)</b>
Unrealised gains/(outflows) on exchange rate translations		4,499	(1,688)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(2,845)</b>	<b>10,995</b>
Cash and cash equivalents at Start of Year		68,551	57,556
Cash and cash equivalents at End of Year		65,706	68,551

### Reconciliation of cash at bank and in hand to cash and cash equivalents:

		Year ended 31 December 2018	Year ended 31 December 2017
	Note	£'000	£'000
Cash at bank and in hand		33,472	20,196
Short-term deposits (included in current asset investments)	11	32,234	48,355
Cash and cash equivalents		65,706	68,551

*The notes on pages 24 - 41 form part of these financial statements.*



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### 1.1 BASIS OF ACCOUNTING

The consolidated financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations"). The financial statements have also been prepared in accordance with the Statement of Recommended Practice 'Accounting by Limited Liability Partnerships' (SORP) issued in 2015. The LLP has taken advantage of the exemption in exemption 408 of the Companies Act from disclosing its individual income statement.

#### 1.2 BASIS OF PREPARATION

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by certain financial assets and liabilities measured at fair value through the consolidated income statement. The LLP has taken advantage of the FRS102 exemption not to prepare a cash flow statement.

#### 1.3 GOING CONCERN

The Group has adequate financial resources and as a consequence, the members believe that the Group is well placed to manage its business risks successfully. After making inquiries, the members have a reasonable expectation that the Group has adequate resources to continue in operational existence and meet its liabilities as they fall due for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

#### 1.4 CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the LLP and its subsidiary undertakings. All significant inter-company accounts and transactions have been eliminated upon consolidation. A subsidiary is an entity that is controlled by the parent. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The LLP is the sole member of The Generation Foundation, a company limited by guarantee. The assets of The Generation Foundation are held solely for charitable purposes and, as such, have been excluded from the scope of the consolidation.

#### 1.5 NON-CONTROLLING INTERESTS

Some members of the LLP hold capital directly in Generation Investment Management US LLP, a subsidiary within the Group. This capital is not attributable to the LLP's interest in the subsidiary and therefore constitutes a non-controlling interest. The annual profits allocated to the members with direct interest in Generation Investment Management US LLP are allocated using a similar policy as applicable to members of the LLP and consequently is not directly proportional to the amount of capital held. Non-controlling interests are measured as the net capital held plus profit allocated during the year less any distributions paid.

#### 1.6 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements in accordance with FRS 102 requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, equity, income and expenses. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Information about these judgements and estimates is included in the accounting policies and other notes, the significant being:

- Revenue recognition (Note 1.9 and 2);
- Provisions for Liabilities (Note 13).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 1.7 FOREIGN CURRENCIES

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which it operates. The consolidated financial statements are presented in pounds sterling, which is the Group's presentational and functional currency.

The assets and liabilities of foreign subsidiary operations are translated into pounds sterling at the rate of exchange ruling at the reporting date and their income statement and cash flows are translated at the average rate for the year. Exchange differences arising are dealt with in other comprehensive income.

At entity level, transactions in currencies other than an entity's functional currency are recorded at the exchange rate prevailing at the transaction dates. Foreign exchange gains and losses resulting from settlement of these transactions and from retranslation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except where these relate to loans to foreign subsidiary entities considered to be part of the net investment in those entities in which case these amounts are recorded through other comprehensive income.

### 1.8 SEGMENTAL REPORTING

The whole of the Group's activities are related to the business of investment management. In the opinion of the members, the Group operates in two principal geographical segments (UK and USA) and one business segment.

### 1.9 TURNOVER

Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for services rendered net of discounts and rebates allowed by the company and value added taxes.

The turnover shown in the consolidated income statement represents amounts due for investment advisory services recognised on an accruals basis during the year, exclusive of Value Added Tax. Turnover is derived from management fees and performance fees.

Management fees include all non-performance related fees and are recognised in the period in which the services are rendered.

The basis on which performance fees for investment advisory services are calculated may vary across clients and investment strategies. Performance fees are recognised when they are receivable.

### 1.10 DIVIDEND INCOME

Dividend income arises on fixed asset investments and is recognised when declared.

### 1.11 ADMINISTRATIVE EXPENSES

Administrative expenses relate to staff and other costs incurred by the Group in an operating capacity. Expenses are recognised net of VAT on receipt of goods or over the period of the service is performed.

### 1.12 INTEREST RECEIVABLE

Interest comprises interest on cash and cash equivalents and is accounted for on an accruals basis.

