



Tundra Sustainable Frontier Fund

Quarterly Sustainability Report

Q1 2016

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INTRODUCTION

In this first quarterly report in 2016 the focus is on water, given its versatile impact on business at all levels globally. Here, we mainly concentrate on aspects of water that are relevant to our largest markets. Further, we briefly report on the evaluation of water issues concerning the companies included in our Sustainable Frontier Fund. A separate in-depth article on the findings from the background research on water in relation to frontier markets will be published later this year.

On World Water Day, the 22nd of March, Tundra was invited to give a presentation at a Swedish seminar on the topic "Water for sustainable growth". The event's organisers were the *Stockholm International Water Institute (SIWI)*, *Swedish Leadership for Sustainable Development (Sida)*, *Swesif*, (Independent association for sustainable investments) and the non-governmental organisation *WaterAid*. The aim of the gathering was to highlight the importance of water in different sectors. Per Bolund, Minister for Financial Markets and Consumer Affairs, presented views on water from a Swedish perspective, followed by a report on sustainable growth and the value of ecosystems by Associate Professor Thomas Hahn, from Stockholm Resilience Centre. Representatives from CDP Water Program and OECD Environment Directorate presented corporate and risk aspects from a financial perspective. In conclusion; water is best described as one of the most crucial factors both in the context of global economic growth and development - and in the larger perspective - to reach the Sustainable Development Goals (*see Appendix I*).

The presentation by Tundra's ESG Researcher *Jennie Ahrén* and portfolio manager *Johan Elmquist* focused on two particularly important countries from our portfolios; Sri Lanka and Pakistan: "Challenges concerning water on the Frontier markets". About 130 persons were present during the day, and nearly 50 of them attended the breakout session with the theme "The financial sector's perspectives on water as a risk and as an opportunity", arranged by Emma Sjöström (NUWA). Together with the third and fourth Swedish National Pension Fund and SPP Funds, Tundra also participated in the panel that ended the session. One common conclusion was that when it comes to sustainability in finance; there are other areas, such as carbon footprint, that has received much more attention than water issues. This calls for a change in the immediate future.

"Water is the driving force of all nature"
Leonardo da Vinci (1452-1519)

It might be interesting to learn that Leonardo da Vinci recently was described as one of the first hydrologists in history. As the citation above concludes - water is essential to all life on earth. Water is also one of the driving forces behind most industries. Agriculture, mining and textile are examples of areas that utilise large volumes of water, especially in developing countries. Water is also central to nutrition worldwide. In developing countries, the access to fresh water is limited. This also applies to disposable water for hygiene and other use. The United Nations estimates that about 2.5 billion people lack adequate sanitation in the world. Every year more than 800 000 children under the age of 5 die from diarrhoea, as a direct consequence of poor sanitation and hygiene. Water is also a question of gender equality; girls and young women are often responsible for collecting water in regions where poverty reigns. When water stations are installed closer to their homes, they get the chance to go to increase their presence in school.

It is fair to say that there are detrimental differences between countries when it comes to water access, the situation represents a fundamental injustice and constitutes one of the major environmental challenges.



Tundra presenting on World Water Day, at Grand Hôtel, Stockholm. Jennie Ahrén & Johan Elmquist.

CURRENT PORTFOLIO

At the end of the first quarter of 2016, there were 41 companies in the Sustainability fund. One holding, YPF (Argentinian energy sector) was sold during the quarter, not because of ESG violations, but due to financial considerations. Two companies were added in the quarter after being approved by the external ESG advisor (ISS-Ethix) and our internal research teams.

Adamjee Insurance Co. Ltd., *Pakistan*

The company operations involve property, casualty and life insurance. The following sustainable initiatives stand out: **Certification:** Adamjee Insurance is accredited with ISO 9001:2008 Quality Management System certification. Has won "Consumers Choice Award 2013" under the Best General Insurance Company category. **Community Building:** The company's CSR program has helped communities affected by the floods in 2011 and 2010.

