# Tundra Sustainability Forum

## Karachi

### A unique conference on sustainable investment

In December, Tundra Fonder as the first foreign asset manager arranged a conference on the topic of sustainable investments in Karachi, Pakistan. The event was co-hosted by the Karachi Stock Exchange. The purpose was to increase the awareness in the Pakistani corporate sector on sustainability. Sustainability here included not only environmental aspects but also social issues as well as corporate governance. The 100 biggest listed companies in the country were invited with 120 delegates attending.


*Jon Scheiber, CEO of Tundra Fonder*

The CEO of Tundra Fonder, Jon Scheiber, opened the conference by pointing out that the interest for sustainable investments has risen substantially in Europe during the past few years, not the least in Sweden. In order to attract foreign capital, the pressure to comply will increase also for Pakistani companies. The global trend is gradually transforming from optional to mandatory. Jon, however, added that a sustainable approach primarily should be viewed as an opportunity and mentioned that studies carried out in this field found a correlation between the cost of capital and a sustainable corporate policy. The Managing Director of the Karachi Stock Exchange, Nadeem Naqvi, agreed and exemplified in his presentation by comparing the car producers Tesla and GM. Tesla is with its production of electrical cars a niche producer with an estimated sales volume of approximately 50 000 cars during 2015. With an estimated sales volume of 2.3 million cars, GM is 40 times bigger in terms of volume. Despite this, the market has only assigned a 1.7 times difference in valuation in the light of Tesla being perceived as a sustainable alternative well positioned for the future.

### Sustainability in Pakistan

Maryam Mughal, Senior ESG Analyst at Tundra's Karachi office, presented how Tundra, as a representative from the global asset management industry, integrates sustainability issues in the investment process. Maryam presented Tundra's process and the initial research work presented in Tundra's first sustainability report. After the conference, Maryam shared her view of how Pakistani companies deal with sustainability.

- The Pakistani corporate sector is to a large extent divided. A majority of the bigger listed companies are well aware of sustainability issues, have a well-developed strategy for dealing with them and dedicated ESG managers. In the smaller and mid-sized companies, the picture is different with very limited expertise.

Pakistan is more mature than many other smaller frontier markets, the new emerging markets, when it comes to how the corporate sector deals with sustainability, says Maryam.

- Corruption, however, continues to be a weak spot in Pakistan.

### Trends within sustainable investments

Johan Elmquist, one of the founders of Tundra, presented an overview of global trends in the field of sustainable investments. Undoubtedly, assets under management (AuM) based on sustainable investment processes is currently expanding rapidly in Europe as well as globally. According to data from Global Sustainable Investment Review, the AuM of investment strategies based on excluding non-sustainable companies grew by 74% during the period 2012-2014. AuM of strategies based on norm based screening rose by 82% during the same period. Johan also pointed out that sustainability research appears to be going from a niche process to an integrated part of the core investment process at many asset managers.

As the interest for sustainable investments rise, new financial instruments are emerging. One example of this is green bonds. According to data from Barclays, there were USD 42.5bn in issued green bonds as of July 2015. As a comparison, two years ago this number was USD 10bn.

In developed markets, the corporate sector has responded to the mounting sustainability requirements through improved accounting standards. In the US, three quarters of the S&P 500 companies are now offering sustainability reporting. This is also a substantial increase – in 2011 this number was limited to every fifth company.


*Johan Elmquist, Co-founder and Partner at Tundra Fonder*

Another sign of sustainability going mainstream is that several of the biggest asset managers in the world are now integrating sustainability into their investment processes. The Board of Calpers, the Californian pension giant, in 2011 decided to integrate sustainability into the investment process and classified it as a prioritized issue. Also Blackrock, the biggest fund manager in the world, takes sustainability seriously and concluded that investors not taking sustainability seriously may be exposed to substantial losses. In Europe, for example Dutch pension funds have experienced what it means after local media brought attention to the fact that several pension funds were invested in companies involved in the production of cluster ammunition. Another sign is how the healthcare sector's pension fund in the Netherlands (PFZW) has decided to reduce the portfolio's carbon emission by 50% within a period of five years.

## Lucky Cement

Among the speakers at Tundra Sustainable Forum were also several external speakers from the Pakistani corporate sector. Among these were Muhammad Faisal from the country's largest cement producer, Lucky Cement. All sectors are facing their own unique set of challenges within sustainability. For the cement industry, which is a major user of energy, the environmental aspects are crucial. Lucky Cement states that the company is


*The first sustainability conference arranged in Pakistan by a foreign asset manager* working actively with this issue and was awarded an A+ grade in 2012 by Global Reporting Initiatives (GRI) among only a handful of Pakistani companies due to its environmental reporting. Today, the company works actively to reduce pollution among other things through facilities in Karachi and Pezu for energy recycling (Waste Heat Recovery). This is done through recycling excess heat from the cement production. This reduces the energy that would otherwise have to be produced through traditional polluting methods. Of the company's three production facilities, two have installed WHR. Of the total energy consumption in these facilities, more than a fifth is done by the help of WHR. Lucky Cement admits that this is not only done by environmental consideration – in WHR facilities, the power production cost is close to zero.

Lucky Cement has also taken other initiatives in order to reduce the energy consumption and reduce the pollution level. Among these is a power production plant based on waste material from the agro sector, the so called Refused Derived Fuel (RDF) technology. By using RDF not only is the amount of waste material reduced but also the volume of greenhouse gases as the technology is cleaner than traditional power production through conventional energy sources. The company is also producing power through a technology called Tyre Derived Fuel (TDF), where the fuel consists of used tyres. This also reduces the pollution level. The company claims that the TDF technology requires 5-10% less fuel than for instance coal. Among other environmental measures taken, Lucky Cement has also planted 11 500 trees.

Company management also acts to support the local society and claims that the company annually set aside 2-2.5% of profits to charity. This includes for instance offering school education to less privileged children, providing clean water to local communities as well as financially supporting charity organizations in areas where the company is located.


*One of the TV interviews in conjunction with the conference*

## Karachi Electric

Karachi Electric is a power utility providing the Karachi metropolitan area with electricity, an area including more than 20m people and representing 20% of Pakistan's GDP. The company is typical among Pakistan's bigger companies in that it has a well-defined strategy in the field of sustainability and that it performs a host of positive sustainability activities. Karachi Electric has at the same time been criticized for depriving poor neighbourhoods of satisfying electricity supply. In a country divided socioeconomically to the extent Pakistan is, these contrapositions are probably difficult to avoid.

Without defending possible unethical steps taken by the company, there are positive measures taken including a five-year environmental plan launched in 2013 targeting to reduce pollution from the power production. The plan includes migrating to clean energy, primarily natural gas and renewable energy sources such as solar energy and wind power. Karachi Electric has also engaged in life improving steps for poor communities in the city by removing waste and dirty water as well as offering meaningful spare time activities for the younger generation.

## A positive footprint

To increase awareness and the knowledge level and to improve the behaviour in the corporate sector of an entire nation takes time. A single conference will obviously in itself not be enough. But if Tundra, as a foreign asset manager, makes a small contribution it is a step in the right direction. The fact that the conference generated substantial local media attention both in Pakistani television as well as in leading print media makes room for further efforts in this field. Pakistan is facing an exciting economic journey during the next few decades. Whether sustainability will be a travel companion on this journey is still to be seen.