



### UN Global Compact Communication on Progress (COP)

- 1. Introduction:** Global Evolution is a signatory of the *United Nations Global Compact*, a strategic policy initiative for businesses committed to aligning their operations and strategies with ten principles in the areas of Human Rights, Labor, Environment and Anti-Corruption. The sections below state our continued support to:
  - the UN Global Compact;
  - the practical actions to implement the Global Compact principles;
  - our measurements of outcomes;
  - as well as how we are communicating and engaging with stakeholders on progress.
  
- 2. Continued support to UN Global Compact:** Global Evolution is pleased to reaffirm our continued support for the UN Global Compact, and we hereby renew our ongoing commitment to the initiative and its ten principles in the areas of Human Rights, Labour, Environment, and Anti-Corruption.
  
- 3. Practical actions to implement the UN Global Compact principles:** Global Evolution has a strategic commitment to SRI and ESG Sustainability as an integrated part of our approach to investment. Practical actions and concrete processes regarding addressing ESG sustainability in our investment management approach include the following:
  - a. Sovereign Screening Model:** Global Evolution employs its proprietary *Sovereign Screening Model (SSM)* to perform a “negative screening” that exclude investments in countries that do not meet minimum requirements in the E, S, and G areas. Quantitative data are employed in our SSM to generate a warning signal and the investment process is informed accordingly at a timely basis.
  
  - b. Valuation and Rating Model:** Global Evolution employs its proprietary *Valuation and Rating Model (VRM)* to perform a “positive screening” which incorporates an ESG component to inform the investment process. This ESG component in the proprietary VRM is organized around each of the environmental, social and governance dimensions, respectively.

This quantitative and econometric approach to incorporating ESG dimensions into valuations of sovereign bond investment in emerging markets is critical to assess the developments in countries across a wide set of E, S, and G indicators in order to measure the implications of ESG initiatives at the sovereign level for potential investment outcomes.

In our ESG research we find very strong correlation between ESG dynamics and spreads as well as fund performance in emerging and frontier markets. Consequently, this research area is important as an overlay to our investment process. This area of research is virtually non-existing in the literature for sovereign emerging and frontier market bonds, and we seem to be the only asset manager in the market doing rigorous and econometric research on ESG and bond performance. The investment process at Global Evolution is informed accordingly.



- c. ESG Policy and Research Approach:** Our *Global Evolution ESG Approach* provides an over-arching perspective of our research approach to systematically integrate our ESG Policy in our investment process. It furthermore, more broadly, describes our ESG research ambitions and interaction with stakeholders.

Our broader *Global Evolution Research Programme* illustrates the interplay between our research and our investment process. The Research Programme includes various research projects including some on ESG dynamics, both from a quantitative and qualitative perspective and from a top-down perspective across emerging and frontier market countries and from a bottom-up country-specific perspective.

Our Global Evolution ESG Policy encapsulates our corporate commitment to ESG sustainability and SRI in the context of UN Global Compact. We find a strong business case for considering ESG dynamics as part of an investors investment process since ESG dynamics is highly correlated with returns—consequently *bridging SRI with returns!*

- d. ESG research publications:** An ESG research paper of ours entitled "*The Business Case for Considering Esg Dynamics in Sovereign Bonds*" has recently been published by the UN-PRI in the first of their series of research on ESG and investments. The *PRI's Fixed Income Case Study series* highlights examples of interesting and innovative approaches to responsible investment. The case studies cover topics such as integrating ESG, negative and positive screening, thematic investment and engagement.

In addition, we have four publications out on the dynamics between ESG variables and financial/economic variables with the purpose of creating awareness of the strong linkages and with the aim of modeling these correlations optimally to inform our investment process.

- e. ESG seminars/workshops/conferences:** Global Evolution is hosting a conference in Washington D.C. together with the World Bank on the interactions between financial markets and ESG dynamics. Participants include the World Bank, the IMF, academia, consultancies, credit rating agencies, and interested clients. The UN-PRI has also been invited. This conference takes place in September 2015.

Global Evolution continues to enhance and develop its *ESG Research Program*. The research program and the ESG models incorporates variables to assess performance on each of the four areas; human rights, labour, environment, anti-corruption, which is why our models are all-encompassing in that sense and delivers a full-fledged approach to assing the environmental, social and governance parameters adhering under the ten principles.

- 4. Measurement of outcomes:** Our ambition includes the development and incorporation into our investment process of proprietary ESG models, as well as instigating a complementary ESG Research Program to inform the investment process and ensure that best practice from investment cases will be extracted for ongoing screening and research purposes. These qualitative targets have successfully been met within the timeframe we had defined in the context of our ESG Research Program which continuously incorporates lessons from market trends and developments.



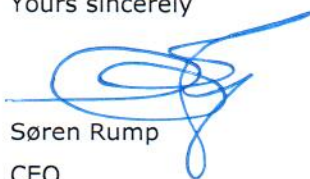
The proprietary VRM model which incorporates ESG dynamics have been operational for some time; and is interdependently linked to the ESG Research Program to continuously enhance the screening and investment optimization. The models and its output for investment decisions are proprietary in nature, and some models features are displayed as part of our ESG Research Program

Furthermore, in terms of performance, our numeric findings available to our clients confirm to a high extent the evidence from our research on the causality between sovereign bond yields and ESG ratings; that countries with higher ESG ratings perform dynamically better in terms of return on investment. This testifies to the important issue that funds incorporating ESG analysis in their investment decision making are likely to outperform traditional funds over time.

**5. Communicating and engaging with our stakeholders:** Our corporate communication is both internal to employees and board members as well as external to stakeholders such as clients and affiliated consultants as well as the media and other stakeholders. With our continued growth, we are increasingly aware of the role we play in the markets, economies and societies in which we practice. Our engagement with stakeholders on the ten principles and our proprietary approach to ESG modeling and country investment selection is consequently essential to our business operations.

In client meetings, we continuously stress the significance of our dedication to the Global Compact principles reflected in our choice of ESG factors in our proprietary modeling. However, the interaction is also cross-directional since clients increasingly display this focus and seek discussions on these important issues. As a result, our ESG deliberations and careful analysis in the investment processes will play a central role in our screening and portfolio allocations going forward.

Yours sincerely



Søren Rump  
CEO