Cargills (Ceylon) Plc, *Sri Lanka*

The company's operations include food retail, restaurant franchises, agribusiness and distribution. According to ISS-Ethix, the sale of tobacco and alcohol products constitutes a negligible or less than 5% of the company's total revenue. According to its Sustainability Report 2015, Cargills' sustainability measures include curtailing environmental impacts throughout their operations. Accordingly, all manufacturing facilities set annual targets and objectives to reduce consumption of water and energy along with proper waste management. Due to their post-harvest technologies, the waste within its supply chain is estimated by the company to be between 3-4% (as opposed to the 30% nationally).

Certifications: Cargill's food processing and manufacturing plants are accredited with ISO 9001:2000 for Quality Management, ISO 14001:2004 for Environment Management and ISO 22000:2005 for Food Safety Management along with Sri Lanka Standards (national guidelines for quality improvement). **Employee development, diversity & opportunity:** Through its non-profit institute of Food Business, Cargills provides trainings for young men and women, especially from the rural areas, who lack the basic skills to gain employment in the private sector. The company also has set policies for health and safety, human rights and child-labour, non-discrimination and anti-corruption to name a few.

Sustainable Agribusiness: The company initiated a system in 2008 where the company returned 50 cents for each kilo of vegetables purchased in several of its centers. That collection has now become a sizable fund (over Rs10million/USD69,000) that is used to provide scholarships for children in need and for other community infrastructure needs. The company also educates the farmer community and has trained more than 300 farmers in enhanced agriculture techniques.

Excluded Companies

Our screening process includes a thorough research of companies including any actual or potential ESG issues that it may face. This involves monitoring top news sources, company websites and a comparative analysis of its competitors in order to gauge an industry benchmark along with monitoring industry-specific risks or threats. No companies were excluded during the first quarter.



*Vegetables and fruits at Arpico and Cargills, Sri Lanka.
Photo: Tundra*

ENGAGEMENT

Contact with NGOs

During this time period we have been in contact with the following NGOs.

- **Pakistan**
Hope NGO
Muslim Aid
Pakistan Council of Research in Water Resources
- **Sri Lanka**
Paffrel
Diakonia
Law and Society Trust – LST
Centre for Environmental Justice
- **Bangladesh**
Bangladesh Wash Alliance
Water Aid Bangladesh
NGO Forum for Drinking Water Supply & Sanitations
- **Sweden**
Diakonia

