UNITED NATIONS GLOBAL COMPACT

COMMUNICATION ON PROGRESS

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GlobalEvolution

UN GLOBAL COMPACT
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Contents

1. INTRODUCTION

Global Evolution Fondsmæglerselskab A/S (including its subsidiaries, hereafter "Global Evolution") is committed to promote sustainability through prosperous socio-economic developments and diminishing environmental impacts. The purpose is to conserve our planet for future generations by ensuring a sustainable ecosystem, society, and economy.

United Nations Global Compact ("UNGC") is 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. Global Evolution is a signatory of UNGC, and we are pleased to reaffirm our continued support for the UNGC, and we hereby renew our ongoing commitment to the initiative and its ten principles.

Global Evolution is furthermore a signatory of the Principles for Responsible Investment ("PRI"), and we support and endorse the recommendations of the Task Force for Climate-related Financial Disclosures ("TCFD") against which we annually report our climate-related action plans and perspectives on how climate change scenarios affect risk in emerging and frontier market sovereign and corporate debt investing. We aim for carbon neutrality. Our pledge is driven by inspiration by the Paris Agreement and by support for combatting extensive climate change in the world. We will offset the emission coming from our business travels and other activities, and our goal is to be a leader among asset managers in emerging market debt investing.

The sections below substantiate our continued support over several years to the UNGC the practical actions to implement the UNGC principles; our measurements of outcomes; and how we are communicating and engaging with stakeholders on progress.

2. IMPLEMENTING UNGC PRINCIPLES

Our mission is to generate attractive returns for our investors whilst contributing to sustainability in the countries and companies where we invest. The promotion of sustainability has the potential to increase the resilience of the real economy and the stability of the financial system. This is relevant to our business, our investors, and other stakeholders since such dynamics may impact the risk-return of our financial products. 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.

Integrating sustainability risks into an investment process require in our opinion five key pillars: *Philosophy; Identification; Assessment; Integration; and Reporting*. We aim to use our influence to be positively impactful and in the best interest of our investors engage with emerging market issuers to promote greater transparency on ESG issues and encourage development. We do this by lending money to governments and companies in emerging markets to build the physical and human infrastructure necessary to help lift millions of their citizens out of absolute poverty and address sustainability issues.

Identifying sustainability risks across the environmental, social, and governance areas requires both a quantitative and qualitative approach. Our quantitative approach involves subscribing to raw data sets for E, S, and G indicators that we bring alive through our proprietary database to systematically monitor the data. The qualitative identification of sustainability risk emerges from on-the-ground due diligence visits to the countries in the emerging markets universe where we conduct an in-depth due diligence including relevant ESG related issues, which are subsequently discussed and documented.

Based on quantitatively and qualitatively derived data on sustainability risk, we aggregate our views as proprietary ESG rating across all countries. The ESG ratings are re-estimated quarterly and shared with investors per request. Importantly, changes in ESG ratings and the identification of the drivers is the basis of our sustainability risk assessments; of whether a country faces higher or lower sustainability risk profiles. The ESG ratings inform our investment process and serve as ongoing input to our quantitative valuation models. The ESG scores are utilized for the negative screening process whereby we exclude certain countries from our investable universe.

By integrating fundamental macroeconomic, financial and ESG factors directly into our valuation models, we estimate signals for valuations of sovereign bond spreads. These valuation models are based on econometrics across the relevant emerging and frontier markets universe and then compare the fundamental fair value of the credit spreads with actual market levels. The models simulate valuation signals as well as their statistical significance. Consequently, the material impact of sustainability risk indicators will feed through directly to the estimated valuation signals that are considered together with other quantitative and qualitative signals as part of our investment process.

Our proprietary credit rating model furthermore estimates high-frequency credit ratings and takes advantage of the dynamics of the fundamentals estimated in the valuation models, including macroeconomic, financial and ESG factors. Such high-frequency dynamics are applied to adjust the official and low-frequency credit ratings provided by e.g., S&P and Moody's. Consequently, the proprietary methodology provides indications of credit rating upgrades/downgrades that are not captured in the official credit ratings.