### 1.13 PENSION ARRANGEMENTS

The Group does not operate its own pension scheme. The Group contributes on behalf of the employees to their chosen pension scheme plan. The charge against the profit represents the actual amount of the contribution payable to the pension schemes in respect of the accounting year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 1.14 EMPLOYEE INCENTIVE BENEFIT PLAN (EIBP)

The Group has created the EIBP for members and employees and accounts for the EIBP as an Other Long-Term Employee Benefit in accordance with Section 28 of FRS 102. Upon grant of awards to employees, the Group invests an amount equal to the award into Generation funds. Generation funds are funds managed by the Partnership. Liabilities are accrued over the vesting period attached to each award. Investments are recognised as an asset upon purchase and are revalued to fair value at balance sheet date. The corresponding movement in liability is spread over the remaining vesting period. See note 1.20 for further details on valuation and recognition of the plan. Investments made into RBC Trust are presented within Employee Benefit Plan Net Assets net of the liabilities to which the investments relate (Note 9). Investments made into Generation funds directly by the Group or the LLP are presented within current asset investments (Note 11).

### 1.15 OPERATING LEASES

Rental costs under operating leases are charged to the income statement on a straight-line basis over the lease term. Benefits in the form of rent-free periods are treated as a reduction in the overall rent expense on the lease and are recognised on a straight line basis over the lease term. Sublease income is accounted for on an equivalent basis.

### 1.16 TAXATION

Income tax payable on the LLP's profits is solely the personal liability of the individual members and consequently is not dealt with in these financial statements. The LLP is subject to corporate tax level taxes in respect of its office in Spain and on any profits allocable to New York in the financial year.

The consolidated group includes entities which are subject to both local and foreign taxes.

Deferred tax is recognised on all timing differences at the balance sheet date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

### 1.17 TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use and dismantling and restoration costs. Depreciation is charged to Administrative expenses in the income statement.

Depreciation is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives as follows:

- > Office equipment - 33 1/3 % straight line per annum
- > Fittings and furnishings - 20 % or 33 1/3 % straight line per annum
- > Leasehold premises - over the length of the lease

The residual values and useful lives of assets are reviewed, and adjusted, if appropriate, at the end of each accounting period. The effect of any change is accounted for prospectively.

### 1.18 PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 1.19 ALLOCATION OF PROFITS AND DRAWINGS

The share of a member, or person holding a non-controlling interest, in the Group profit or loss for the year is accounted for as an allocation of profits. To the extent that interim or final profit allocations exceed drawings then the excess profit is included in the balance sheet under amounts due to members or within the non-controlling interests. Where drawings exceed the allocated profits then the excess is deducted from capital. Undistributed member profits and losses are included in "Other Reserves" within Members' Other Interests whereas for non-controlling interests they are included in the non-controlling interests.

Distributions may be paid net of a tax retention which is released to members to pay tax as required. The balance of tax retained from members is shown within amounts due to members.

### 1.20 FINANCIAL INSTRUMENTS

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

#### 1.20.1 FINANCIAL ASSETS

Basic financial assets, including debtors and cash and bank balances, are initially recognised at transaction price. At the end of each accounting period financial assets measured at amortised cost are assessed for objective evidence of impairment.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in the income statement, except those investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

#### 1.20.2 FINANCIAL LIABILITIES

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest method.

#### 1.20.3 FIXED ASSET INVESTMENTS

Fixed asset investments are financial assets held for continuing use in the business and include investments in Generation funds, shares in subsidiary undertakings and interests in associate undertakings.

Fund investments are held at fair value through profit or loss and are stated at fair value in accordance with market practice and gains and losses on revaluation are taken to the income statement as unrealised. Generation uses the most appropriate method to determine the fair value of unquoted entities and equity related securities. Valuation methods may include the use of recent transaction prices, applying an earnings multiple to maintainable earnings or using a discounted cash flow model.

#### 1.20.4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

#### 1.20.5 CURRENT ASSET INVESTMENTS

Current asset investments are financial assets which include cash equivalents held in money market funds and investments as part of the EIBP plan. Marketable securities are classified as held at fair value through profit or loss and are stated at fair value in accordance with market practice; gains and losses arising from revaluation are taken to the income statement as unrealised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 1.20.6 DERIVATIVE FINANCIAL INVESTMENTS

The Group's activities expose it to the financial risks of changes in foreign exchange rates.

The use of financial derivatives is governed by the Group's policies, which provide principles on the use of financial derivatives consistent with the Group's risk management strategy.

The Group's policy provides for the use of derivative instruments to convert a proportion of its turnover received in dollars into pounds sterling in order to hedge the foreign exchange risk arising.

Derivatives including forward foreign exchange contracts are not basic financial instruments. Derivatives are initially measured at fair value on the contract date and are subsequently re-measured to fair value at each reporting date. Changes in fair value are recognised in the income statement in finance income or costs as appropriate.

The Group does not apply hedge accounting for foreign exchange derivatives.

### 2 TURNOVER

The turnover and profit are attributable to the principal activity of the Group.