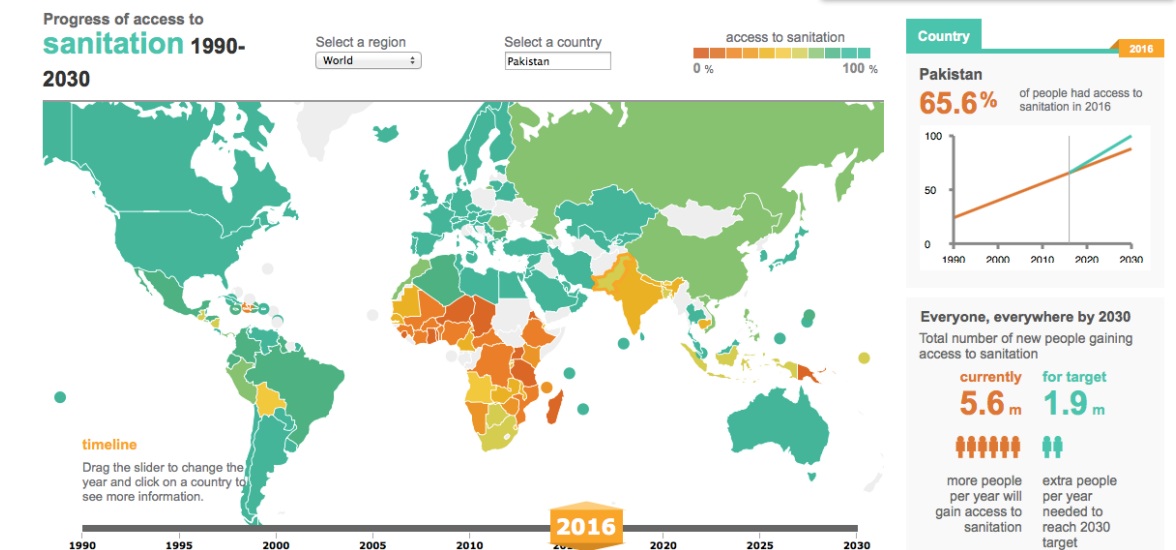
Pakistan

The situation concerning water sanitation in Pakistan is alarming, as shown below in the WASH-map (a tool developed by the organisation WaterAid, to show the access to clean water, sanitation and hygiene globally). Only about 66% of Pakistan's population has access to proper sanitation. The most problematic sectors in the country when it comes to water are listed as tanneries (untreated waste from 170 tanneries is disposed into the Karachi sea), animal waste, inadequate waste disposal (City Government of Karachi disposes 3 tons of waste in the sea on a daily basis), pharmaceutical industry, flour and oil/ghee mills, steel melting furnaces, marble factories and plastic extrusion mills. Around 10.5% of the fund's holdings are in these sectors (5% pharmaceuticals and 5.5% textiles).

Short facts

Capital: Islamabad
Population: 188 000 000
Area: 796 095 km²
Adequate sanitation: 65.6%
Safe water: 91.2%
Life expectancy (yrs):
 Females: 67.4/ Males: 65.6
Trivia: Pakistan means "the Land of the Pure" in Urdu

Source: World Bank, WaterAid



The WASH-map of Pakistan. Source: WaterAid

Water reports from companies

Avanceon Ltd (1.4% of portfolio)

One of the company's products is aimed at providing innovative solutions for improvement of the water distribution process by designing an automated system that efficiently treats and disposes waste water.

Nishat Mills Ltd. (3.2% of portfolio)

The company is engaged in waste management and has installed water treatment plants, cotton recycling plants and oil recycling machines at different sites to recycle the water, waste cloth and oil in order to save resources where possible.

Nishat Chunian Ltd. (1.6% of portfolio)

The company states that it aims to reduce adverse impact caused to the environment by recycling the caustic material used in fabric processing. This process reduces the emission of pollutants in waste water and saves cost of chemicals, water and energy through the recovery of hot water. The company has also set up a water effluent plant for its dyeing/printing unit which recycles the water to reduce the load of the waste into the drainage system.

K-Electric Ltd. (2.1% of portfolio)

According to the company, the Landhi Cattle Colony (over 350,000 cattle) generates over 5,000 tons of cattle waste daily. Due to a lack of disposal systems, the waste is being dumped into the local waterways which obviously affects local hygiene levels. KEL engaged Canadian technology providers Highmark Renewable and found that this waste potentially can be used to generate 22 MW of power. Further, the company reports to using mostly recycled water and discharges it only after a neutralisation treatment process. Further, KEL declares that its waste-water treatment plants comply with National Environmental Quality Standards (NEQS) which are assigned by the Pakistani government to protect marine habitats and to maintain the natural ecosystem.

The company also installed two water purification plants in Ibrahim Hyderi (150,000-people slum area) along with a 10-day awareness campaign where daily visits were made to schools to educate children about the importance of personal hygiene and clean water. In the future, the company aims to install water consumption monitoring systems.

Sri Lanka

Sri Lanka's rapidly increasing water issues can be attributed to three major main factors. These include domestic waste (discharges of raw sewage), hospital waste and vegetable waste into streams; industrial waste (i.e. waste from textile, breweries, fertilizers, tanneries, tyre and rubber factories), which is deposited into rivers without being treated; and agriculture. There are shocking examples of severe pollution that have lead to dire consequences in the country. One of these in Gampola, a town in Kandy, where restaurants used contaminated water from illegal boreholes and caused an outbreak of hepatitis where several people died and over 300 000 people were affected. Another major challenge for Sri Lanka's water issues is river sand mining. The construction industry, for the most part, benefits from illegally removing sand from riverbeds.

According to a study by local partners of the Global Water Partnership, sand is being extracted at a rate corresponding to ten times of permitted volumes. The direct consequence of this practice causes faster erosion of river banks, degradation of river beds and deterioration of river water quality and groundwater availability. According to the Water Integrity Network, sand mining is a significant threat and has direct bearing on local water security.

