SUSTAINABILITY RISK POLICY

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Function(s): Investment Management
Responsible: Chief Investment Officer
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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.

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.

Integrating sustainability risks into an investment process require in our opinion five key pillars: Philosophy; Identification; Assessment; Integration; and Reporting. This policy provides an elaboration of our approach.

2 LEGAL BASIS

As part of realizing the promotion of sustainability through our investment process, we follow and comply with the EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (“SFDR”) in order to ensure transparency with regard to the integration of sustainability risks. We consider also 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.

In accordance with SFDR article 2(22) we perceive sustainability risk as an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment.

3 SUPPORT

Global Evolution is a signatory of the United Nations Global Compact (“UNGC”); a strategic policy initiative for companies and non-businesses committed to aligning their operations and strategies with the ten principles in the areas of Human Rights, Labor, Environment and Anti-Corruption. We continuously support the UN Global Compact through our implementation of the principles and focus on outcomes by integrating sustainability indicators as well as by communicating and engaging with stakeholders on progress achieved. Furthermore, our activities relating to environmental, social, and governance factors shall be characterized by credibility, consistency, and commitment.

Global Evolution is furthermore a signatory of the Principles for Responsible Investment (“PRI”); a strategic policy initiative for businesses committed to aligning their operations and strategies with six principles for responsible investment supported by the United Nations.

In addition, 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.

4 SUSTAINABILITY RISK PHILOSOPHY

We wish 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 market to build the physical and human infrastructure necessary to help lift millions of their citizens out of absolute poverty and address Environmental, Social and Governance (“ESG”) issues.

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 ESG issues rather than leaving countries in isolation.

Global Evolution have considered ESG factors in our investment process through many years. The systematic integration of environmental, social and governance characteristics and level of sophistication have constantly improved and the continued development is considered to be fundamental to our investment process.

The literature on economic development indicates that countries coming from lower levels of development may emit increasing amounts of greenhouse gasses (“GHG”) as part of the development process towards higher living standards\(^1\). But as their industrialization process matures, carbon emission is driven by a more efficient use of technologies, i.e., countries develop their industries and produce the same output but with less GHG emission per unit produced so “carbon efficiency” improves along the development path\(^2\). This supports the theoretical and empirical background for our approach to investing in emerging and frontier markets with a sustainability perspective.

5 SUSTAINABILITY RISK IDENTIFICATION

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 in order to systematically monitor the data.

Another aspect of our review and identification of sustainability risk is to monitor news and media thoroughly both in-person and through the application of algorithms. We utilize a proprietary AI-driven quantitative approach to high-frequency tracking of sustainability-related news and the market sentiment by using natural language processing (“NLP”) to identify market sentiment towards a specific sustainability theme. The quantitative AI-driven approach constitutes a very promising path to extract unique and innovative high-frequency information on sustainability risk factors.

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.

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2 This is also described as the Environmental Kuznets’ relationship. Cleveland, et. al. (2001), The Economics of Nature and the Nature of Economics, Advances in Ecological Economics, International Society for Ecological Economics, Edward Elgar.
6 SUSTAINABILITY RISK ASSESSMENT

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 published quarterly and shared with investors as requested. 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 dynamics.

The ESG ratings are optimized through simulations of the variables and weightings by including indicators with substantial influence on the sustainable economic and socio-economic development of countries. The ESG ratings inform our investment process and serve as ongoing input to our quantitative valuation and credit rating models. The ESG scores are utilized for the negative screening process whereby we exclude certain countries from our investable universe.

7 SUSTAINABILITY RISK INTEGRATION

By integrating fundamental macroeconomic, financial and ESG factors directly into our valuation models, we estimate signals for valuations of credit spreads, rates and currencies.

The valuation models are based on machine learning algorithms as well as linear regression econometrics across the relevant emerging and frontier markets universe and then compare the fundamental fair value of the credit spreads, rates and currencies 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 and estimate ratings for non-rated countries. Consequently, the proprietary methodology provides indications of credit rating upgrades/downgrades that are not captured in the official credit ratings.

8 SUSTAINABILITY RISK REPORTING

We track all portfolios and strategies from an ESG standpoint and facilitate risk reports that provide a qualitatively assessment of the effects of sustainability risk.

9 REVIEW AND APPROVAL OF THIS POLICY

This policy is approved by the Board of Directors and must be reviewed as and when required, but at least on an annual basis. A new version of the policy will only be issued, if the review determines that changes are required.

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Woody Bradford  
Chair of the Board  
On behalf of: Global Evolution Fondsmæglerselskab A/S…  
Serial number: woody.bradford@conning.com  
IP: 66.30.xxx.xxx  
2021-03-06 19:11:40Z  
NEM ID 

Jung Won Lee  
Board member  
On behalf of: Global Evolution Fondsmæglerselskab A/S…  
Serial number: jung.lee@conning.com  
IP: 173.76.xxx.xxx  
2021-03-06 23:43:12Z  
NEM ID

Søren Rump  
Board member  
On behalf of: Global Evolution Fondsmæglerselskab A/S…  
Serial number: PID:9208-2002-2-97388876217  
IP: 20.50.xxx.xxx  
2021-03-07 10:12:06Z  
NEM ID

Hans-Christian Ohrt  
Vice-chair of the Board  
On behalf of: Global Evolution Fondsmæglerselskab A/S…  
Serial number: PID:9208-2002-2-321080698297  
IP: 80.197.xxx.xxx  
2021-03-08 09:10:16Z  
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