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.*

Positive sustainability screening: 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.

Negative sustainability screening: For the full universe of emerging and frontier market countries, we construct proprietary ESG ratings, SDG ratings, ESG-adjusted credit ratings, as well as statistical valuation signals for sovereign credit spreads and currencies based on ESG dynamics.

We were early movers with ESG sovereign research and integration of sustainability into sovereign investment process. 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 such as the world's largest pensions funds.

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. SUSTAINABILITY RATIONALE

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.

Consequently, by not integrating ESG dynamics into investment decisions, investors would sacrifice essential information

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 criterion for many institutional investors. 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. Consequently, by not integrating ESG dynamics into investment decisions, investors would sacrifice essential information. At Global Evolution we therefore 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.

Global Evolution is an active signatory of UN Principles for Responsible Investment[1] and UN Global Compact and continuously publishes research on the relevant subjects of ESG dynamics and investment process integration. In 2018-2019, Global Evolution chaired the UNPRI Advisory Committee on Credit Ratings (ACCR) which actively takes ESG factors into account.

4. 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:

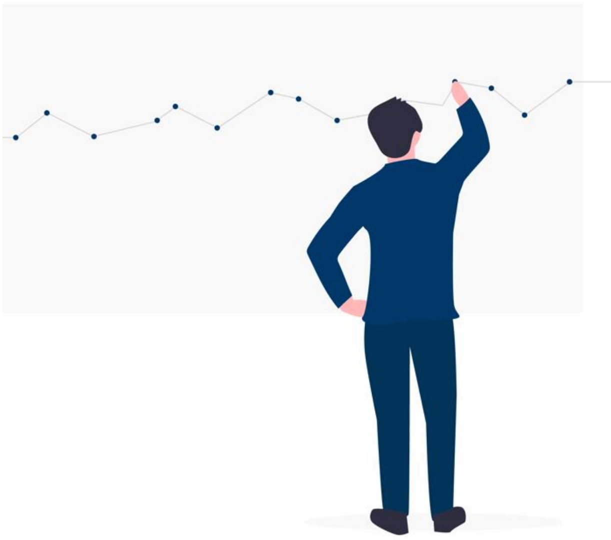
a. AI driven G index

SENTIMENT DRIVES MARKETS; NOW WE CAN MEASURE IT! It is well known that prices of bonds and currencies trade to a high extent on sentiment and political risk. Perception and animal spirits of market actors drive a major part of asset price volatility; as Robert Shiller has taught us with Narrative Economics.[2] Historically, market sentiment and political risk have been extremely difficult to observe and quantify, so

[1] https://www.unpri.org/signatories; https://www.unglobalcompact.org/participation
[2] https://www.nobelprize.org/prizes/economic-sciences/2013/shiller/lecture/

information for one of the most important factors we every day consider as a central part of our investment process has not been available in a condensed and quantified format.