	Year ended 31 December 2018	Year ended 31 December 2017
	£'000	£'000
United Kingdom	161,101	143,503
United States	137,222	149,539
	<b>298,323</b>	<b>293,042</b>

	Year ended 31 December 2018	Year ended 31 December 2017
	£'000	£'000
Management fees	112,377	97,405
Performance fees	185,946	195,637
	<b>298,323</b>	<b>293,042</b>

### 3 OTHER OPERATING INCOME

	Year ended 31 December 2018	Year ended 31 December 2017
	£'000	£'000
Rent receivable	426	395

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 4 OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	Year ended 31 December 2018	Year ended 31 December 2017
	£'000	£'000
Depreciation of own fixed assets	741	1,031
Auditors' remuneration		
- Fees payable for the audit of the Partnership	72	56
- Fees payable for the audit of the Partnership's subsidiaries	30	20
- Fees payable for other assurance services	111	107
- Fees payable for tax advisory/compliance services	412	311
Operating lease costs – buildings	2,640	3,992
Foreign exchange (gain)/loss	(4,311)	4,158

## 5 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2018	Year ended 31 December 2017
	£'000	£'000
Current tax		
UK Corporation tax at 19% (2017: 19.25%)	-	-
Foreign current tax	9,625	10,331
Adjustments in respect of prior year foreign tax	(634)	976
	8,991	11,307
Deferred tax		
Origination of timing differences:		
UK deferred tax	-	-
Tax on profit on ordinary activities	8,991	11,307

The tax for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%) as members of the Partnership are not subject to UK corporation tax. However, certain subsidiary undertakings are subject to local corporate taxes largely arising on profits for the financial year as shown below.

	Year ended 31 December 2018	Year ended 31 December 2017
	£'000	£'000
Profit on ordinary activities before taxation	245,798	248,418
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	46,702	47,820
Effects of:		
Profits chargeable on members	(38,121)	(33,793)
UK corporation tax-current	-	-
Impact of overseas tax rate	1,044	(3,696)
Adjustments in respect of prior year foreign tax	(634)	976
Total current tax	8,991	11,307

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6 EMPLOYEES AND REMUNERATION

The average monthly number of employees of the Group during the financial year amounted to:

	2018	2018	2017	2017
	The Group	The LLP	The Group	The LLP
	No.	No.	No.	No.
Investment Team	22	21	22	21
Client Relationship Team	5	3	5	3
Operations and Administration Team	33	28	36	29
Total number of employees	60	52	63	53

The aggregate staff costs were:

	2018	2018	2017	2017
	The Group	The LLP	The Group	The LLP
	£'000	£'000	£'000	£'000
Wages and salaries	25,495	22,741	22,155	19,072
Social security costs	3,354	3,241	2,831	2,681
Benefit costs	952	717	939	583
Other pension costs	810	624	538	392
	30,611	27,323	26,463	22,728

### 7 TANGIBLE ASSETS

The Group	Leasehold premises	Fittings and furnishings	Office equipment	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1 January 2018	5,620	481	540	6,641
Additions	168	26	155	349
Disposals	-	-	-	-
At 31 December 2018	5,788	507	695	6,990
<b>Accumulated depreciation</b>				
At 1 January 2018	(1,117)	(86)	(189)	(1,392)
Charge for the year	(479)	(98)	(164)	(741)
Disposals	-	-	-	-
At 31 December 2018	(1,596)	(184)	(353)	(2,133)
<b>Net book value</b>				
At 31 December 2018	4,192	323	342	4,857
At 31 December 2017	4,503	395	351	5,249

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### TANGIBLE ASSETS

The LLP	Leasehold premises £'000	Fittings and furnishings £'000	Office equipment £'000	Total £'000
<b>Cost</b>				
At 1 January 2018	2,943	139	231	3,313
Additions	-	20	110	130
Disposals	-	-	-	-
At 31 December 2018	2,943	159	341	3,443
<b>Accumulated depreciation</b>				
At 1 January 2018	(1,051)	(71)	(169)	(1,291)
Charge for the year	(197)	(27)	(67)	(291)
Disposals	-	-	-	-
At 31 December 2018	(1,248)	(98)	(236)	(1,582)
<b>Net book value</b>				
At 31 December 2018	1,695	61	105	1,861
At 31 December 2017	1,892	68	62	2,022

### 8 INVESTMENTS

#### Investments in Generation funds and associate undertakings

The Group	2018 Generation funds £'000	2017 Generation funds £'000
At 1 January	10	11
Gain/(loss) on investments	1	(1)
At 31 December	11	10

### INVESTMENTS

#### Investments in subsidiaries and associate undertakings

The LLP	2018 Investments £'000	2017 Investments £'000
At 1 January	1,972	1,970
Gain on investments	30	2
At 31 December	2,002	1,972

For details of the LLP's subsidiaries, please see Note 16.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9 EMPLOYEE INCENTIVE BENEFIT PLAN NET ASSETS

The Group provides incentives ("awards") for employees via the Generation IM Deferred Remuneration Plans ("the plans"). The Plans are governed by the Plan Rules or the trustees of the Generation Investment Management LLP Employee Benefit Trust ("RBC Trust").

