UN GLOBAL COMPACT COMMUNICATION ON PROGRESS

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 substantiate our:

   - *continued support over several years now 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.*

   Global Evolution has a strategic commitment to impact investment and ESG sustainability as an integrated part of our approach to investment. In terms of our ESG integration approach, we have incorporated ESG dynamics across our investment process through various proprietary quantitative econometric models. For the full universe of emerging and frontier market countries, we construct proprietary ESG ratings, ESG-adjusted credit ratings, as well as statistical valuation signals for sovereign credit spreads and currencies based on ESG dynamics. In all modesty, we consider ourselves as being at the forefront of ESG sovereign research and ESG sovereign investment integration. We continue to play an active role in the public domain through our ESG research agenda and our close collaboration with the World Bank, the UN, and other relevant stakeholders.

   Financing the debt that provides macroeconomic sustainability and is spent promoting productivity and raising infrastructure, such as electricity production, health, water, security, transport, and school systems, has a significant impact on reducing poverty levels. At Global Evolution, we have conducted extensive and ground-breaking research into the relationship between sovereign debt investing and Environmental, Social, and Governance (ESG) indicators. There is a clear correlation between the sovereign funding costs and ESG dynamics, with governance and human capital accumulation (under the "S" in ESG), unsurprisingly, the most prevalent. By not integrating ESG dynamics into investment decisions, investors sacrifice essential information.

   Furthermore, through 25-30 country missions annually, we conduct extensive on-the-ground dialogue with policy makers discussing strategies to optimize their funding strategies to promote swift and sustainable economic development. At Global Evolution we recognize the importance of Environmental, Social and Governance (ESG) considerations for investors and advisors globally and continue to help our investors achieve their individual ESG goals.

   A strong, integrated, and active ESG approach has become a prerequisite for investment managers to operate in today's market, but certainly also an important selection criteria for many institutional investors. Through our significant quantitative research effort, we have found that there is a strong business case for considering ESG dynamics as part of the investment process. ESG dynamics are highly correlated with returns – consequently *bridging ESG with returns.*

Global Evolution is an active signatory of UN Principles for Responsible Investment and UN Global Compact and continuously publishes research on the relevant subjects of ESG dynamics and investment process integration. Global Evolution has a seat on the UNPRI Advisory Committee on Credit Ratings (ACCR) which actively takes ESG factors into account.

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, Labor, 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 over the last year to address ESG sustainability in our investment management approach include the following:

   a. **Top ESG Rating assigned to our firm**: In August 2017, in their annual rating of asset managers for how well they integrate ESG, UNPRI awarded Global Evolution a score of 29 out of 30 points, and consequently the highest of their ratings. Despite this positive feedback, we continue to consistently look for ways to improve our ESG integration into the investment process. We were awarded an A+ by the UNPRI. Global Evolution earned the highest possible rating with a score of 29 out of 30 points across 10 indicators for the firm's ESG integration strategy and governance. Signatories are scored for each UN PRI principle and the scores are measured against those of other investment managers that have signed the UN PRI. In 2017, the peer group for Global Evolution consisted of 681 investment managers worldwide. Of these 681 signatories of the UNPRI, only 16 percent received A+ scores for their overall approach.

   b. **Impact Investing Symposium**: In November 2017, Global Evolution hosted an Impact Investing symposium in our US office at One World Trade Center. The symposium was titled "Emerging Market Sovereign Debt Investing: The Future of Development Finance," and included speakers and panelists from the UN-PRI, the IMF, and the World Bank, as well as, importantly, the Central Bank governor for eight emerging market economies—one ingredient of our direct engagement with policy makers in the countries in which we invest. We hosted over 35 participants representing a range of organizations in the financial industry.

   c. **World Bank/IMF Spring Meetings**: In April 2017, four members of the investment team attended the spring meetings of the World Bank/IMF in Washington, DC. This is partly related to our "indirect engagement" with policy makers in the countries in which we invest.

d. **ESG dissemination and conference participation**: Ole Jorgensen, Research Director, speaks at a number of conferences regarding integrating ESG into the investment process. Notably, in September 2017, Ole spoke on a panel about ESG in Credit Ratings at the UNPRI "In Person" Conference in Berlin, Germany.

e. **UNPRI Advisory Committee on Credit Ratings Report**: Global Evolution co-authored a report by the UNPRI ACCR in 2017. As Chairman of the Board at the UNPRI ACCR committee, Ole Hagen Jorgensen, Global Evolution Research Director, coauthored the report **SHIFTING PERCEPTIONS: ESG, CREDIT RISK AND RATINGS (PART 1: THE STATE OF PLAY).**

