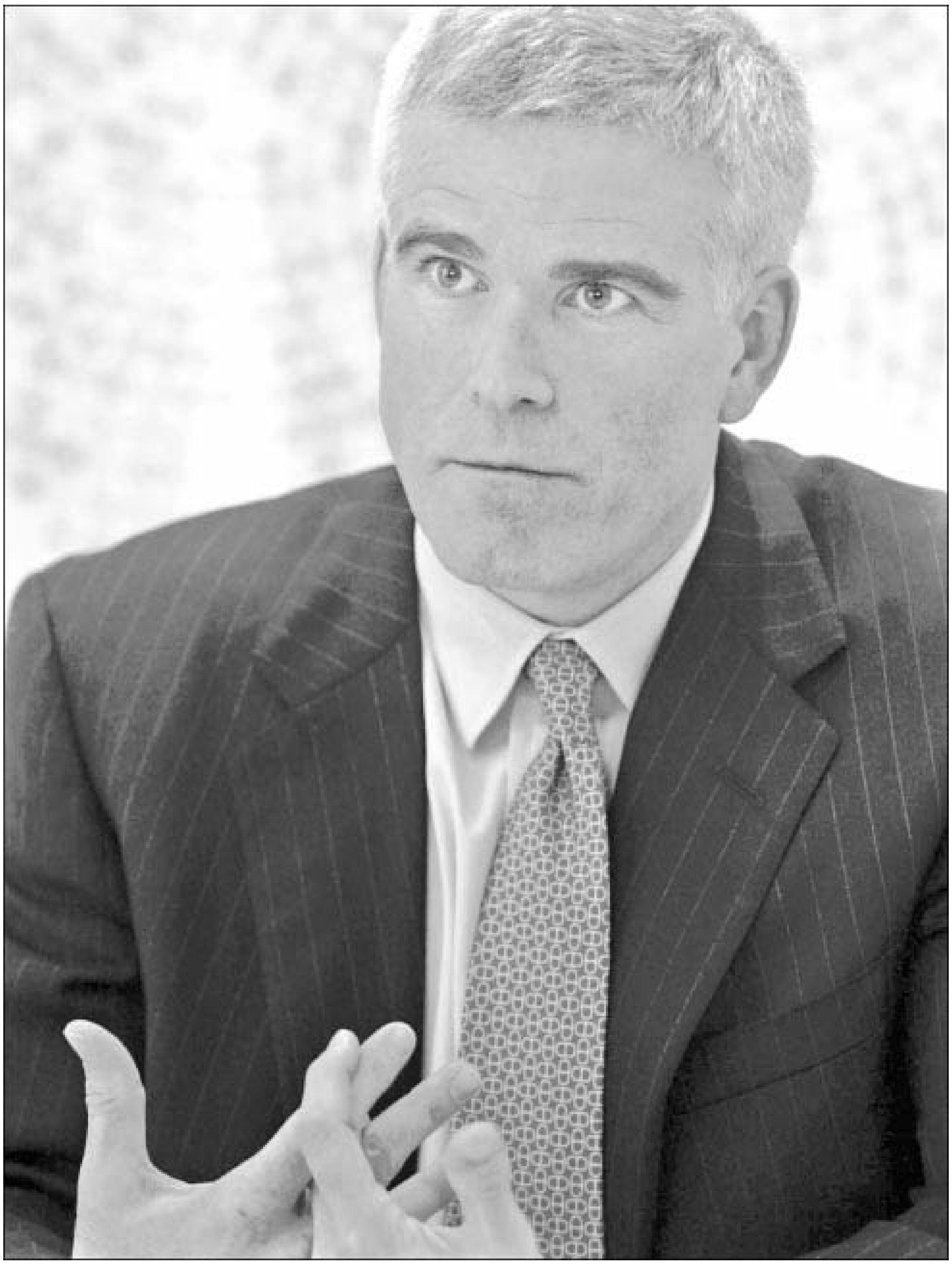
FINANCIAL TIMES
MONDAY NOVEMBER 8 2004




# Blood and Gore launch firm with a difference

A former Goldman Sachs chief and former US presidential candidate reveal a novel investment approach, says **Sundeep Tucker**


David Blood: 'Social, environmental and geopolitical issues can materially impact a company's ability to sustain returns' Charlie Bibby

The global fund management industry is about to be hit with unexpected Blood and Gore. This morning, in London, David Blood, former chief executive of Goldman Sachs Asset Management, and Al Gore, the former US presidential hopeful, will launch their new firm, Generation Investment Management.

