Tundra Sustainable Frontier Fund

Quarterly Sustainability Report

Q4 2015

INTRODUCTION

In the last quarter of 2015, Tundra Fonder arranged a forum on sustainability – the first of its kind by a foreign asset manager in Karachi, Pakistan. The *Tundra Sustainability Forum* held in December primarily aimed at increasing the awareness of the country's corporate sector concerning sustainable investments. The overall perspective on the concept of *sustainability* did not only include environmental aspects, but also comprised social issues and different aspects of corporate governance. Invitations were distributed to the 100 largest listed companies in Pakistan. The final list of attendants showed that over 120 delegates participated in the event. A separate report was published on this event.

In every quarterly report we go through changes in the portfolio and briefly describe new companies which have been added. The reports also highlight a relevant subject.

In January, New Delhi hit the headlines globally as the Indian metropolitan temporarily imposed new rules, limiting the number of days cars were allowed to traffic the streets. The rules stood as a result of hazardous levels of pollution. During this time period the traffic was reduced to 2/3 out of the city's usual three million cars.

Today, New Delhi has abandoned the rules but it created attention around the issue of emission and carbon footprint in developing economies. It is difficult to make any firm and general conclusions from the carbon footprint study in this report, except the fact that corporate information disclosure has to improve substantially going forward. Particularly the oil and gas companies' disclosure levels are at a stage where it is challenging to do any benchmarking with peers.

As in many ESG areas within developing economies there are also some dilemmas which need to be thoroughly discussed before deciding what is right or wrong. We briefly discuss one such example, Pakistani K-Electric (KEL). KEL, which is a highly effective power utility with good disclosure standards, will as a part of its expansion add a certain amount of coal fired capacity but such capacity will in turn replace corporates' own diesel generators which are not properly supervised, highly polluting and very costly to run. Should K-Electric not make this investment?

This is an example of situations that need~~s~~ to be addressed as the less developed economies rapidly increase their share of world output and consumption. Tundra considers these topics highly relevant in these processes where we try to play a small role in the development.

The audience and the panelists at the Tundra Sustainable Forum in Marriott, Karachi (Pakistan)

CURRENT PORTFOLIO

As of end of Q4 2015, there were in total 40 companies in the Sustainability fund. One holding, Ha Tien 1 Cement (Vietnamese cement producer) was sold during the quarter, not because of ESG violations, but due to price appreciation. Three new companies were added during the quarter and they were subject to a due diligence that resulted in a clean bill of health as far as environmental, social and governance factors were concerned. These include:

TPL Properties (Pvt.) Ltd., *Pakistan*:

A subsidiary of TPL Holdings Limited, the company provides real estate development services and construction of office buildings. Members of the Tundra management team met with the TPL team in December in Karachi. The company has some commendable policies within its HR policy with education support for children of disadvantaged employees and in supporting students by providing technical trainings and subsequent employment.

Tundra with TPL management.

Georgia Healthcare Group, *Georgia*:

The company is a healthcare provider in Georgia and operates 35 hospitals and a number of ambulatory clinics. The company is a subsidiary to Bank Of Georgia. The Group is engaged in several commendable initiatives. In 2014, the Bank financed healthcare advancements and facilities for US $36.12million for the Tbilisi, Kutaisi and Samtskhe region. The Group also provides training and development programs for its employees.

TPL Holdings' office

International Brands (Pvt.) Ltd., *Pakistan*:

International Brands Ltd is a business conglomerate engaged in a wide range of business activities in Pakistan, with its main assets in pharmaceuticals and fast moving consumer products. Tundra's Management team met with the company in December. The company's CSR activities are through the Citizen's Foundation (TCF) which provides education for the less privileged. More than 20 schools, with 30 000 students throughout Pakistan, are managed by TCF.

COMPANY VIOLATION WATCH

No new violations among portfolio companies have been reported during the last quarter of 2015. Hence, no company was excluded due to ESG violations.