Awards take the form of units or interests within Generation-managed investment funds and are awarded by management in accordance with the plan rules. Awards for members and employees vest after three years from grant date with units redeemed after five years and proceeds paid to respective members and employees. The level of incentives awarded are linked to an employee's level of seniority at grant date.

Generation provides three separate Employee Incentive Benefit Plans:

- Generation IM Global Equity Plan and Generation IM Asia Equity Plan
  - For most UK employees: the LLP has created an Employee Benefit Trust ("RBC Trust") in which those UK employees will be beneficiaries. The Group has set aside cash in RBC Trust which in turn has made an investment in units of the Generation IM Global Equity Fund and Generation IM Asia Equity Fund. The assets and liabilities of this scheme have been presented net on the balance sheet.
  - For certain UK employees, LLP members and US citizen employees: the Group has invested directly in the Generation IM Global Equity Funds and Generation IM Asia Equity Funds. Assets and movements are presented within current assets in Note 11. Liabilities and movements are presented in Note 13.
- Generation IM Climate Solutions Plan
  - For certain UK employees, LLP members and US citizen employees: the Group has invested directly in the Generation IM Climate Solutions Fund (Cayman), L.P. and Generation IM Climate Solutions Fund (U.S.), L.P. Assets and movements are presented within current assets in note 11. Liabilities and movements are presented in note 13.

Investment Assets in RBC Trust	2018 Group	2018 The LLP	2017 Group	2017 The LLP
	£'000	£'000	£'000	£'000
At 1 January	7,248	7,248	4,228	4,228
Additions	557	557	2,768	2,768
Disposals	(1,577)	(1,577)	(846)	(846)
Unrealised gain on investments	261	261	1,098	1,098
At 31 December	6,489	6,489	7,248	7,248

Provisions to beneficiaries of investments in RBC Trust	2018 Group	2018 The LLP	2017 Group	2017 The LLP
	£'000	£'000	£'000	£'000
At 1 January	4,959	4,959	3,970	3,970
Movement in year	(378)	(378)	989	989
At 31 December	4,581	4,581	4,959	4,959

Net Assets of Employee Incentive Benefit Plan	2018 Group	2018 The LLP	2017 Group	2017 The LLP
	£'000	£'000	£'000	£'000
At 31 December	1,908	1,908	2,289	2,289

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10 DEBTORS

	2018	2018	2017	2017
	The Group	The LLP	The Group	The LLP
	£'000	£'000	£'000	£'000
Trade debtors	7,528	7,260	18,686	8,240
Other debtors	4,692	36,513	4,330	53,524
Derivative Financial Instruments	-	-	2,003	2,003
Prepayments and accrued income	62,778	28,972	62,184	28,197
Foreign Tax Prepayment	163	163	163	163
	75,161	72,908	87,366	92,127

### 11 CURRENT ASSET INVESTMENTS

Current asset investments comprise investments on behalf of the EIBP, details of which are given in Note 9 as well as money market fund investments. Assets held by the EIBP are restricted by management in their use by the Group and LLP. Investments in RBC Trust have been reclassified and presented net of the corresponding liabilities on the balance sheet. For further details refer to Note 9.

The Group	2018			2017		
	EIBP	Money Market Funds	Total	EIBP	Money Market Funds	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	2,656	48,355	51,011	2,157	31,134	33,291
Additions	81	-	81	331	17,221	17,552
Disposals	(748)	(16,121)	(16,869)	(415)	-	(415)
Unrealised (loss)/gain on investments	(20)	-	(20)	583	-	583
At 31 December	1,969	32,234	34,203	2,656	48,355	51,011

### CURRENT ASSET INVESTMENTS

The LLP	2018			2017		
	EIBP	Money Market Funds	Total	EIBP	Money Market Funds	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	1,251	33,513	34,764	1,031	31,134	32,165
Additions	-	-	-	-	2,379	2,379
Disposals	(206)	(2,211)	(2,417)	(4)	-	(4)
Unrealised gain on investments	-	-	-	224	-	224
At 31 December	1,045	31,302	32,347	1,251	33,513	34,764

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018	2018	2017	2017
	The Group	The LLP	The Group	The LLP
	£'000	£'000	£'000	£'000
Trade creditors	1,047	972	1,307	1,180
VAT payable	2,423	2,423	2,051	2,051
Tax and social security	8,872	8,872	7,358	7,358
Other creditors	1,804	253	911	410
Accruals and deferred income	3,351	3,339	6,179	5,899
Derivative Financial instruments	1,714	1,714	-	-
	19,211	17,573	17,806	16,898

Included within the Creditors total are amounts owing at December 2018 in respect of employer pension contributions of Enil (2017: £303,199).