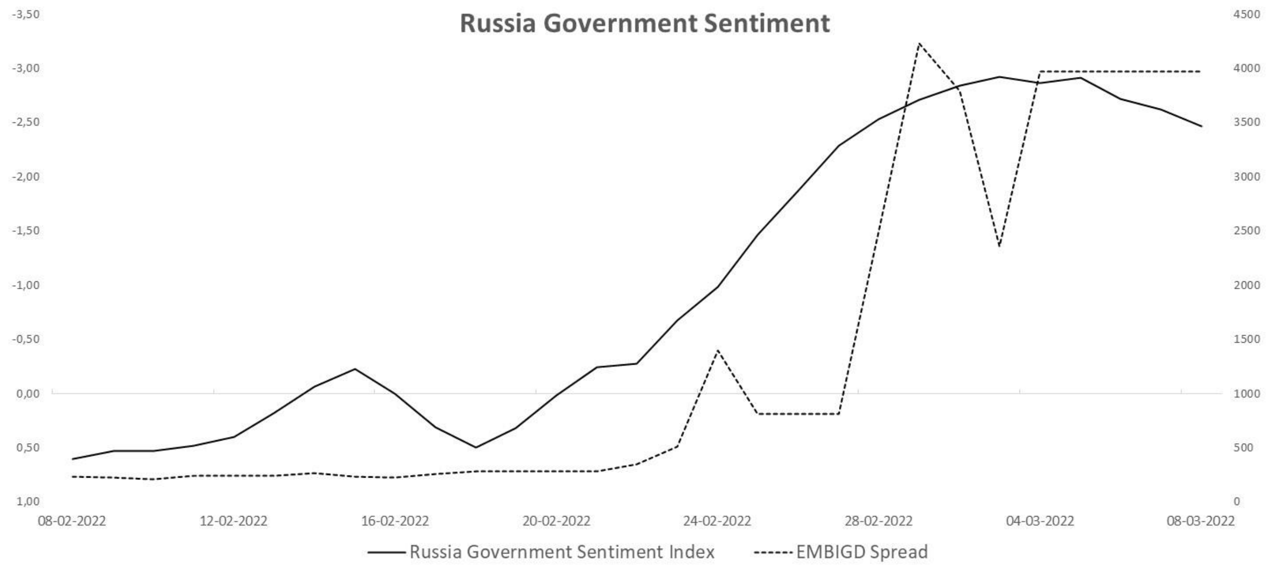
There is a clear correlation between the sovereign funding costs and ESG dynamics, with governance and human capital accumulation (under the "S" in ESG), unsurprisingly, the most prevalent. Consequently, by not integrating ESG dynamics into investment decisions, investors would sacrifice essential information. We recognize the importance of ESG considerations for investors globally and continue to help our investors achieve their individual ESG goals. Below we communicate our progress against implementation of the UNGC principles.

2.1. Global Evolution Sentiment Analytics

Market sentiment about E, S, and G indicators have been extremely difficult to observe and quantify, so information for some 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 accessible format. To achieve this, we use Natural Language Processing (NLP) which is a subfield of Artificial Intelligence (AI).

The following illustrates our government sentiment index (representing the G in ESG) for Russia and how the sovereign bonds sold off as the invasion into Ukraine erupted; clearly the sentiment in the market is correlated with the prices of what we invest in, and we can learn a lot from these sentiment indices to inform our investment process.