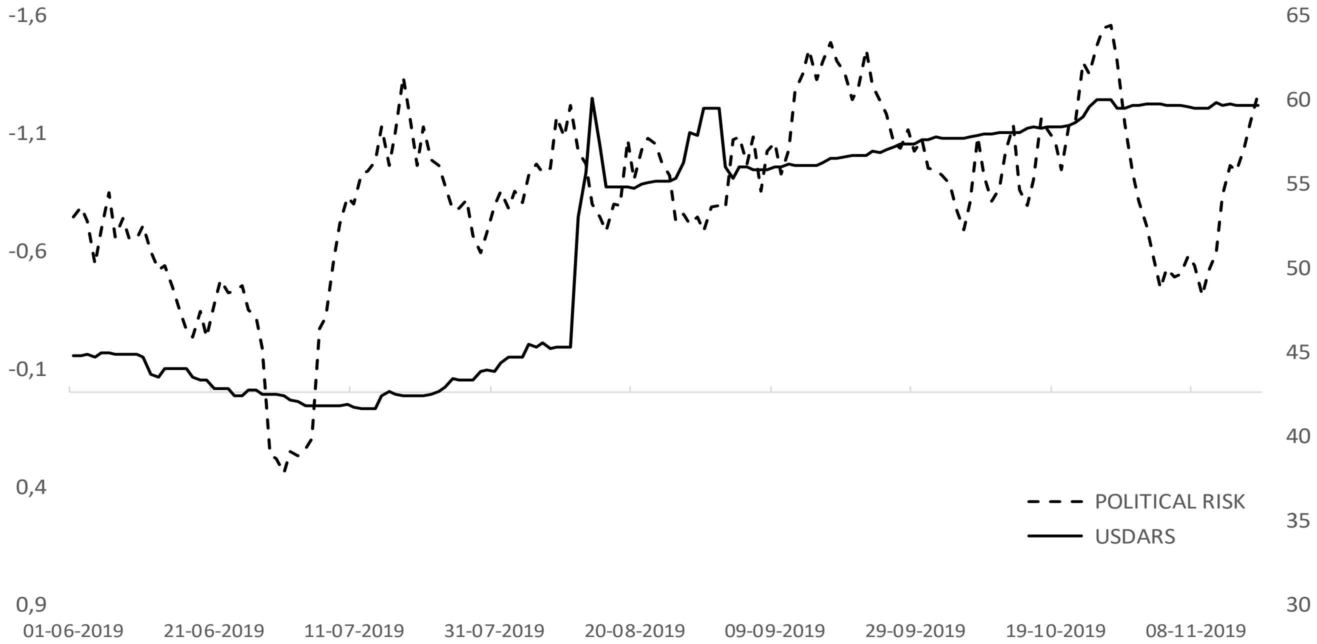
A computer can now help us with this Instead of hiring hundreds of analysts we can get a (strong) computer to read a news related to political risk and assess whether the news is positively or negatively biased. It can even dive into news databases and read news published every day, every year back in time. And, thus, provide us with high-frequent indices (time series) of how political risk has been biased over time. We use Natural Language Processing (NLP) in combination with machine-learning to assess whether sentiment is positively or negatively biased. This gives us an AI-driven sentiment indicator that we never had before!



In the case of Brazil, 2.6 million news articles related to political risk was extracted back to year 2007, then read and scored by the computer in a matter of minutes, and a political risk index was estimated (difficult for any team of people to digest 500-1000 news articles per day, per country, and score the degree of political risk without getting tired). In addition to the intriguing nature of the political risk index itself, the correlation to bond prices and the exchange rate in Brazil is astonishing! More than two-thirds of the variation in the currency can be accounted for by political risk.[3] This is such a high correlation that most other financial or economic variables are less correlated. We have even found causal evidence that the political risk index seems to be a leading indicator (using Granger Causality econometrics; Transfer Entropy analysis).[4]

[3] Proprietary evidence (econometric) for this is available for this upon request.
[4] Proprietary evidence (econometric) for this is available for this upon request.

**POLITICAL RISK IN ARGENTINA
AND THE ARGENTINE CURRENCY UP TO THE PRIMARIES IN AUGUST 2019**



Source: Global Evolution based on data from Bloomberg; news articles from Dow Jones, in a proprietary AI-driven political risk model. Note: left hand axis is a proprietary risk score from -1.5 to +1.5 where +1.5 is low political risk and -1.5 high political risk. Right hand axis shows Argentina-US dollar exchange rate.

In the case of Argentina, we saw a massive sell off in the currency and bond prices in early August 2019 up to the primary elections. Few expected such a dramatic sell off. Unfortunately, our AI-driven political risk index was developed a few months after this event. The characteristic of the political risk index as a leading indicator of price movements is astonishing, as the figure illustrates. Notice the daily political risk index (dotted line; left axis) spiking about a month before the primaries, and again about a week before; clearly indicating that political risk was at extreme levels.

We can now "take the temperature" on sentiment, and our AI-driven political risk index delivers a daily indicator for political risk in emerging market countries. Our valuation models suggested ahead of the sell-off that bond prices were leaning to the cheap side, and so did the currency. Unfortunately, we did not at that time have this political risk indicator to integrate into our valuation models; we now integrate the political risk index, and when we back-test the models we observe more depreciated fair value levels; thus, indicating lower positioning or outright zero-weights in Argentina's bonds at the time. We will now learn from these AI-driven political risk indices across countries in emerging markets and integrate these in our valuation models and our investment process.