### 13 PROVISIONS FOR LIABILITIES

	2018	2018
	The Group	The LLP
	£'000	£'000
At 1 January	1,620	990
Movement in year	(46)	30
At 31 December	1,574	1,020

Provisions are recognised in relation to the EIBP which Generation runs for its employees. Note 9 explains these schemes in more detail.

### 14 COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2018 the Group and LLP had commitments under non-cancellable operating leases as follows:

	2018	2018	2017	2017
	The Group	The LLP	The Group	The LLP
	£'000	£'000	£'000	£'000
Not later than 1 year	2,772	2,027	2,890	2,213
Later than 1 year and not later than 5 years	10,825	7,848	10,543	7,848
Later than 5 years	8,514	5,722	10,716	7,525
	22,111	15,597	24,149	17,586

On 17 December 2007 the LLP entered into an agreement to lease office space in London. The lease was assigned in July 2013 and the lease expired on 15 April 2018. The rental payments due by Generation in relation to the lease assignment are £132,075 per annum and commenced July 2013.

On 31 October 2011 the LLP entered into a separate agreement to lease office space in London. The lease expires on 31 October 2026. The rental payments are £2.0m per annum and commenced on 7 April 2014.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The LLP leases office space in Madrid, Spain. The previous lease expired on 28 December 2018. It is the intention of both parties to execute a further 5 year lease on similar terms including rental payments at an equivalent of £66k per annum. As this lease is not yet executed no financial commitments have been recognised above.

On 15 April 2008 Generation Investment Management US LLP entered into an agreement to lease office space in New York, USA. The lease was to expire on 28 February 2019; however it was exited in December 2017. The rent was approximately £0.9m per annum with no futures commitments resulting from early exit. These prior year figures were estimated using the pound sterling/ U.S Dollar rate at 31 December 2017.

On 5 March 2017 Generation IM US Facilities LLC entered into an agreement to lease office space in San Francisco, USA. The lease had a commencement date of 2 October 2017 and expiration date of 1 October 2027. The rent is approximately £0.7m per annum. The above figures are estimated using the pound sterling/ U.S Dollar rate at 31 December 2018.

### 15 FINANCIAL RISK MANAGEMENT

Risk management is an inherent part of Generation's business activities. The Group's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of its principal risks. The Group exercises oversight through the Risk Oversight Group ("ROG").

The Group's operations expose it to a variety of financial risks: market risk (including price risk, interest rate risk and foreign exchange risk), credit risk, liquidity risk, operational risk and capital risk.

#### 15.1 MARKET RISK

##### 15.1.1 PRICE RISK

Price risk is the risk of a change in the value of an investment. Investments in the Funds made by the Group for the purposes of the EIBP are held solely as investments to fund payments to employees on the maturity of the EIBP. The Group has made no commitment as to the value of the investments at pay out. Such assets are held at fair value through profit or loss.

The Group invests surplus cash balances in daily liquidity money market funds with various financial institutions. The Group monitors its exposure to market risk by periodically assessing the quality of the underlying investments of each fund. These assets are held at fair value (which is generally at par) through profit or loss. The Group does not rely on interest from money market funds for operating purposes.

##### 15.1.2 INTEREST RATE RISK

Interest rate risk is the risk of a change in interest rates. The Group holds cash at banks and on deposit with banks and other financial institutions. Interest on these balances is based upon fixed rates and floating rates. The Group monitors its exposure to interest rate movements and may decide to adjust balances between deposits on fixed or floating rates. The Group does not rely on interest from banks for operating purposes.

##### 15.1.3 FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that foreign exchange rates move. The Group is exposed to foreign exchange risk as high proportion of its liabilities are in sterling but management and performance fees are predominately calculated and received in foreign currencies.

The Group monitors its exposure to currency risk and may seek to minimise its exposure to fluctuations in exchange rates by hedging against foreign currency exposures using financial derivatives as explained in note 1.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 15.2 CREDIT RISK

Credit risk is the risk of counterparties to transactions not settling their debts. Credit risk arises from cash and deposits with banks and financial institutions, as well as credit exposure to clients, including outstanding receivables and committed transactions.

The Group monitors exposures to all financial institutions. These exposures are subject to review by the ROG.

The Group has two main types of receivables; management and performance fees. Settlement is due from investors in the Funds and separate accounts. For management and performance fees receivables, the Group proactively manages the billing process to ensure invoices are sent out on a timely basis and payment is monitored and followed up to ensure timely receipt. The quality of clients and their ability to honour commitments is considered during the client take-on process.