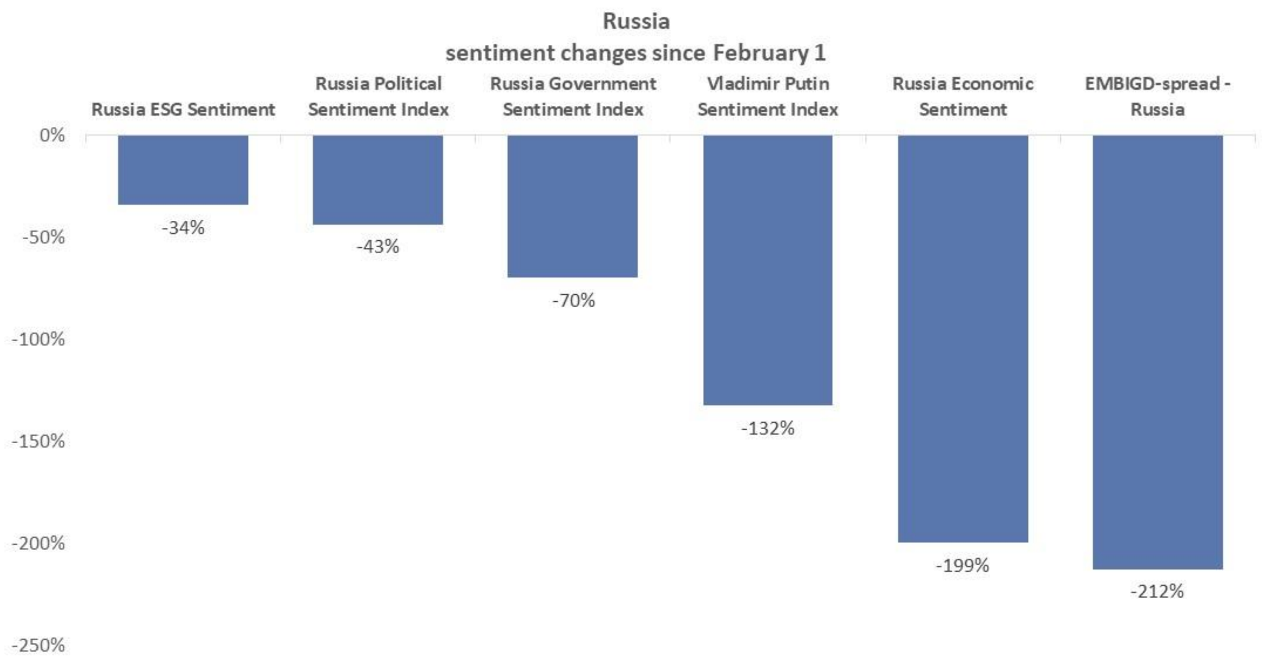
Figure 1. Government Sentiment in Russia



Source: Global Evolution estimates, proprietary data, based on Ravenpack raw data, and J.P. Morgan for bond spreads

Furthermore, our sentiment indices for ESG that move high-frequently are also spiking in the context of Russia, as indicated by Figure 2. Also, the political sentiment as well as the sentiment towards the political leader in Russia is spiking over the period covered, and so is the economic sentiment. Consequently, and as indicated by the figures related to Russia, the potential of sentiment analytics for ESG integration is expected to be very large.

Figure 2. Political regime dynamics in Turkey



Source: Global Evolution estimates, proprietary data, based on Ravenpack raw data

Our strategic development of ESG sentiment indices has the potential in many situations to be a leading indicator and be valuable for our investment process. Due to three coinciding factors, and effective on March 1, 2022, our ESG Integration Committee conditionally exclude Russia and Belarus from any additional investments.

- First, the transparency and trust in social and governance related ESG data has been compromised for Russia and Belarus, as part of the invasion and war against Ukraine. Consequently, ESG data on Russia cannot currently in a trustworthy manner support our investment process as the developments in Russia, Ukraine and Belarus are not appropriately reflected in ESG numbers yet.
- Secondly, international, and bilateral sanctions of various forms have been put in place against Russia and Belarus, and we integrate such sanctions into our exclusion process. Consequently, we do not continuously invest in countries that experience such sanctions.
- Third, our ethical approach to investing in emerging and frontier markets is not compatible with financing through sovereign bonds the operations of countries that maliciously invade other sovereign nations as is the case for Russia’s war against Ukraine. Consequently, we conditionally exclude Russia and Belarus from additional investments.