Short facts

Capital: Colombo
Population: 21 446 000
Area: 65 610 km²
Adequate sanitation: 96.0%
Safe water: 97.1%
Life expectancy (yrs):
 Females: 77.4/Males: 71.1
Trivia: Also known as "the Pearl of the Indian Ocean" or "the Teardrop of India".

Source: World Bank, WaterAid

Water reports from companies

Access Engineering Plc (2.4% of portfolio)

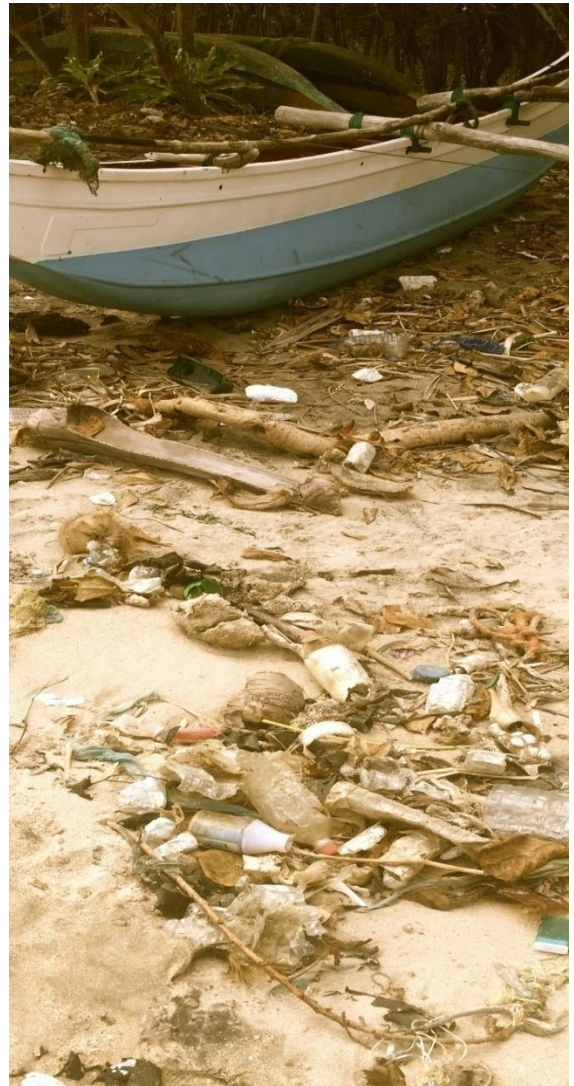
The company reportedly complies with environmental regulations and adheres to proper disposal of hazardous waste. On World Water Day, the company carries out tree planting ceremonies and awareness building programs; over 10 000 trees have been planted in the country until date. Access Engineering is also involved in community outreach programs where school kits and drinking water are donated to students.

Tokyo Cement Co. (Lanka) Plc (2.4% of portfolio)

According to Tokyo Cement, a 10 MW combined heat and power plant that runs on agricultural waste has been designed to ensure environmental sustainability. This emits zero carbon emissions. Accordingly, this method allows the company to generate enough power for its manufacturing plants and sell the excess to the national grid, all while surpassing UNFCCC's strict protocols to accomplish 40 000 tons of Certified Emission Reductions. This allows them to trade carbon credits. The company is working towards planting mangrove saplings along the coastline in order to revive the empty wastelands which were cleared for tactical reasons during the war. The aim is to plant as many as 20 000 plants in order to replenish 15 acres of coastline. The company is also collaborating with the Wildlife Research & Conservation Trust of Sri Lanka to start growing indigenous coral species. Going forward, the company aims to build a new 5 MW plant which will contribute clean energy to the national grid.

John Keells Holdings Plc (3.6% of portfolio)

While the company does not implement any specific programs for water conservation, the Group states that it monitors water usage and carries out initiatives such as rainwater harvesting and recycling wherever possible.