CARBON FOOTPRINT

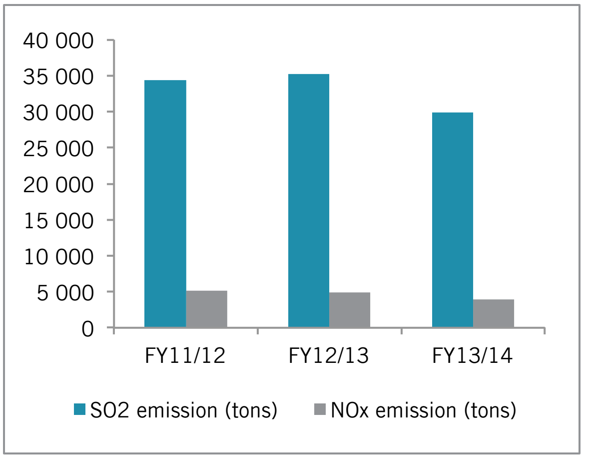
According to U.S. Environmental Protection Agency (EPA) data for the US, the top commercial sectors in terms of emission of greenhouse gases were power plants, oil and gas producers and refineries. Tundra Sustainable Frontier Fund has an investment philosophy where the fund over time tends to be underweight in these sectors as we normally prefer companies which have better room to differentiate its product and thus better chance to influence its future profit growth. This means these sectors over time are expected to constitute a minor part of the fund's assets. This also applies to the 4Q 2015. The portfolio nevertheless had investments in three companies from these sectors: Kazmunaigas (Kazakhstan), YPF (Argentina) and K-Electric (Pakistan). In this section we take a closer look at the carbon footprint from these companies.

K-ELECTRIC

The company is a vertically integrated power producer, transmitter and distributor with a monopoly position in the Karachi area, home to more than 20 million people. The client base includes the residential as well as the commercial and agricultural sectors. Generation takes place both through in-house installed capacity (2 247 MW) and through power purchase agreements (1 016 MW) with independent producers, including KANUPP (Karachi Nuclear Power Plant). Gas and furnace oil are the main fuels used for generating electricity today. Measured as fuel mix in tetra joules (i.e. energy units), furnace oil represented slightly more than 1/3 of overall fuel usage in fiscal year (FY) 2013/14, a number coming down from more than half FY 2010/11. The company is currently expanding in to coal fuelled generation capacity and is for instance projecting to set up a 700 MW coal fired project at *Port Qasim*. K-Electric is however also expanding into LNG through a 225 MW combined cycle LNG fired plant (also at *Port Qasim*). According to US Energy Information Administration, the CO2 emission from coal (bituminous) is about 70% higher as compared to natural gas and 15% higher compared to residual oil. Pakistan's overall fuel mix primarily consists of residual fuel-oil (34%), hydro (32%) and gas (26%). Nuclear represents 5%.

Pakistan has suffered from energy shortage for several years now. According to K-Electric, the generation capacity in the country currently amounts to ca 20 000 MW while peak demand is estimated to be about 6 000 MW higher. The shortage in supply stems from a lack of fuel combined with the fact that the power sector is not being compensated well enough, resulting in the so called circular debt and under investments. The electricity consumption per capita in Pakistan according to the World Bank data was 452 kWh/year in 2012 (the latest available data). This is unsurprisingly a low reading compared to more developed economies (Sweden 14 290, UK 5 452, China 3 475). However, as compared to countries at the same level of economic development, Pakistan does not stand out.

K-Electric's CO2 emission amounted to 4.77 million tons in FY 2013/14. NOx emissions amounted to 3 887 tons during the same period, while sulphur emissions reached 29 845 tons. The company has been successful in reducing the pollution levels. This applies to measures in absolute volume amount (total tons of pollution) as well as in relation to its power production level (pollution per kWh produced). The latter is relevant given that K-Electric gradually has increased the power production level. The reduction is a result of two factors; the upgrading of power plants with less polluting technology and an improved fuel mix (less oil, more natural gas).



According to the European Commission's Edgar database, Pakistan's total CO2 emission amounted to 152 million tons in the calendar year 2013, meaning that Pakistan's emission during that year (35 477 million tons) constituted 0.4% of global emissions. This can be compared to the fact that Pakistan's population constitutes just below 3% of the world population.

K-Electric's emission represented 3% of Pakistan's total emission, a relatively low level given that Karachi is considered to represent about 20% of Pakistan's GDP. One explanation, although not comprehensive, ought to be that K-Electric transmit and distribute power which is produced by external parties (and hence not included in the company's emission data). Another explanation is that many companies have their own diesel-run reserve generators which can be switched on in times of blackouts. Such generators are costly as well as highly polluting and it is therefor possible that higher generation from Karachi Electric, providing it is used as replacement for companies' own generation, is beneficial in terms of pollution levels in Karachi.

Sulphur and NOx emissions were reduced by 13% and 25% respectively during the three year period FY 2011/12 to FY 2013/14. CO2 emission was reduced by 1% during this period.

Kazmunaigas

Kazmunaigas (KMG) is a Kazakh oil and gas company. The listed entity is part of the national Kazakh oil company with the same name. The government controls approximately 60% of the listed company. Operations are carried out onshore Kazakhstan.