The boutique will invest in long-only global equities. Aside from the myriad heavyweight figures involved, the firm will raise eyebrows throughout the fund management world for its unashamedly novel approach to long-term investing.

Mr Blood, who will be managing partner, explains that Generation will integrate traditional equity analysis with sustainability research.

Mr Blood rejects any suggestion that the firm is concerned with "green" investing. Sustainability is distinct, he says, because it combines the principles of economic growth, environmental stewardship and social accountability. The approach, he adds earnestly, is primarily about delivering superior returns to clients.

According to Generation, long-term investing – at least a five-year view – means identifying companies with "an enduring capability to create value and sustain competitive advantage".

So Generation plans to take into account a broader range of issues than traditional equity research can capture. Mr Blood says: "Social, environmental and geopolitical issues can materially impact a company's ability to sustain returns. Generation will invest in companies that manage these risks. It is a just a more sensible way to invest."

Mr Gore, who will be chairman of the company, cites an example: "You can't properly value automobile stocks without considering long-term issues such as carbon intensity."

Generation believes that investors are ready to embrace its philosophy and points to structural trends that will help drive its business model.

Mr Gore points out that investors in supposedly long-only mutual funds see their stocks turned over rapidly and so "can't take significant advantage of the value that builds up [in companies] over time".

He adds: "Existing long-only funds that turn over stock are committing a tactical mistake as they are competing against hedge funds that can short. They are disadvantaged."

How is Generation going to convince all those pension fund trustees, who can look no further than a three-month performance update, to consider investments with horizons of five years plus?

Mr Blood says: "Pension funds have a great advantage in that they can afford to take a long-term view. Trustees are being educated and influenced by managers and consultants that they can alter their time horizons and, in doing so, benefit from better returns."

Generation's fund – as yet nameless – will typically hold 30 to 50 stocks, mainly drawn from the MSCI World Index. "We will judge which industries are long term and sustainable, which companies are outstanding and where we can add value," Mr Blood says.

As for fees, Generation says it will levy a "basic" charge to cover costs but will only take a performance fee on a rolling three-year basis. The firm hopes to start attracting funds in January. It will employ 20 or so staff, about half of whom will be investment analysts. Significantly, a quarter of the analysts will have sustainability expertise.

Generation will be headquartered in London's West End, a stone's throw from the Ritz Hotel, although it will have an office in Washington DC.

Mr Blood moved to the UK in 1993. He believes it makes sense to run a global equities portfolio from London because of time zone issues.

Generation is different to its fund management rivals in that it will hand 5 per cent of its profits to a charity foundation.

It has also signed up to an initiative with other European institutional investors to encourage brokers to provide research on sustainability issues. Backers of the Enhanced Analytics Initiative, including the fund management arms of BNP Paribas and Allianz Dresdner, have pledged to allocate at least 5 per cent of their commission budget to such research.

The firm's initial start-up and investment capital – worth "double-digit millions" – is coming from its six founder partners. "Our interests are aligned with the firm delivering superior returns," says Mr Blood.

As well as Mr Gore and Mr Blood, the founders include Mark Ferguson, a former co-head of European research at Goldman Sachs Asset Management, who will be Generation chief investment officer, while Peter Harris, another former GSAM bigwig, will be chief operating officer. Peter S Knight, Mr Gore's former chief of staff, will be president of Generation in the US, while Colin le Duc, will head research.

The Goldman Sachs connection runs deep in Generation. Mr Blood spent 18 years at the top of the firm, while Mr Gore has several close friends working there.

Last year, each separately sounded out their chums at Goldman Sachs about the idea of starting a firm that married investment analysis with sustainability. Their mutual friends put them in touch with one another and Generation was soon born.

Not that Mr Blood will ever consider selling out. He was one of the minority of Goldman partners to vote against the firm's flotation. He says: "Independence is by far the best way to run a fund management firm."

Mr Blood insists that Mr Gore is no bauble. The former deputy president, who authored *Earth in the Balance* and helped secure agreement on the Kyoto protocol, the United Nations Framework Convention on Climate Change, first adopted in 1997, will spend at least a day a week on Generation matters.

Mr Blood says: "Of course, he does have a great contacts book and views on sustainability. But we need his broad thinking on these issues and participation in our investment strategies."

### CURRICULUM VITAE

**David Blood**

**Born:** 1959

**1981:** Hamilton College, New York (BA)

**1985:** Harvard Business School (MBA)

**1985:** Investment banker, Goldman Sachs

**1992:** Treasurer, Goldman Sachs Group

**1997:** Chief executive, Goldman Sachs Asset Management, Europe

**1999:** Co-CEO and CEO of Goldman Sachs Asset Management