*Fishing boat at local beach in Sri Lanka.
Photo: Tundra*

Vietnam

Vietnam has not been able to utilize natural water resources – a river network with a potential supply of 255 billion m³ annually – due to a lack of infrastructure. The country faces the highest demands for water from its agricultural sector. In rural parts of the country, only 39% of the population has access to safe water. In urban areas, industrial wastewater mismanagement, where water laced with harmful chemicals is discharged directly into water streams without any treatment, has contributed to the worsening of an already-bleak situation. It is reported that around 500 000 m³ of sewage water is released every day in Ho Chi Minh City's Tham Luong industrial zone. In order to tackle this grave, concern, the Ministry of Natural Resources and Environment initiated a project which looked into the causes behind diseases and locating safe water resources. After the first phase of the project was completed in 2015, the Ministry released a list of the most polluted villages in the country. Around 37 villages, whose rivers and grounds serve as dumps and are so prone to pollution and disease that they are labelled “cancer villages”, were identified and researched for this project. Reportedly, around 150 000 new cases of cancer are recorded each year. Diarrhoea is another major disease responsible for over 250 000 hospitalizations a year. According to a ministry official, the “hurdles to providing safe water sources remain overwhelming”.

Short facts

Capital: Hanoi
Population: 92 548 000
Area: 330 972 km²
Adequate sanitation: 79.7%
Safe water: 99.4%
Life expectancy (yrs):
 Females: 80.4/Males: 71.2
Trivia: The lotus flower, one of Vietnam's four graceful plants, is a Buddhist symbol of purity and fortune.

Source: World Bank, UN, WaterAid



Thong Nhat – one of the “cancer villages” – in Hanoi. Source: Vietnam.net

Water reports from companies

Vinamilk (2.8% of portfolio)

The dairy company utilizes water efficiently (records details of its usage in its reports) in its operations by applying recycling solutions. All wastes (solid, liquid and exhaust fumes) are managed according to the ISO 14001:2004 requirements on Environment Management.

According to the company, all of Vinamilk's 13 factories have sewage treatment systems in place that satisfy the standards on industrial sewage treatment.

Ma San Group Corp. (2.9% of portfolio)

The company is involved in community-building projects where they engage stakeholders in identifying impacts and finding solutions. Reportedly, the Group efficiently resolved complaints from residents related to environmental matters such as noise, dust and water.

FPT Corp. (4.6% of portfolio)

The information technology company fully complies with water drainage and energy consumption rules and regulations. It also aims to use recycled products and green equipment throughout its operations.

APPENDIX I

Sustainable Development Goals (SDGs)

The Sustainable Development Goals (SDGs) were adopted by world leaders on the 25th of September 2015 at the United Nation's summit. The overall aim of the 17 goals is to end poverty, fight inequality and injustice and tackle climate change by year 2030. These goals stand as an extended version of the eight Millennium Development Goals (MDGs) targeting poverty, hunger, disease, gender inequalities, access to water and sanitation.

All of the 17 Sustainable Development Goals are connected to the UN's Development Programme's strategic plan, focussing on sustainable development; democratic governance and peacebuilding; climate and disaster resilience.

Below is a short description of all the 17 goals that are included. More details can be found on the following link:

<http://www.undp.org/content/undp/en/home/sdgoverview/post-2015-development-agenda/>



No poverty. Over 800 million people still live on less than \$1.25 a day, many lacking food and drinking water. Women are more likely to live in poverty than men.



Affordable and clean energy. Renewable energy accounts for an estimated 20% of all global power generated. Still one in five lack access to electricity.



Climate action. Green house gas emissions are more than 50% higher than in 1990. Urgent collective action is required to avoid further irreversible damage to the systems on Earth.



Zero hunger. It is estimated that 795 million people are still undernourished, often as a direct consequence of environmental issues. Over 90 million children are dangerously underweight.



Decent work and economic growth. The number of workers living in poverty has declined in the past decades. However, in 2015, over 200 million people were still unemployed.



Life below water. Over 3 billion people depend on marine and coastal biodiversity. Protecting our oceans is essential to ensure that Earth is habitable for coming generations.