Investors and credit rating agencies (CRAs) are ramping up efforts to consider environmental, social and governance (ESG) factors in credit risk analysis. Shifting perceptions: ESG, credit risk and ratings (Part 1: The state of play) is the first in a three-part series to enhance the systematic and transparent consideration of ESG issues in the assessment of the creditworthiness of borrowers in fixed income (FI) markets. It provides a snapshot of the current state of play on ESG in credit risk analysis (in terms of thinking and activities) to better understand what investors and CRAs are already doing, what they are aiming for and what their expectations are. Parts two and three will provide more in-depth coverage on existing challenges as well as future opportunities. There is tangible evidence of progress in ESG consideration by investors and CRAs, including increased resource allocation. However, they are at different stages in this process and look at credit risk from different perspectives. The report also sheds light on areas of best practice and bottlenecks, including:

Visibility of ESG factors
There are no perfect time horizons for assessing these, as they depend on the nature of the factors. Investors are asking for more guidance from CRAs, about the direction of risks; while this is provided to an extent by Credit Watches, Outlooks and Outlook statements, CRAs could take a more granular approach to ESG consideration and include scenario analysis to address long-term trends and risk trajectories. These are particularly important when it comes to assessing the possibility of upgrades or downgrades on which markets trade. There is also a lack of agreement on which time horizon to focus on, since ESG analysts tend to be more long-term oriented than portfolio managers (PMs), while CRAs vary.

Materiality of ESG risks
It is important to differentiate the ESG factors that may affect the financial performance of an issuer, its risk of default and the trading performance of its securities. These are not always straightforward to identify, however, due to data restrictions, confusion about which metrics to prioritize, and the nature of ESG risks (which may be new to both investors and CRAs). When

considering the risk of default, some thought should also be given to how ESG factors may affect expected losses.

Environmental issues gaining traction
CRAs and investors most frequently cite governance as the ESG factor that is likely to directly impact creditworthiness. However, recent research by investors and CRAs suggest their focus is intensifying on environmental and green factors in particular, and less so on social factors which are less tangible.

Communication and transparency
Improvements are needed on both sides: CRAs generally agree that they need to enhance their external communication and transparency with investors. At the same time, investors have to improve internal dialogue (and cooperation) between ESG analysts and portfolio managers, who have the final investment call.

The findings of this report point to a number of themes that will shape the agenda of industry forums led by the PRI. The forums will enable market participants to address some of the questions which have emerged so far. For example: How can investors and CRAs address the issue of timeframes for long-term ESG risks? How can investors and CRAs use their improving ESG competence to enhance information disclosure by issuers? Should investors give consideration to non-credit rating tools (i.e. an ESG score) that can help them assess risks beyond default risks?
Do regulators play a role in facilitating the systematic and transparent integration of ESG consideration in credit assessment? How could institutions on both the investor and the CRA side – and their credit analysts – be incentivized to enhance their ESG competence and incorporate it systematically in their analysis? As ESG factors are often intangible, how can qualitative assessment be improved for the purpose of credit risk analysis?

f. **UVM Sustainable Innovation MBA Program**: In 2017, we hosted a practicum project for students from the University of Vermont Sustainable Innovation MBA program, ranked the #1 Green MBA Program by the Princeton Review. These students spent time at Global Evolution's headquarters in Denmark, learning the day to day aspects of the business. They wrote a final report on the state of asset management in the US market, and provided recommendations on how to improve our ESG marketing in North America. We are hosting a similar project with students from the program in 2018.

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 practices 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. Our proprietary Valuation and Rating Framework (VRF) which incorporates ESG dynamics is interdependently linked to the ESG Research Program to continuously enhance the screening and investment process. The models and its output for investment decisions are proprietary in nature.

Furthermore, in terms of our research on the causality between sovereign bond yields and ESG ratings, 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 apoproach to ESG modeling and country investment selection is consequently essential to our business operations. In client meetings, we consistently stress the significance of our dedication to the Global Compact principles reflected in our choice of ESG factors in our proprietary modeling. In addition, we experience that the interaction with our clients is also cross-directional since clients increasingly display this focus and seek discussions on these important issues. Consequently, our ESG deliberations and careful analysis as part of the investment processes will play a central role in our screening and portfolio allocations going forward.

Yours sincerely,

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