

Speech by David Blood

Pacem in Terris Series, Georgetown University

26 April 2005

Generation Investment Management LLP

President DeGioia, ladies and gentlemen, I am honoured and humbled to be here, particularly in commemoration of Pope John the 23rd's legacy of peace. The women and men who have spoken to you before me are an amazing group of individuals who clearly are following Pope John the 23rd's quest for peace and human fulfilment. So, you must all be wondering then why I was invited to speak with you. I recognize a money manager is a somewhat unusual person to speak about advancing peace and social justice around the world. I am sure many of you believe doing good and making money are polar opposites. You are not alone. In fact, most fiduciaries including those at foundations and college endowments believe you must separate mission and programming and investment because they are inconsistent and unrelated. Well, we disagree. We founded Generation because we believe you can generate outstanding returns for clients and also ensure your portfolio does good or at a minimum no harm. By delivering great returns to clients we hope to make sustainable investing mainstream and in doing so encourage businesses around the world to be more responsible, ethical and sustainable. This evening I will give you a brief introduction to Generation, define what we mean by sustainability research and why we believe it is important. I will also present a series of case studies supporting our view companies who embrace sustainability over the long-term will out-perform and therefore will deliver strong investment results to shareholders.

Generation was founded as an independent, private, employee-owned partnership in April of last year. (Incidentally, we struggled to name the firm. Vice President Gore and I pushed hard for Blood and Gore but we were out voted by our partners). We are dedicated to the principle of long-term investing, integrated sustainability research and client alignment. Our firm is comprised of an integrated team of 20 investment management and sustainability experts. Our offices are in London and Washington. Our investment strategy is long-only, concentrated global equity. All partners and employees are invested on the same basis

as clients. Finally, 5% of our profitability is allocated to the Generation Foundation which supports global non-profit sustainability initiatives.

Our investment philosophy starts with the principal that investment results for long-only equity strategies are maximized by taking a long-term investment horizon. This is so because a majority of a company's value is determined by its long-run performance. Sustainability issues can impact a company's ability to generate returns and therefore must be fully integrated with rigorous fundamental equity analysis to achieve optimal long-term investment results.

We define sustainability research as the analysis of shareholder value implications of long-term economic, environmental, and social challenges. For example, how companies attract and retain employees, climate change (both managing risks and creating opportunity), the company culture and approach to ethics, corporate governance standards, stakeholders and community engagement strategies, philanthropy and reputation and brands.

Let me now turn to some case studies which I hope will illustrate what we mean by sustainability research and how these companies are creating long-term value for shareholders. But before I start, to ensure my friend Mr. Knight is not hauled off to jail, these case studies are not stock purchase recommendations!

Costco Wholesale Corp & Human Capital

Costco Wholesale Corporation is a leading US warehouse retailer. Costco is differentiated from its competitors by having allowed its 63,000 strong employee base to be unionised. While many competitors restrict the unionisation of their employees, most notably Wal-Mart, Costco's respect for its employee's freedom of association and other aspects of labour practices is generating value for shareholders. By integrating sustainability, as manifest by its

labour practices, Costco is benefiting from higher staff loyalty (in a notoriously disloyal sector), and higher employee productivity per square foot of retail floor space versus its main competitor Wal-Mart. Long term value is generated by Costco taking a more enlightened approach to unionisation, which in the short term may involve cost and some management time, but over the long term is rewarded by productivity gains and license to operate.

Toyota & Climate Change

Toyota is a world leading car manufacturer and the best prepared car company to benefit profitably from the realities of a tighter fuel economy environment. This is true primarily because of management's decision many years ago to invest the capital necessary to be a global leader in hybrid technology. Toyota also makes money and sustains competitive advantage by licensing its hybrid technology to competitors, most notably to Ford. Moreover, Toyota has secured various joint venture contracts in China based on Chinese interest in more fuel-efficient technology, a crucial new market. Toyota's cost base in traditional vehicles is also the lowest in the industry as the "lean production system" is inspired by eco-efficiency. Finally, Toyota's quality is reflected in one of the lowest vehicle defect rates in the industry. Toyota has fully integrated sustainability into its strategy, product designs and production systems. The company is being rewarded for understanding, ahead of its competitors, that environmental sustainability would be a fundamental long term value driver in the automotive industry. I am certain the folks at General Motors would trade their position with Toyota in an instant.

T. Rowe Price Group & Culture of Integrity

T. Rowe Price Group is a financial services company that provides investment advisory services to individual and institutional investors. The company's culture is one of high integrity and a passion for investing. Staff members are appropriately incentivised; stock options are spread throughout the staff, not just concentrated at senior management levels.

Sustainability is integrated into T. Rowe's culture in the form of a commitment to integrity and trust, which often means forgoing short term gains for long term value creation (as evidenced by the willingness to close funds due to capacity concerns). Not surprisingly then, T. Rowe has avoided the market timing and trading scandals of the past few years. This has allowed the company to grow market share of fund inflows on the back of a scandal-free reputation, strong fund performance, and product innovation in the retirement funds area, all of which have contributed to good returns for shareholders.

Synthes & Ethical Buying Practices

Synthes Inc. is a Swiss-based international medical device company that specializes in the development, manufacturing and marketing of products for the operative treatment of fractures (osteosynthesis). Synthes has a strong reputation for ethical conduct with buyers. Notably the company has been able to grow market share despite not participating in questionable buying practices. This reputation is a sustainable competitive advantage and will serve the company well in generating long term value for shareholders.

Novozymes & Environmental Innovation

Novozymes A/S is a Denmark-based biotechnology company. The company is engaged primarily in the production of enzymes and microorganisms. It produces over 700 products, which are used in 20 industries. For example, in the industrial microorganisms segment, the company offers biological solutions in areas such as wastewater treatment and cleaning. Novozymes products are based on naturally occurring microorganisms that offer biological alternatives to a variety of chemicals. By mimicking nature's processes in its product design, and using biological organisms to enhance productivity, Novozymes has fully integrated sustainability into its value creation strategy. Innovation in product development is driven by using nature's processes rather than developing chemical alternatives. In the longer term, Novozymes' products will be more desirable to customers and society.

Each one of these examples is a great business, and of course we can cite many more. In fact, two interesting headlines in yesterday's newspapers underscores we are not alone in thinking about business and sustainability. "JP Morgan Adopts 'Green' Lending Policies" and "On Earth Day 2005, GE reaffirms its commitment to help solve some of the world's toughest problems." While investment management is about more than just identifying great companies, this evening I wanted to establish business can enhance shareholder value and competitive advantage by more thoughtfully embracing sustainability issues. Management who embraces environmental stewardship, corporate accountability and good corporate governance, ethics, and who make a strong commitment to their employees and their communities will be better able to address and capitalize on the challenges and opportunities than management who do not. These companies, who in the aggregate are doing good things, are more likely to create enduring value and are therefore better long-term investment opportunities.

Our mission at Generation Investment Management is certainly not as noble as the work and the contributions of Pope John the 23rd. However, by helping to make sustainable investing mainstream and thereby encouraging companies to be more responsible, ethical and sustainable we will make a difference. Thank you for your time. I welcome your comments and questions.

David Blood is Managing Partner of Generation Investment Management.