... our AI-driven political risk index delivers a daily indicator for political risk in emerging market countries

b. SDG ratings

A notable innovation of ours is the development of proprietary SDG ratings.[5] These were developed throughout 2019 and launched internally and for our clients on January 1, 2020. Since we have Proprietary ESG ratings and Proprietary SDG ratings, we can assign these to all our public and segregated portfolios and their benchmarks to see how our portfolios are doing from an ESG/SDG (sustainability) perspective.

FIGURE 1. SUSTAINABILITY DRIVES CREDITWORTHINESS!

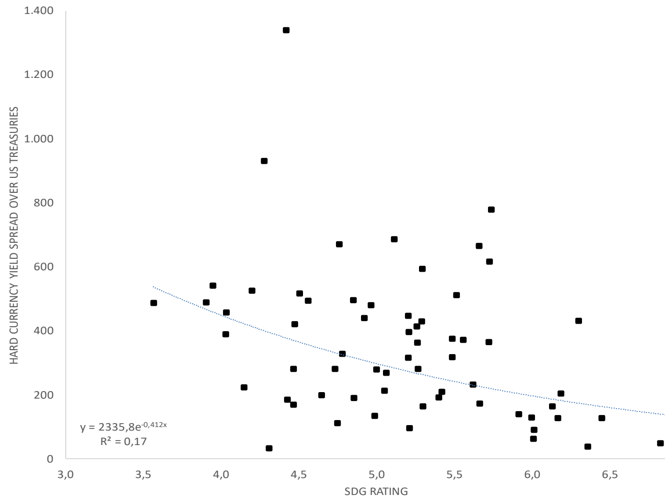
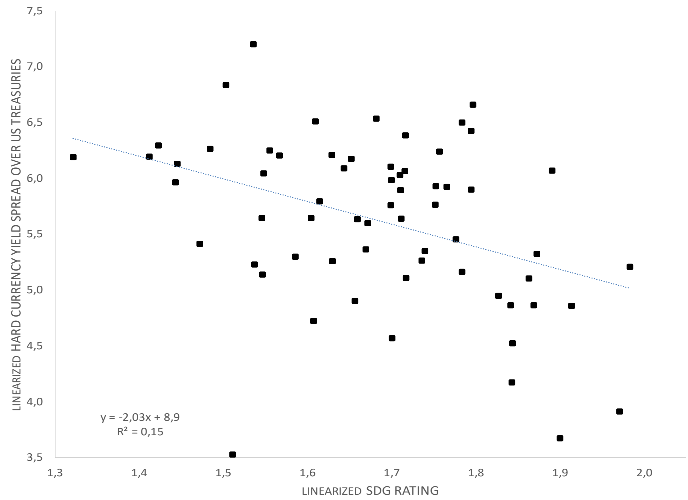


FIGURE 2. WHEN SDGS IMPROVES BY 1%, RISK FALLS BY 2%!



Source: Global Evolution proprietary SDG ratings based on data from Verisk-Maplecroft, and Bloomberg for yield spreads. Figure 2 illustrates log-linearized data for the purpose of deriving the percentage change in creditworthiness when sustainability improves by 1%.

Sustainability matters for development, for our clients, and for us! The world has embraced the importance of sustainability; and so has the asset management business. In fact, it has become a global mega-trend that makes complete sense from both an ethical and business perspective. But why?

Rainbow-washing is a key concern! The extent of "green-washing" and "rainbow-washing"[6] clouds the importance of sustainability in many areas. In our view, the discourse about SDGs and ESG is not addressed in an appropriate way by some because they basically use the SDGs and ESG in vain as dubious "marketing stunts" without genuinely taking it seriously in their investment process.

There is one reason why sustainability is not taken sufficiently seriously in financial markets! Financial markets still do not comprehend and internalize the business case for integrating SDGs into investment decisions. Until they internalize the return-

[5] Sustainable Development Goals (SDGs) defined by the United Nations (https://sustainabledevelopment.un.org/) are estimated across the 17 goals with indicators for sovereign ESG developments provided by Maplecroft. The grouping of indicators under each of the 17 goals is proprietary but is available to our clients.