As part of our systematic process, we monitor international and bilateral sanctions in our investable universe. The obligations we uphold requires adjustments to our investable universe immediately as this situation change. The extreme geopolitical events related to the invasion into Ukraine by Russia, and the link with Belarus, has led to sanctions of various forms combined with full-blown war. The leadership in Russia by President Vladimir Putin overrules conventional measures of governance and social conflicts to an extent that such invasion-related dynamics are not captured to a sufficient extent by quantitative ESG data. Our ESG process has always relied on a qualitative assessment of ESG related risks and opportunities in emerging markets supported by nuanced ESG data.

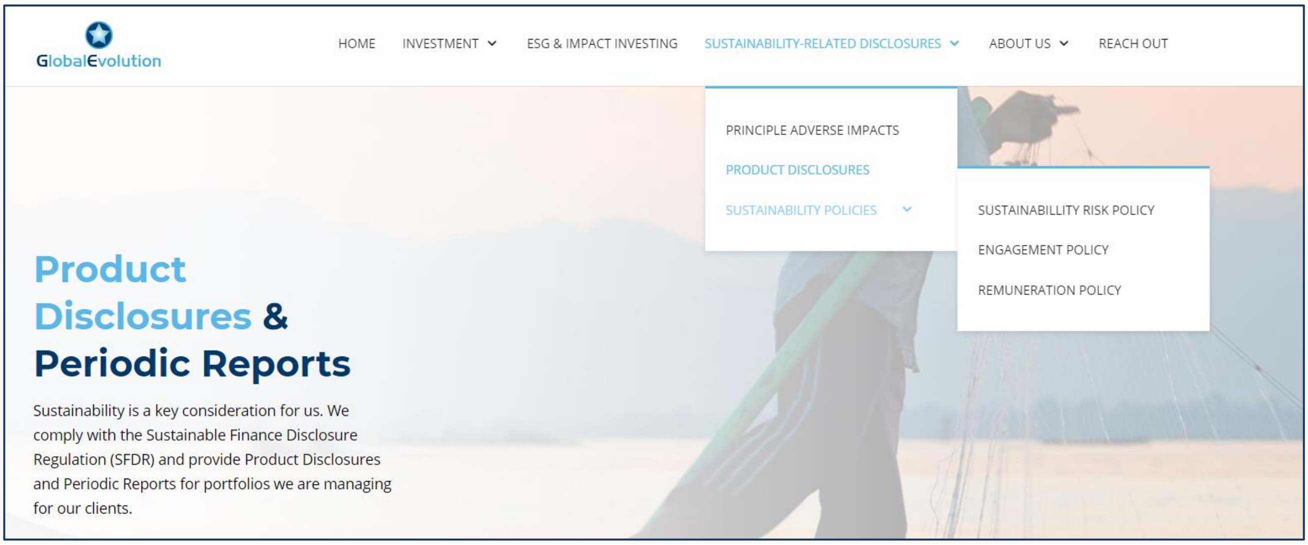
Since ESG data is not capturing the current extremeness of events, our qualitative assessment is that the autocratship in Russia has led to such extreme geopolitical outcomes that governance and social outcomes are not sufficiently transparent and trustworthy that we are comfortable having Russia and Belarus as part of our investable universe. As we have positions in the two countries at the time of writing, proper due diligence and coordination with clients is necessary to manage existing exposure, but effective immediately Russia and Belarus are conditionally excluded from any additional investments across all strategies and funds at Global Evolution. We will monitor the situation extensively before potentially lifting such exclusions with solid documentation in the future. The conditional nature of the exclusion is in place while the situation normalizes and until sufficient trust and transparency with ESG data is restored.

2.2. Complying with the Sustainability Finance Disclosure Regulation

With the introduction of the new EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector, also known as the Sustainable Finance Disclosure Regulation (“SFDR”), we now have a way to ensure our investors that sustainability is genuinely integrated when communicated. In last year’s report, we introduced the steps we took to comply with the SFDR and report against the EU action plan.