During the year there have been no losses due to the non-payment of receivables previously recognised and the Group does not expect any losses from the credit counterparties held as at the balance sheet date.

### 15.3 LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Prudent risk management requires the maintenance of sufficient cash balances to ensure the operational expenses of the Group can be met. The Group monitors rolling forecasts of the liquidity reserves on the basis of expected cash flow.

### 15.4 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. To monitor and control operating risk, the Group maintains a system of policies and controls designed to provide a well-controlled operational environment, and to monitor and record any control failures. As part of the monitoring process the Group prepares an annual assurance report on the internal controls employed by Generation Investment Management LLP and Generation Investment Management US LLP, which is reviewed by its auditors.

### 15.5 REGULATORY RISK

Regulatory risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry which are currently subject to significant changes. The Group's in-house legal counsel is focused on maintaining the legal and regulatory capability required to manage these risk factors including an in-house compliance team and the employment of external compliance consultants.

### 15.6 CAPITAL RISK

Capital risk is the risk of The Group not having adequate capital to meet its operational or regulatory requirements. The Group's objective when managing capital is to ensure the Group meets its regulatory capital requirements and its ability to continue as a going concern and to maintain an optimal structure to reduce the cost of capital.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 16 RELATED PARTY TRANSACTIONS

As at 31 December 2018 the LLP had an interest in the following entities:

ENTITY	NATURE OF BUSINESS	REGISTERED OFFICE	PERCENTAGE OF SHARE CAPITAL
Generation Investment Management US LLP	Investment manager	USA	69.1% directly *
Generation Investment Management Services LLC	Investment Activity	USA	69.1% indirectly *
Generation IM US Facilities LLC	Supplier of office services	USA	69.1% indirectly *
Generation IM Climate Solutions GP (Scotland) Limited	General partner	Scotland	100%
Generation IM Climate Solutions I (Scotland) LLP	General partner	Scotland	99.9% directly
Generation IM Climate Solutions GP Limited	General partner	Cayman	100% directly
Generation IM Climate Solutions II (Scotland) LLP	General partner	Scotland	99.9% directly
Generation IM Climate Solutions II GP Limited	General partner	Cayman	100% directly
Generation Investment Management S.à.r.l.	Fund management	Luxembourg	100% directly
Generation Investment Management (Scotland) GP Limited	General partner	Scotland	100% directly
Generation Investment Management II GP Limited	General partner	Jersey	100% directly
Generation Investment Management US II GP Limited	General partner	Cayman	100% directly
Generation Investment Management I GP Limited	General partner	Cayman	100% directly
Generation Investment Management I GP LP	General partner	Cayman	100% indirectly
GIM (Global Equity) Investment GP Limited	General Partner	Cayman	100% directly
New Leaf Investment (Scotland) LLP	General Partner	Scotland	99.9% directly
Generation IM Sustainable Solutions GP III Limited	General Partner	Guernsey	100% directly
Generation IM Sustainable Solutions Fund III SLP GP Limited	General Partner	Guernsey	100% directly
GIM Falcon GP Limited	General Partner	Guernsey	100% directly
Falcon General Partner LLC	General Partner	USA	50% directly **
Generation Investment Management Services Limited	Inactive	England	100% directly ***
The Generation Foundation	Registered Charity	England	100% directly ****

The Group is both the smallest and largest group to consolidate the financial statements of the LLP.

\* The LLP owns 69.1% of Generation Investment Management US LLP which in turn owns 100% of Generation Investment Management Services LLC which holds a 0.01% investment in Generation Investment Management US LLP. A non-controlling interest owns the remaining 30.9% of the subsidiary.

\*\* The returns from Falcon General Partner LLC have been consolidated due to the particular rights and powers surrounding the company's operation.

\*\*\* Generation Investment Management Services Limited is exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts under section 479A. The LLP guarantees all outstanding liabilities to which the subsidiary company is subject to at the end of 31 December 2018 until they are satisfied in full.

\*\*\*\* The LLP controls 100% of The Generation Foundation; however, due to The Generation Foundation's charitable status, the LLP has severe long-term restrictions which substantially hinder the exercise of the rights of the parent over the assets. As such, the Generation Foundation has been excluded from consolidation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Related Party transactions

The Group has taken advantage of the exemption from the requirement to disclose transactions with related parties that are wholly owned within the Group.

The LLP is appointed as the investment manager of Generation IM Fund PLC, including its sub-funds Generation IM Global Equity Fund and Generation IM Asia Fund. Two Group members are directors of Generation IM Fund PLC and this is a related party.