[6] Green-washing refers to actions that people and companies take especially in climate-related areas that they would have done anyway with no regard to the climate, but to market their efforts in a pseudo-responsible way they portray themselves as taking climate-related issues into account even if such concerns were never part of their considerations. Similarly, for rainbow-washing which refers to the SDGs and the circular colorful representation of the 17 SDGs.

generating potential, sustainability will not be taken sufficiently seriously, and sustainable development will not gain traction. This includes the importance of climate change mitigation, promotion of human rights, improvement of governance, and many other important sustainability concerns.[7]

The solution! We continuously communicate to stakeholders why integrating E, S, and G indicators makes sense to. Once widely understood and internalized, a sustainability revolution can gain traction. The figures above illustrate how SGDs drive creditworthiness in emerging markets countries and over time.[8]

The that SDGs are statistically significantly correlated with spreads with a coefficient for SDGs in its correlation with the spreads of -115 indicating that a one notch SDG Rating increase leads to 115bp spread compression; and a 1% improvement in SDGs improves creditworthiness by 2%: An improvement in creditworthiness implies lower borrowing cost and better debt sustainability metrics, and ultimately a better potential for development (see table below for raw data; source Global Evolution, Maplecroft, Bloomberg).

Valuation model integration of SDGs is key! The enhanced potential for emerging market sovereign debt investment performance from integrating SDGs is clear from the analyses above. Our valuation models therefore in econometric detail operate with indicators for sustainability. This is the kind of “business case” for integrating SDGs in an investment process that financial market actors need to internalize for sustainability to gain traction and bring prosperity to the world and returns to our clients.

[7] Data for such indicators can be found with Maplecroft, for example. (Maplecroft.com)

[8] This strong finding is further enhanced by a panel regression approach to the correlation between SDG Ratings and creditworthiness as measured by hard currency (HC) sovereign bond yield spreads in emerging markets: A panel regression approach is developed for 64 countries regressed on SDG Ratings comprising a proprietary weighted average of ratings across the 17 SDGs with a time dimension covering quarterly data since 201Q1. See table 1 in the appendix for the regressions are illustrated in the figures where the p-values of the SDG ratings is statistically significant and less than 0.01 in both cases.

Table 1. SDGs and sovereign bond spreads in emerging markets:

	HARD CURRENCY YIELD SPREADS												SDG RATINGS (proprietary)											
VARIABLE	20171	20172	20173	20174	20181	20182	20183	20184	20191	20192	20193	20194	20171	20172	20173	20174	20181	20182	20183	20184	20191	20192	20193	20194
Angola	640	615	586	456	450	561	501	658	541	554	629	670	3,8	3,8	3,7	3,8	4,0	3,9	3,9	4,0	4,4	4,3	4,2	4,3
Argentina	442	432	377	351	420	608	623	817	774	835	2.143	2.169	5,9	5,9	5,9	5,9	5,8	5,8	5,7	5,6	5,4	5,5	5,5	5,5
Armenia	334	313	266	208	239	299	263	327	249	201	207	234	4,8	5,1	5,2	5,2	5,3	5,3	5,3	5,2	5,3	5,3	5,2	5,3
Azerbaijan	237	259	219	209	217	226	168	243	206	184	191	216	5,0	5,1	5,2	5,0	5,0	5,0	5,0	5,1	5,1	5,1	5,1	5,1
Belarus	385	395	348	325	330	376	323	433	375	320	358	380	5,6	5,7	5,8	5,8	5,7	5,7	5,7	5,7	5,5	5,5	5,5	5,5
Belize	655	730	669	771	753	750	761	858	845	837	878	892	5,5	5,5	5,5	5,6	5,7	5,7	5,8	5,7	5,7	5,8	5,8	5,9
Bolivia	102	211	217	203	209	295	202	378	280	253	291	309	4,9	5,0	5,0	5,2	5,1	5,1	5,0	4,9	5,1	5,1	5,0	5,1
Brazil	266	284	242	234	241	328	290	272	249	234	242	259	5,1	5,0	4,6	4,3	4,5	4,3	4,6	4,5	4,5	4,5	4,7	4,9
Chile	60	53	68	72	83	97	76	113	74	76	90	86	6,3	6,3	6,3	6,1	6,0	6,0	6,0	6,0	5,9	6,0	6,0	6,0
China	21	20	21	22	13	22	30	71	59	54	53	55	4,1	4,3	4,3	4,3	4,3	4,3	4,3	4,3	4,2	4,2	4,2	4,2
Colombia	192	200	185	173	180	197	168	228	184	181	183	189	5,4	5,4	5,4	5,3	5,4	5,4	5,4	5,4	5,3	5,3	5,4	5,3
Costa Rica	379	372	348	375	347	386	467	529	432	439	478	493	6,3	6,3	6,3	6,2	6,3	6,3	6,3	6,3	6,3	6,3	6,3	6,3
Cote D'Ivorie	430	397	369	328	360	427	375	528	425	442	435	444	4,3	4,4	4,4	4,5	4,5	4,5	4,5	4,5	4,7	4,7	4,7	4,7
Croatia	183	158	125	100	114	146	98	157	89	67	62	82	6,7	6,8	6,7	6,4	6,4	6,4	6,4	6,5	6,3	6,3	6,3	6,3
Dominican Republic	333	321	283	275	292	348	305	371	318	334	358	366	4,9	4,9	4,8	4,8	4,8	4,8	4,8	4,8	4,7	4,7	4,7	4,8
Ecuador	669	706	606	459	544	761	622	826	592	580	677	684	5,2	5,1	5,1	5,2	5,2	5,1	5,1	5,0	5,0	5,0	5,0	5,0
Egypt	425	456	421	393	389	510	451	574	489	490	521	543	5,0	5,0	4,9	5,0	5,0	5,0	5,0	5,0	4,8	4,8	4,7	4,7
El Salvador	553	561	448	383	380	450	445	515	447	459	461	476	5,0	5,0	5,0	5,2	5,2	5,2	5,2	5,2	5,2	5,2	5,2	5,2
Gabon	486	478	473	377	388	597	458	632	513	483	516	542	4,3	4,4	4,5	4,5	4,5	4,5	4,5	4,5	4,8	4,8	4,8	4,8
Georgia	209	170	133	78	154	163	170	172	133	145	83	85	5,9	6,1	6,2	6,2	6,1	6,1	6,1	6,1	6,1	6,2	6,2	6,1
Ghana	638	543	456	354	337	526	468	660	554	563	617	642	4,7	4,8	4,8	4,9	4,9	4,9	4,8	4,8	4,7	4,7	4,8	4,7
Guatemala	200	200	204	184	193	233	199	272	233	268	254	269	4,3	4,1	4,0	3,8	4,0	4,1	4,4	4,1	4,3	4,2	4,4	4,6
Honduras	344	320	263	260	242	298	235	356	263	269	272	294	4,6	4,6	4,5	4,6	4,6	4,8	4,8	4,6	4,8	4,8	4,7	4,7
Hungary	137	124	91	86	112	146	111	149	118	91	100	114	6,6	6,7	6,6	6,4	6,3	6,3	6,1	6,0	5,7	5,8	5,8	5,8
Indonesia	175	180	155	152	170	199	165	211	176	167	165	171	4,3	4,4	4,4	4,5	4,5	4,5	4,4	4,3	4,4	4,4	4,4	4,4
Iraq	581	588	490	406	387	518	374	556	414	412	452	530	3,9	4,0	3,9	4,0	4,0	4,0	4,0	4,1	4,0	4,0	4,0	4,0
Jamaica	349	336	298	304	295	340	297	346	318	327	330	345	5,5	5,5	5,6	5,6	5,4	5,5	5,5	5,5	5,6	5,7	5,7	5,7
Jordan	356	354	370	385	382	446	406	486	418	418	429	446	5,4	5,5	5,4	5,4	5,3	5,2	5,3	5,3	5,5	5,5	5,4	5,4
Kazakhstan	196	209	178	154	167	183	131	182	160	138	148	162	5,5	5,6	5,5	5,3	5,3	5,3	5,3	5,4	5,3	5,4	5,4	5,4
Kenya	438	417	413	312	394	508	461	622	475	473	517	543	4,3	4,4	4,5	4,5	4,6	4,6	4,5	4,5	4,5	4,4	4,4	4,4
Lebanon	383	430	445	482	440	744	733	773	789	858	1.282	1.307	4,7	4,8	4,8	4,8	4,8	4,8	4,7	4,8	4,7	4,7	4,7	4,7