The regulation applies to financial market participants and aims to reduce information asymmetries between investors and financial markets participants with regards to the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social characteristics, and sustainable investment, by requiring financial market participants to make pre-contractual and ongoing disclosures to end investors.

Figure 3. Complying with the Sustainability Finance Disclosure Regulation



Source: Global Evolution website: www.globalevolution.com

Global Evolution embraces the SFDR (Figure 3), and we believe that it will undoubtedly change the way financial markets participants will promote sustainability in the future.[1] As part of realizing the promotion of sustainability through our investment process, we follow and comply with the SFDR in order to ensure transparency with regard to the integration of sustainability risks. We also consider the principal adverse impacts of our investments on sustainability and relay the necessary sustainability-related information with respect to our financial products and investment process.

2.3. Climate change and Task Force on Climate-related Financial Disclosures

The World is headed for much higher temperature increases than is desirable and has the potential to seriously damage our planet to the detriment of all mankind[2]. Therefore, Global Evolution is on journey with the rest of the World towards lower greenhouse gas (GHG) emissions and the adoption of new technologies that make industries and the sources of GHG emission more efficient. The purpose is to

[1] In compliance with the SFDR, we committed to providing our investors with the required sustainability-related disclosures on our website www.globalevolution.com.

[2] United Nations Environment Programme (UNEP), Emission Gap Report (2020).

conserve our planet for future generations to ensure a sustainable ecosystem, society, and economy for our children.[3]

Having integrated environmental issues and dynamics into our investment process for many years, Global Evolution welcomes and supports the new initiative Task Force on Climate-Related Financial Disclosures (TCFD). In 2021 we submitted our first annual TCFD report, disclosing information about our take on the risks and opportunities presented by climate change as well as our approach to managing these.

Later this year we will also release our 2022 TCFD report, where our approach to integrate carbon and climate-related concerns take a multi-pillared approach inspired by the TCFD thematic areas of organizational activity:

- *First*, our corporate governance structure will ensure oversight in management processes.
- *Second*, our strategies will be informed by climate-related concerns.
- *Third*, managing risks climate-related risks will be essential to protect our client's portfolios and our company while promoting sustainability in emerging markets.
- *Fourth*, keeping our strategies fact-based and measurable, metrics and targets will be experimented with to inform our processes.
- *Fifth*, by systematically integrating climate-related factors into our investment process, we will strive to directly measure and track and disclose the carbon footprint of our portfolios transparently to our stakeholders and clients.

We continuously monitor and evaluate physical and transition risks affecting our asset class. We recognize that individual countries face different climate-related challenges and opportunities: Some countries are more commodity dependent so they will need to adjust more, and some countries are more vulnerable to climate change so they must build resilience.

Limiting carbon emission is key, and we find an interesting correlation that a 1% reduction in CO2 emission will lead to approx. 1% increase in sovereign bond spreads. To reach the target of 1.5^o temperature increase, we find that countries would be likely to face a modest 20 basis points spread widening per year until 2030 which is statistically insignificant compared to normal market volatility. However, CO_2 emission may not fall in EM since such countries may take a different path compared to advanced economies as industrialization and development gains traction.

It is worth noting that carbon emission reductions for EM countries are subject to debate in the international community. Since most CO_2 is emitted from advanced economies, and since high income countries have built their wealth partly on polluting when they industrialize, there is a fairness argument for allowing EM countries to reduce carbon emission at a lower rate than industrialized countries. Consequently, one could argue that targets for carbon emission by 2030 for EM countries should be unchanged emission levels compared to current emission. However, this would require high income countries to reduce CO2 emission by 27% and 58% respectively to reach the $1\text{-}5^o$ to 2.0^o temperature target above preindustrial levels.

[3] https://www.globalevolution.com/impact-investing/

We take a fact-based and nuanced approach by relying on multiple metrics for monitoring carbon footprint of the portfolios we manage. We continuously track how our portfolios score in terms of carbon footprint and benchmark against public funds. Almost all our portfolios outperform their benchmark in terms of carbon footprint. Typically, this is explained by our portfolios are leaning in the frontier direction to a higher extent than their benchmarks, and because frontier economies typically have lower CO_2 consumption and production than the average EM country.