Good health and well-being by reducing child and maternal mortality, tackling preventable, chronic and catastrophic disease; and universal vaccination programs.



Industry, innovation, and Infrastructure are all crucial to development. With over half of the world's population now living in cities, transport and renewable energy is increasingly important.



Life on land. Plant life is important for clean air and water, and provides 80% of human dietary needs. Forests cover 30% of Earth's surface.



Quality education. Since 2000 the number of children not in school has dropped by half. Poor children are still more likely to be out of school.



Reduced inequalities. Income inequalities impacts negatively on societies as a whole. Sound policies that promote economic inclusion for all are crucial for progress.



Peace, justice and strong institutions are closely linked to human rights and effective governance. All countries need to take action against sexual violence, crime, exploitation and torture.



Gender equality. Discrimination against women and girls is a violation of basic human rights. Once this ends, positive effects will be seen across other development areas.



Sustainable cities and communities. By 2050 2/3 of the world's population is expected to live in urban areas. Cities have to be built and managed in a sustainable manner.



Partnerships for the goals. "The Sustainable Development Goals (SDGs) can only be realized with a strong commitment to global partnership and cooperation."



Clean water and sanitation. It is projected that at least one in four will be affected by water shortages by 2050. Ensuring universal access to safe water requires infrastructure, proper facilities and protecting of water-related ecosystems.



Responsible consumption, production. Our ecological footprint needs to change by rethinking how we produce and consume goods and resources.

APPENDIX II

Sustainability Guidelines

Tundra’s ESG process is governed by international standards of responsible investing. These include screening for “norm-based” violations, “controversial weapons” and “sector-based” breaches (see *table on Guidelines in detail*).

Norm-based breaches include screening for breaches that are in contravention with the United Nations Global Compact (see *Table*) - the guiding principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. During this screening, companies’ adherence to international norms for human rights, the environment, labour standards and anti-corruption are assessed.

Controversial weapons. During this screening, a company’s involvement with prohibited or banned weapons is assessed. There is a zero tolerance as far as these weapons are concerned. Companies with any involvement in controversial weapons are automatically excluded from the fund.

Sector-specific breaches. There are certain sectors that are considered to be no-go areas in the ‘sustainability’ universe. These are sectors involved in alcohol, pornography, tobacco, weapons or gambling. However, if the total revenue from a product from one of these sectors does not exceed 5%, the company may still be eligible for the sustainable fund.

Central ESG Factors

Measures for Sustainability and Ethical Impact of investments



Environmental

- Environmental Management Systems
- Raw Material Sourcing
- Energy Consumption
- Waste Processing
- Certification



Social

- Labour Rights/Standards
- Human Rights
- Gender Equality & Diversity
- Product Integrity
- Community Involvement



Governance

- Management Structure
- Board & Investor Oversight
- Good Governance
- Anti-Bribery/Corruption
- Tax Transparency/Reporting

Guidelines in detail

Norm-Based Breaches

- Environment
- Human Rights
- Labour Rights
- Corruption

Controversial Weapons*

- Nuclear Weapons Biological Weapons
- Chemical Weapons
- Non-detectable Fragments
- Blinding Laser Weapons
- Anti-personnel mines
- Cluster Munitions
- Incendiary Weapons
- Depleted Uranium Ammunition

*All Production/Distribution: 0%

Sector-specific Breaches

- Alcohol (Production: 5%, Distribution: 5%)
- Pornography (Production: 0%, Distribution: 5%)
- Tobacco (Production: 0%, Distribution: 5%)
- Weapon 5%
- Gambling 5%

The Ten Principles of the UN Global Compact

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights;
Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining,
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour;
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility;
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Tundra's ESG Process

As shown below, the screening process for sustainability encompasses a few phases.