Lithuania	84	64	51	29	49	62	28	61	60	50	24	28	7,0	7,1	7,1	6,9	6,9	6,8	6,8	6,8	6,7	6,8	6,8	6,8
Malaysia	95	95	89	79	88	114	84	100	85	81	78	81	5,4	5,4	5,4	5,4	5,3	5,2	5,2	5,1	5,0	5,0	5,0	5,0
Mexico	191	186	166	183	183	203	176	240	204	200	208	213	4,8	4,8	4,6	4,6	4,7	4,6	4,6	4,7	4,6	4,6	4,7	4,8
Mongolia	448	462	397	317	322	408	304	422	298	309	355	366	5,1	5,1	5,1	5,3	5,3	5,3	5,3	5,2	5,4	5,4	5,4	5,4
Morocco	188	176	158	150	175	209	171	214	202	183	188	202	5,1	5,0	4,9	5,0	4,8	4,9	4,8	4,9	4,8	4,8	4,8	4,8
Mozambique	1.803	1.775	1.512	1.461	1.423	1.519	1.314	1.109	1.313	942	683	682	4,1	4,2	4,3	4,5	4,4	4,4	4,4	4,4	4,6	4,5	4,5	4,4
Namibia	258	231	247	224	243	337	281	410	329	283	306	337	5,0	5,1	5,1	5,4	5,3	5,3	5,3	5,0	5,2	5,2	5,2	5,2
Nigeria	443	428	416	393	401	506	443	610	483	501	531	566	3,5	3,7	3,7	3,9	3,9	3,9	3,9	3,8	3,9	3,9	3,8	3,8
Pakistan	348	317	324	375	440	582	408	525	423	420	474	494	3,0	3,3	3,3	3,6	3,6	3,6	3,5	3,6	3,5	3,5	3,5	3,5
Panama	150	150	120	113	131	149	116	167	132	125	128	133	6,0	5,9	5,9	6,0	5,9	5,9	5,9	5,9	5,9	5,9	5,9	5,9
Paraguay	241	225	211	200	218	245	214	260	222	212	237	248	5,3	5,4	5,5	5,7	5,6	5,7	5,7	5,6	5,4	5,4	5,4	5,4
Peru	147	147	122	116	138	145	113	144	110	105	111	112	5,0	5,1	5,1	5,1	5,0	5,0	5,0	4,9	4,8	4,8	4,8	4,8
Philippines	99	96	92	97	103	132	94	120	90	78	79	85	5,0	4,9	5,0	4,8	4,8	4,8	4,8	4,7	4,7	4,6	4,6	4,7
Poland	86	62	50	45	55	76	47	81	57	39	34	46	6,3	6,3	6,3	6,0	6,0	6,0	6,0	5,9	5,7	5,7	5,7	5,7
Romania	142	136	125	110	143	177	167	213	196	165	175	186	5,8	5,8	5,8	5,7	5,7	5,7	5,6	5,6	5,4	5,4	5,4	5,5
Russia	144	160	180	177	193	212	194	244	221	199	191	205	5,5	5,6	5,5	5,4	5,4	5,4	5,4	5,4	5,3	5,4	5,4	5,4
Senegal	355	347	322	289	369	470	409	515	431	448	456	476	4,8	4,8	4,8	4,9	4,9	4,9	4,9	4,9	4,9	4,9	4,9	4,9
Serbia	186	149	126	102	114	140	106	159	131	89	64	77	6,0	6,1	6,1	6,1	6,0	6,0	6,0	6,0	5,7	5,8	5,8	5,8
South Africa	237	253	243	235	234	294	272	320	293	269	317	330	5,0	5,2	5,2	5,0	5,0	4,9	5,2	4,9	4,9	4,8	5,0	4,9
Sri Lanka	352	348	285	272	328	429	369	536	421	477	530	550	5,0	5,1	5,2	5,2	5,3	5,3	5,2	5,3	5,2	5,2	5,2	5,1
Trinidad & Tobago	209	241	198	163	138	201	201	280	219	245	197	219	6,4	6,4	6,4	6,3	6,2	6,2	6,2	6,2	6,2	6,2	6,2	6,2
Turkey	314	293	286	292	325	414	427	427	491	477	465	477	5,1	5,1	5,1	5,2	5,2	5,2	5,2	5,2	5,0	5,0	5,0	5,0
Ukraine	649	572	466	456	446	607	554	773	632	507	517	524	5,2	5,3	5,3	5,3	5,3	5,4	5,3	5,2	5,0	5,0	5,0	5,1
Uruguay	209	193	165	146	168	200	156	207	170	172	177	183	7,1	7,1	7,0	6,9	6,8	6,9	7,0	7,0	6,9	6,9	6,9	7,0
Vietnam	207	167	138	119	157	196	132	198	149	161	113	135	4,3	4,4	4,6	4,6	4,5	4,5	4,5	4,4	4,3	4,3	4,3	4,3
Zambia	578	548	509	429	488	799	1.232	1.207	1.331	1.618	1.526	1.641	4,2	4,3	4,4	4,3	4,3	4,3	4,3	4,2	4,4	4,3	4,3	4,3
Slovakia	44	33	32	11	37	43	20	57	35	48	42	41	6,5	6,7	6,7	6,4	6,4	6,4	6,3	6,3	6,1	6,2	6,2	6,2
Cameroon	496	416	406	347	392	552	526	637	566	555	553	582	3,9	4,0	4,1	4,2	4,2	4,2	4,2	4,2	4,4	4,3	4,3	4,3
Ethiopia	500	460	389	337	331	421	323	485	390	381	400	438	3,9	4,0	4,1	4,1	4,1	4,1	4,0	3,9	4,0	4,0	3,9	3,9
Tunisia	408	423	393	344	385	522	496	646	625	537	653	674	5,6	5,7	5,7	5,7	5,5	5,5	5,5	5,5	5,4	5,4	5,4	5,4
Oman	259	293	280	291	341	375	305	475	422	456	425	454	5,5	5,6	5,5	5,6	5,6	5,5	5,6	5,6	5,8	5,9	5,9	5,9
Bahrain	378	425	416	408	221	521	367	396	337	369	343	359	5,4	5,6	5,5	5,5	5,5	5,5	5,5	5,4	5,9	5,8	5,9	5,9
Suriname	689	652	570	573	598	711	642	714	707	855	964	985	5,7	5,6	5,5	5,5	5,7	5,7	5,6	5,7	5,9	5,9	5,9	5,9