Kazakhstan is a major oil producer with petroleum and other liquid production amounting to 1.7 million barrels per day in 2014 (1.8% of global production). In terms of reserves, the country had the world's 12th largest reserve in 2014, primarily through two onshore fields, Karachaganak and Tengiz. The country has a long tradition of oil production and constituted the second most important production state after Russia during the Soviet period. From the mid-1990s' production volumes have been boosted through investments, including those from international majors such as ExxonMobil, Eni and Shell.

Kazmunaigas provides very poor disclosure level in terms of environmental impact, including carbon footprint data. Regular greenhouse gas data is for instance challenging to come by. The data we have come across suggests that Kazmunaigas's C02 emission in 2013 amounted to 5 787 987 tons. This emission level represented 2.5% of Kazakhstan's total C02 emission that year. To benchmark Kazmunaigas's C02 emission with a few global oil and gas peers we did an attempt to calculate the C02 emission per barrel of oil equivalent produced for BP and Statoil. As reporting standards for C02 varies substantially between companies, there is a substantial risk that results are not fully comparable. Having said that, Kazmunaigas appears to be polluting more per barrel of oil equivalent than both peers. One source of C02 emission during petroleum production is gas flaring. The gas flaring can be visually seen and data aggregated through satellite pictures. The Environmental Assessment Agency of the Netherlands and the European Commission suggest in a 2015 report (Trends in Global C02 Emissions) that C02 emission from Kazakhstan's flaring in 2012 amounted to 9.3 million tons. This would make the country the eight biggest gas flaring polluter globally, with a 3% share. It also appears that Kazakhstan is overrepresented given that the country's gas production was only 1% of the global gas production that year. Kazmunaigas's share of Kazakhstan's total gas flaring is not disclosed. It is however, reasonable to assume that the company does not materially deviate from peers active in the country in how inefficiently gas flaring is handled. On a positive note, Kazakhstan has managed to reduce the emission from gas flaring by 25% during the period 2005-2012. This is more than the reduction in global aggregate (17%) during the same period.

YPF

YPF is an Argentinian vertically integrated oil and gas company active in exploration and production, refining, chemicals and marketing. The company has interests in more than 100 oil and gas fields (on and offshore), more than 1 500 YPF branded service stations and several refineries. YPF provides virtually no data on its carbon footprint. We have not been able to find any data on C02 emission levels at all. Argentina as a country generated a C02 level of 199 million tons in 2014 according to EU Commission data. This corresponds to 0.6% of the total global emission that year.

We do know that YPF historically has initiated some projects which are greenhouse gas reducing in nature. These include what is referred to as a Clean Development Mechanism (CDM) project in YPF's La Plata refinery. This replaces fossil fuels used for process heating by replacing these fuels with recovered waste gases that were previously burned in flares. According to the company this facility reduced the C02 emission by 200 000 tons annually. Other CDM projects have also been installed. The company has also been active in planting trees to capture C02.

Appendix

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; and

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; and

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; and

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.