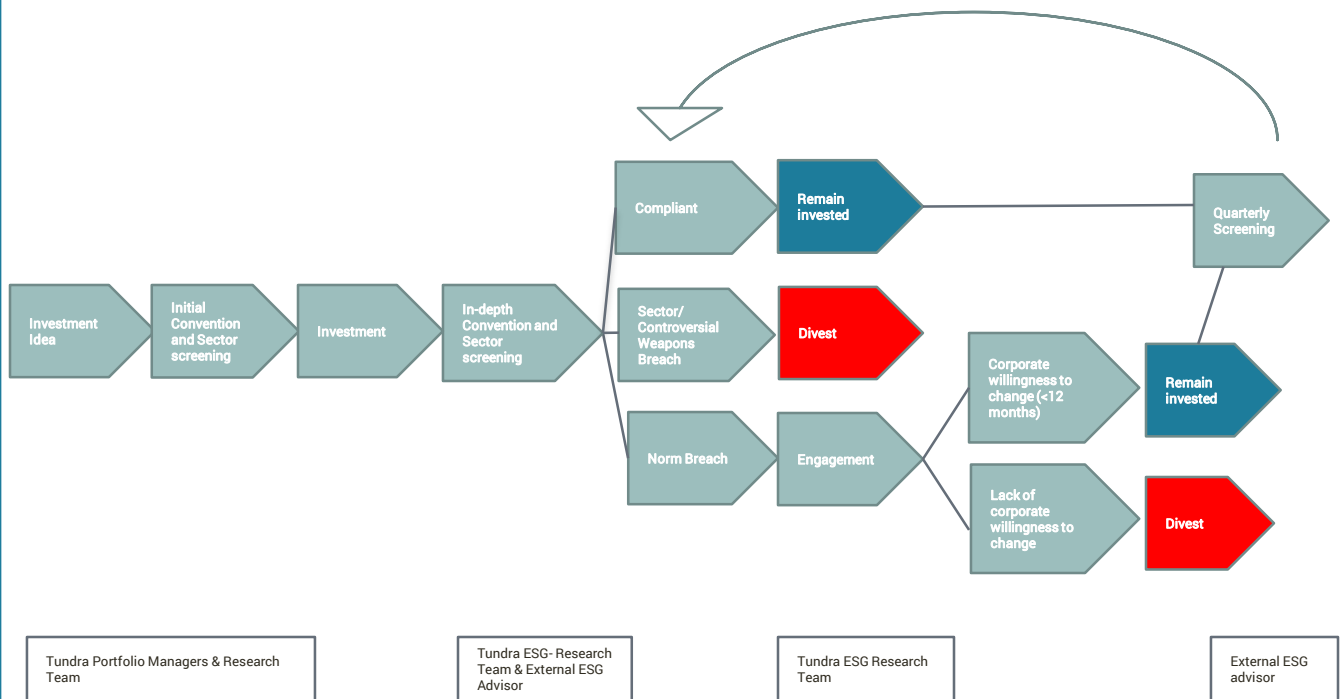
The initial phase begins with an idea to invest in a particular company by Tundra's portfolio managers and research team. There is a preliminary screening carried out and after it is confirmed that the company does not belong to a "no-go" sector and has not breached any of the international guidelines (see above for detail), the investment is made.

The local ESG Research team, along with an external ESG Advisor, then carries out an in-depth research into the invested company to verify and ensure absolute compliance to international standards.

In the event of a possible breach in controversial weapon or a sector breach, there is an immediate divestment from the offending company. However, if the breach is "norm-based", the ESG Research team will create and implement a twelve-month engagement strategy with the company's higher management. The aim of this dialogue is to persuade the management to do better; to extract their willingness to work towards fixing the issue(s). These meetings would usually take the form of interviews, discussions, and answering quantitative data sets.

If, on the other hand, the company is unwilling to cooperate, there would be immediate divestment.

Tundra's ESG Process



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Investments in financial instruments are associated with risk and an investment may both increase and decrease in value or even become worthless. Historical returns are no guarantee of future returns. International investments, particularly those on new markets in developing and growth countries (such as Eastern Europe (including Russia), Asia, Latin America and Africa), are normally associated with a higher level of risk than investments in Swedish or other developed markets' securities. These risks include both political and economic uncertainty in other countries as well as currency fluctuations. These risks are particularly high on new markets since these countries may have relatively unstable governments and immature markets and economies.