c. Engagement

Global Evolution wishes to help lift people out of poverty. However, it can be difficult identifying opportunities through an environmental, social or governance (ESG) framework where poor countries almost always score poorly. Our approach to this dilemma is one of positive engagement, choosing the carrot rather than the stick: we think engagement is a more valuable approach than isolation. We can pursue engagement directly, via ongoing individual relationships with governments whose bonds we purchase, or indirectly, via the community of like-minded EM investors and international financial institutions such as the IMF and World Bank. This section offers our philosophy on sovereign engagement and a couple of examples from our portfolio.

Our goal: Positive engagement with poor countries
As a company, Global Evolution wishes to do good. We are privileged to have significant investment capital at our disposal to help change the world for the better. We do this by lending money to governments in emerging market (EM) countries to build the physical and human infrastructure necessary to help lift millions of their citizens out of absolute poverty.

Yet most poor countries score badly on environmental, social or governance (ESG) measures. Should they be screened out and denied investment just because they are poor? Generally, we strongly favor engagement with poor countries rather than isolation. Throughout history, isolating a country has often led to disappointing outcomes, bringing harm to that country's citizens and creating greater tension with its neighbors.

There are governments who appear to have so little regard for their citizens' well-being that we choose not to work with them. But we believe most governments are worth engaging, to both improve their governance and encourage policies that are more environmentally sustainable and socially progressive. We want to help governments meet the basic needs of their poorest people.

Using access to steer policy for the better
We establish relationships with a government once we invest in its bonds. We have ongoing meetings with policymakers and wield some influence over policy in so far as we, along with the broader EM sovereign debt investor community, influence the price at which they raise debt.

We understand our investor community responsibility which is why we are active members of the Emerging Market Investor Alliance (EMIA).[9] The EMIA was created to help "institutional emerging market investors support good governance, promote sustainable development, and improve investment performance in the governments and companies in which they invest."

Global Evolution has a particular interest in one area of the EMIA's work: data transparency, which is very valuable to evaluating ESG criteria. Prior to an EM sovereign primary issuance roadshow, the EMIA produces a list of ESG issues (including data transparency) that is distributed to investors. It helps policymakers understand the value our investment community places on these issues.

We also participate in seminars connected to International Monetary Fund (IMF) and World Bank meetings at which investors, non-governmental organizations and other academic specialists engage with sovereign policymakers on ESG issues.