Our five strategies, Hard Currency Debt, Local Currency Debt, Blended Debt, Frontier Market Debt, and EM Debt and FX all outperform their respective benchmarks. The corporate debt strategies we manage are currently not yet covered by our carbon emission monitoring, but we expect to commence this monitoring during this year.

We will be adopting and implementing the TCFD recommendations gradually in the speed necessary to uphold our fiduciary duties and while learning what is most important to navigate towards in this rapidly evolving and relatively new, business area.[4]

2.4. Engagement

Global Evolution is committed to leaving a legacy of impact investing, which assists in the process of lifting nations out of poverty. Our approach is one of positive engagement, choosing the carrot rather than the stick: We believe engagement is a more valuable approach to encourage emerging market issuers to act in the most beneficial way to improve environmental, social or governance (“ESG”) issues.

Sovereign engagement: Through relationships and ongoing meetings with policy makers we aim to wield influence over policy in so far as we, along with the broader EM sovereign debt investor community, influence the conditions at which they raise debt. Our engagement with policy makers is divided into four settings: direct engagement individually, direct engagement as part of an investor group, indirect engagement via a third-party advocacy group such as the Emerging Market Investor Alliance or indirect engagement with official sector institutions, such as the IMF or the World Bank.

Corporate engagement: The integration of ESG-related criteria in the assessment of companies aims to enhance our ability to identify likely outperformers and underperformers in each of the sectors. We believe that well-governed companies are more likely to provide better results over the long term. As part of our commitment to positively impact the companies, we are fully committed to encouraging companies to improve their management of ESG issues. Our engagement with companies can be divided into three settings: direct engagement in small meetings (individually or as part of a small group), direct engagement in a public forum, and indirect engagement via intermediaries such as our corporate ESG data provider Sustainalytics.

2.5. ESG integration efforts for corporate debt

As part of our strategies in emerging and frontier market corporate debt, we are embarking on a journey to integrate ESG from a highly advanced quantitative perspective. We expect that our sovereign expertise in ESG will inform to a high extent from a top-down perspective our corporate ESG

[4] The TCFD report is available on our website: https://www.globalevolution.com/sustainability-related-disclosures

integration. The qualitative perspective is still critical, and our team is well-equipped to conduct such due analytical work as part of credit risk analysis.

The approach expected to take from a quantitative angle will involve data from prominent providers—integrating importantly both *internal* corporate information (self-reporting by companies captured in "traditional" ESG rating) and *external* corporate information (AI-extracted information using natural language processing (NLP) for companies captured in "innovative" ESG indices). These efforts have been extended over the past year.

2.6. Corporate diversity, equity, and inclusion (DEI) initiative

Are we on the right track; what can we do better? That was the key question in the context of the diversity, equity, and inclusion (DEI) issues that may arise as part of our rapid corporate growth. This internal DEI efforts can be categorized as an element of internal ESG efforts that we believe will further enable each individual colleague to bring their "whole selves to work" in an increasing satisfactory manner, and furthermore increase productivity and the quality of decisions made in the company. We have launched an internal council to reflect and advise on DEI issues such as

- giving fair opportunity for recognition, reward, and advancement for all (equitable treatment),
- being a place where everyone feels welcome and empowered to express their unique identities and to have the opportunity to contribute their full potential (inclusiveness),
- through building a diverse team across race, ethnicity, gender, gender identity, sexual orientation, age, socio-economic status, and religious beliefs (diversity)?

Issues under the umbrella of recruiting, organizational climate, communication internally and externally, training and development, and performance management and accountability are topics of discussion and reflection in the council).

2.9. 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 their 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.

2.10. 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. 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 stress the significance of our dedication to the Global Compact principles reflected in our choice of ESG factors in our proprietary modeling. 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,

Morten Bugge	Ole Jorgensen
Founder, CEO, and CIO, Global Evolution	Research Director, Global Evolution

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