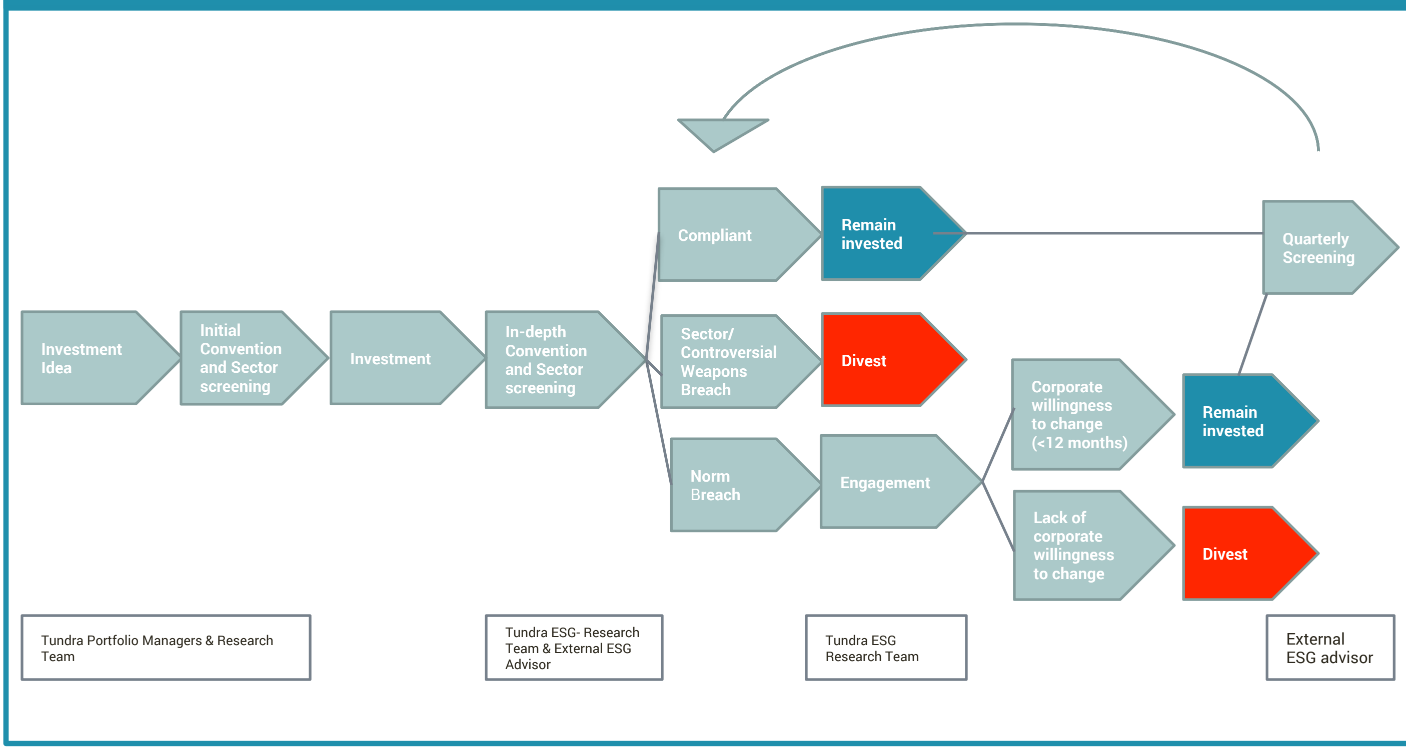
The initial phase begins with an idea to invest in a particular company by Tundra's portfolio managers and research team. There is a preliminary screening carried out and after it is confirmed that the company does not belong to a "no-go" sector and has not breached any of the international guidelines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



Disclaimer

Important: Please read this information/disclaimer

This presentation is issued by Tundra Fonder AB ("Tundra"). The information – assumptions, opinions, valuations, recommendations etc – presented in this publication have been compiled by Tundra. The publication is based on generally available information from sources that Tundra believes to be reliable. However, Tundra cannot guarantee the accuracy of this information. This presentation – as well as all or parts of its content – may not be duplicated or distributed under any circumstances without the written permission of Tundra.

Use of information

This presentation is intended exclusively for the use of Tundra's clients in Sweden and is thus not intended for any individual or company in the USA, Canada, Japan or Australia, or in any other country where the publication or availability of the material is prohibited or restricted in any way.

The Fund or the Fund Company Tundra Fonder is not registered under the United States Securities Act of 1933, the United States Investment Company Act of 1940, or any other applicable law of the United States. Therefore fund units may not be offered, sold or in any other way distributed to physical or legal persons in the United States of America. It is the responsibility of individuals or entities acquainting themselves with this presentation to inform themselves of and comply with these regulations. A legal entity may be prevented from investing in Tundra's fund by law or internal regulations. Foreign law may prevent investments to be made from outside of Sweden. Tundra will not verify that investments from outside of Sweden are made in accordance with foreign law and Tundra will not accept responsibility for any such investments. It is the responsibility of persons reading this presentation to inform themselves of, and to follow these rules. Should any such person or company nonetheless accept offers from Tundra, of whatever kind they may be, it may be disregarded. No part of this presentation should be construed as a solicitation or recommendation to conduct or make use of any type of investment or to enter into any other transactions. The opinions expressed in this presentation reflect the present views of the participants and may thus be subject to change. The information in this presentation does not take into account the specific investment goal, financial situation or needs of any specific recipient. The information should not be regarded as a personal recommendation or investment advice. The client should always seek adequate professional advice before taking any investment decision and each such investment decision is taken independently by the client and at the client's own risk. Tundra accepts no liability whatsoever for any direct or consequential loss of any kind arising from the use of this presentation. Tundra's employees may hold, indirect or indirect investments mentioned in this presentation.

The state of the origin of the Fund is Sweden. This document may only be distributed in or from Swizerland to qualified investors within the meaning of Art. 10 Para. 3,3bis and 3ter CISA. The representative in Switzerland is ACOLIN Fund Service AG, Stadelhoferstrasse 18, CH-8001 Zurich, whilst the Paying Agent is Bank Vontobel Ltd, Gotthardstrasse 43, CH-8022 Zurich. The Basic documents of the fund as well as the annual report may be obtained free of charge at the registered office of the Swiss Representative

Risks

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.