[9] https://www.eminvestorsalliance.org/

Frontier local bond market specialists

Another area of active engagement with poor country governments is the development of frontier local currency bond markets, which are hugely important to a nation's broader economic development. They enable governments to mobilize non-tax savings, fund investment without the currency risk associated with hard currency borrowing and provide a key monetary policy transmission mechanism. Global Evolution is one of the very few investors willing to be first movers in embryonic local bond markets, and policymakers often wish to draw on our extensive experience in this arena.

Examples of positive engagement

Global Evolution's positive engagement with governments can take a variety of forms. Following are four examples that demonstrate the many ways we work with countries to help bring about positive outcomes.

1) Georgia: Leveraging a broad advisory role

In late January 2020, we met with Georgian policymakers in London promoting their local bond market. As the largest existing foreign holder of their local debt, we were invited to engage in very frank discussions about their plans for a primary dealership system (and the advantages of opening this to foreign banks), issuance sizes, benchmarking and tapping, pension system developments, tax treatment and the merits of using ClearStream or Euroclear.

While this topic may seem unrelated to ESG, it is the type of engagement through which a relationship is built, allowing us to gain influence on other policy areas (e.g., ESG) as the government's vested "advisor." Engagement with Georgia has led to solid improvements in business indicators promoting economy and society-wide developments in the S and G areas. Our ESG and sustainable development goals (SDG) ratings for Georgia also indicate solid improvement over recent years (see Appendix).

2) Pakistan: Addressing capital-gains tax policy

In 2019, we met on several occasions with Pakistan's policymakers as they attempted to attract foreign investors into their local market. We discussed how the country's capital-gains tax treatment made this almost impossible for foreign investors, and in early January 2020 the authorities simplified the country's tax structure.

This experience is helping us form a long-standing and trusting relationship with the government so that we may gain future opportunities to influence and promote ESG policy.

3) Zimbabwe: Promoting prudent governance

Zimbabwe's Mugabe government borrowed heavily in the 1980s and 1990s to deliver the best healthcare and education system in Africa. While it helped drive very strong social indicators, the nation's debt became unsustainable and fostered 20 years of crisis economic management from which Zimbabwe is still trying to emerge.
Finding appropriate economic policy to deliver longer-term sustainable growth is what most policymakers and investors are looking for, and frank and open dialogue on how to achieve this is helpful. This is a case where our direct engagement (visiting the country in March 2019) to promote prudent governance has still not been fruitful and our efforts must continue.

Our ESG data on Zimbabwe is completely flat on several governance indicators but is strongly improving on human rights, freedom of speech and association, and the degree of democracy. Our ESG and SDG ratings are improving. However, continued engagement is required to promote and sustain the progress achieved so far.

4) Uzbekistan: Encouraging broad-based reform

After the death of long-term President Karimov in 2016, Uzbekistan has focused on transforming the state-dominated economy into one that is more open, liberal and market-friendly. Our due-diligence trip there in April 2019 helped us see that the reform progress has been very successful and could propel the country into an investment-grade sovereign rating within five to seven years. It is breathtaking how quickly the new president has turned the country into a laboratory of change focused on economic liberalization, greater openness and increased entrepreneurship.
The wide-ranging institutional, economic and social reforms are being guided by President Mirziyoyev's development strategy for 2017-2021, with the aim of improving governance, rule of law and the business environment. Our engagement with country authorities likely influenced reform and we aim to continue engaging and promoting the importance of broad-based socioeconomic developments, with inclusive growth and prudent incentives at the government level.

d. Engagement on the ground

Furthermore, through 20-25 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. This is partly related to our "direct engagement" with policy makers in the countries in which we invest. We furthermore participated in the World Bank/IMF Spring Meetings in April 2018 with several members of our investment team. This is partly related to our "indirect engagement" with policy makers in the countries in which we invest.

e. ESG dissemination and conference participation
Ole Jorgensen, Research Director, speaks at a number of conferences regarding integrating ESG into the investment process. Notably, in the USA, Asia, and Latin America during 2019. He spoke at several other international conferences (internal and external) with institutional clients mainly in Europe.

5. 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 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.

6. 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 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,
Ole Jorgensen
Research Director, Global Evolution

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