The US LLP is appointed as the investment manager and managing member of Generation IM Global Equity Fund LLC and as the investment manager and general partner of Generation IM Asia Fund LP. These are both related parties.

The LLP is appointed as the investment manager of Generation IM Climate Solutions Fund, LP, Generation IM Climate Solutions Fund II, LP, and Generation Sustainable Solutions III LP, GIM (Global Equity) Investment (US) LP and GIM (Global Equity) Investment LP. As the general partners of these funds are subsidiaries of the LLP, all of these entities are considered to be related parties.

The Group is also appointed as the investment manager of Generation IM Credit Master Fund, FCP-SIF, Generation IM Credit Feeder Fund I LP, Generation IM Credit Feeder Fund II LP, Generation IM Credit Feeder Fund III LP and Generation IM Credit Feeder Fund IV LP. These are related parties as the general partners of these funds are subsidiaries of the LLP.

The Group is appointed as the manager of Falcon LP and Marvel (Invest) LP. These are related parties as the general partners of these funds are subsidiaries of the LLP.

The Group has earned income during the year from related parties as follows:

	Total Income for year ended:		Accrued Income as at:	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	£'000	£'000	£'000	£'000
Generation IM Fund PLC	96,202	76,469	17,054	14,769
Generation IM Global Equity Fund LLC	65,470	61,217	16,232	14,858
Generation IM Asia Fund LP	1,801	1,296	424	379
Generation IM Climate Solutions Fund, LP	227	1,608	-	272
Generation IM Climate Solutions Fund II, LP	5,585	5,876	1,300	4,310
Generation Investment Management Credit Feeder Fund I-IV LP	252	836	-	-

The Group holds investments of £0.9m (2017: £1.2m) in Generation IM Global Equity Fund, £0.1m (2017: £0.1m) in the Generation IM Asia Fund, £0.9m (2017: £1.4m) in Generation IM Global Equity Fund LLC and an interest of £44,200 (2017: £nil) in Generation IM Climate Solutions Fund, L.P. In addition, the Group through RBC cees Trustee Limited holds investments of £5.9m (2017: £5.7m) in the Generation IM Global Equity Fund. These holdings are all in respect of the Group's EIBP in respect of certain members and employees (see note 9 and 11).

LLP Members hold personal investments in many of the investment funds managed by the Group. Some of these investments are managed free of management and performance fees.

The LLP bore costs of £2.3m (2017: £2.3m) for the US LLP while the US LLP bore costs of £6.8m (2017: £11.2m) on behalf of the LLP. The LLP provided investment management services in the year for consideration of £98.3m (2017: £92.1m) from the US LLP and had a receivables balance of £32.3m (2017: £50.0m) due from the US LLP as at 31 December 2018.

The LLP had costs borne by Generation Investment Management Services LLC in the year of nil (2017: £42,051) and had a receivables balance of nil (2017: £42,051) as at 31 December 2018.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The LLP bore costs of £42,872 for Generation IM US Facilities LLC in the year (2017: £2,280) and had a receivables balance of nil (2017: £2,280) as at 31 December 2018.

The Group paid £7,576 (2017: nil) in relation to professional services on behalf of Generation IM Climate Solutions I (Scotland) LLP during the year. £15,588 was due to the Group at the year-end (2017: £8,012).

The Group paid £3,218 (2017: nil) in relation to professional services on behalf of Generation IM Climate Solutions II (Scotland) LLP during the year. £9,979 was due to the Group at the year-end (2017: £6,761).

The Group paid £2,213 (2017: nil) in relation to professional services on behalf of New Leaf Investment (Scotland) LLP during the year. £2,213 was due to the Group at the year-end (2017: nil).

The Generation Foundation was owed £485 (2017: £2,750) by the LLP at balance sheet date.

The Group paid £5,867 (2017: £28,715) in relation to professional services on behalf of Generation IM Climate Solutions (Scotland), L.P during the year. £44,075 was due to the Group at the year-end (2017: £38,208). Generation IM Climate Solutions (Scotland) L.P. is a related party as its General Partners, Generation IM Climate Solutions GP (Scotland) and Generation IM Climate Solutions I (Scotland) LLP are group Subsidiaries.

The Group paid £22,260 (2017: nil) in relation to professional services on behalf of Generation IM Climate Solutions SLP II LP during the year. £45,403 was due to the Group at the year-end (2017: £23,143). Generation IM Climate Solutions SLP II LP is a related party as its General Partner, Generation IM Climate Solutions II (Scotland) LLP is a group Subsidiary.

The Group paid £12,407 (2017: nil) in relation to professional services on behalf of New Leaf Investment (Scotland) LP during the year. £24,054 was due to the Group at the year-end (2017: £11,647). New Leaf Investment (Scotland) LP is a related party as its General Partner, New Leaf Investment (Scotland) LLP is a group Subsidiary.

The landlord of the leased property in Spain is a member of the Group. Rental payments made during the year amounted to £55,080 (2017: £64,092) and £5,158 is payable as at the year-end (2017: nil).

### 17 CONTROLLING PARTY

The LLP is controlled jointly by the members.

### 18 INFORMATION IN RELATION TO MEMBERS

	Year ended 31 December 2018	Year ended 31 December 2017
	Number	Number
Average number of members during the year	29	32
	£'000	£'000
Profit for the year attributable to members		
The Group	207,453	193,157
The LLP	205,143	188,767

The profit attributable to the member with the largest entitlement is £43.2m (2017: £41.1m).

Of the profit attributable to members, £155.7m (2017: £154m) is attributed to key management personnel. This includes amounts allocated via the LLP and via the non-controlling interest.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 19 RECONCILIATION OF MOVEMENT IN MEMBERS' INTERESTS FOR THE YEAR TO 31 DECEMBER 2018

#### 19.1 THE GROUP

	Members' capital £'000	Foreign exchange translation reserve £'000	Other reserves £'000	Members' other interests £'000	Amounts due to members £'000	Total members' interests £'000	Non-controlling interests £'000	TOTAL £'000
<b>Members' Interests</b>								
At 1 January 2017	14,180	(707)	40,870	54,343	33,576	87,919	-	87,919
Profit for the financial year available for discretionary division among members	-	-	193,157	193,157	-	193,157	43,954	237,111
Other comprehensive income	-	(1,688)	-	(1,688)	-	(1,688)	-	(1,688)
Interests after profit for the year	14,180	(2,395)	234,027	245,812	33,576	279,388	43,954	323,342
Capital introduced	5,121	-	-	5,121	-	5,121	1,360	6,481
Capital released	(1,101)	-	-	(1,101)	-	(1,101)	-	(1,101)
Profit Allocation	-	-	(195,287)	(195,287)	195,287	-	-	-
Drawings	-	-	-	-	(154,718)	(154,718)	(27,309)	(182,027)
<b>Members' Interests</b>								
At 31 December 2017 and 1 January 2018	18,200	(2,395)	38,740	54,545	74,145	128,690	18,005	146,695
Profit for the financial year available for discretionary division among members	-	-	207,453	207,453	-	207,453	29,354	236,807
Other comprehensive income	-	4,499	-	4,499	-	4,499	-	4,499
Interests after profit for the year	18,200	2,104	246,193	266,497	74,145	340,642	47,359	388,001
Capital introduced	2,075	-	-	2,075	-	2,075	-	2,075
Capital released	(2,049)	-	-	(2,049)	-	(2,049)	(621)	(2,670)
Profit Allocation	-	-	(176,120)	(176,120)	176,120	-	-	-
Drawings	-	-	-	-	(224,499)	(224,499)	(34,080)	(258,579)
<b>Members' Interests</b>								
At 31 December 2018	18,226	2,104	70,073	90,403	25,766	116,169	12,658	128,827

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 19.2 THE LLP

	Members' capital £'000	Other reserves £'000	Members' other interests £'000	Amounts due to members £'000	Total members' interests £'000
<b>Members' Interests</b>					
At 1 January 2017	14,180	17,645	31,825	33,576	65,401
Profit for the financial year available for discretionary division among members	-	188,767	188,767	-	188,767
Members' interest after profit for the year	14,180	206,412	220,592	33,576	254,168
Capital introduced	5,121	-	5,121	-	5,121
Capital released	(1,101)	-	(1,101)	-	(1,101)
Profit Allocation	-	(194,747)	(194,747)	194,747	-
Transfer of Reserves from subsidiary	-	22,727	22,727	-	22,727
Drawings	-	-	-	(154,178)	(154,178)
<b>Members' interests</b>					
At 31 December 2017 and 1 January 2018	18,200	34,392	52,592	74,145	126,737
Profit for the financial year available for discretionary division among members	-	205,143	205,143	-	205,143
Members' interest after profit for the year	18,200	239,535	257,735	74,145	331,880
Capital introduced	2,075	-	2,075	-	2,075
Capital released	(2,049)	-	(2,049)	-	(2,049)
Profit Allocation	-	(176,128)	(176,128)	176,128	-
Drawings	-	-	-	(224,507)	(224,507)
<b>Members' interests</b>					
At 31 December 2018	18,226	63,407	81,633	25,766	107,399

In the event of the LLP being wound up, no member has agreed with other members that he/she shall contribute in any way to the assets of the LLP in accordance with Section 74 of the Insolvency Act. Additionally, any amounts due to members would rank after amounts due to other creditors.

### 20 SUBSEQUENT EVENTS

There were no events subsequent to the balance sheet date that required adjustment to or disclosure in the financial statements.