Tundra Sustainable Frontier Fund

Quarterly Sustainability Report

Q3 2015

INTRODUCTION

Tundra's Sustainable Frontier Fund is a unique approach to incorporate international standards of ESG metrics with investments on the developing markets. ESG stands for "Environmental, Social and Governance" and its screening refers to an approach that uses a broader set of data and the integration of a comprehensive set of non-financial indicators into the investment analysis. This structured and systematic analysis adds an additional layer of scrutiny to the investment decision-making process, with the ESG based performance indicators serving as a proxy for "good governance and managerial performance". Integration of ESG or sustainable factors to the investment process has the clear goal to improve the risk-return profile of equity investments that Tundra make.

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

TUNDRA'S SCREENING PROCESS AT A GLANCE

Tundra Fonder is developing a unique approach to take on 'Frontier Markets' investing by incorporating Environmental, Social and Governance (ESG) factors into its equity research process. This is a pioneering initiative by the company; first movers to introduce the concept in countries with investable stock markets that are less established. We benchmark the ESG performance of our portfolio companies against international standards of responsible investing. These include screening for "norm-based" violations (those in contravention with the UN Global Compact Principles for human rights, the environment, labor standards and anti-corruption), "controversial weapons" (biological, chemical and nuclear weapons etc.) and "sector-based" (alcohol, tobacco, gambling, pornography or weapons) breaches. See guidelines and further descriptions in the following paragraphs. Further, we seek to educate companies about international investor expectations and persuade them to be ESG compliant. In order to do this efficiently, our ESG team has a clear process plan of researching, engaging and monitoring a specific company. The purpose of this quarterly report is to provide insight into what ESG work has been done during the last quarter and how this has impacted the portfolio.

Norm-based breaches

Norm-based breaches include screening for breaches that are in contravention with the United Nations Global Compact (see table below) – 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.

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.

Controversial weapons

During this screening, a company's involvement with prohibited or banned weapons is assessed. There is absolutely 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.

TUNDRA'S ESG PROCESS

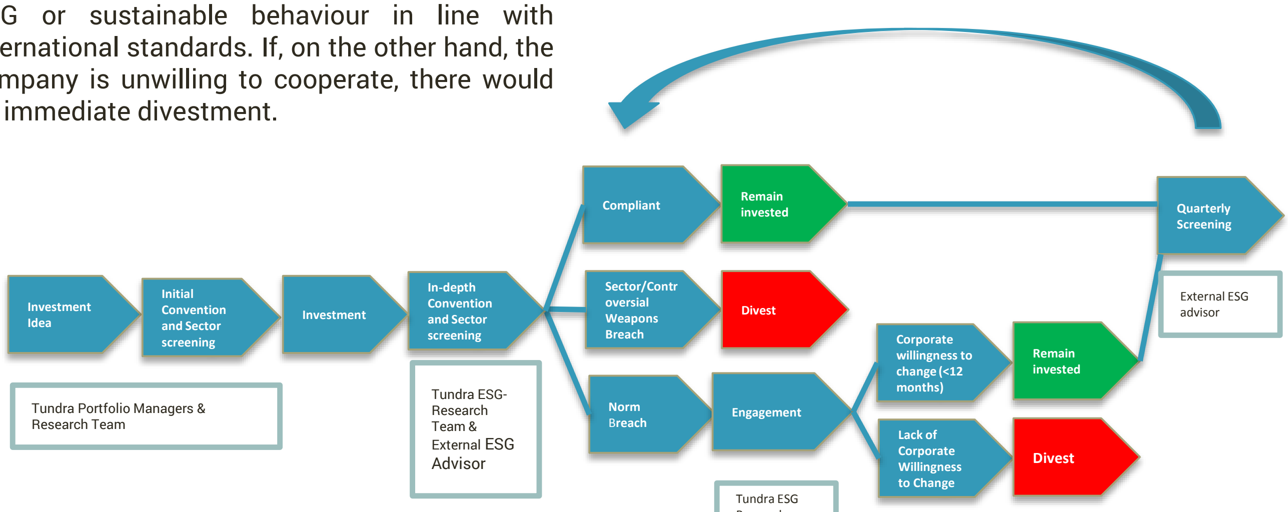
Tundra's ESG process is governed by international standards of responsible investing. As shown in the figure below, the screening process for sustainability encompasses a few phases. The initial phase begins with an idea to invest in a particular company by Tundra's portfolio managers and research team. A preliminary screening is carried out to determine that the company does not belong to a "no-go" sector and has not clearly breached any of the international guidelines. The local ESG research team, along with the help of an external advisor, then carries out an in-depth research into the invested company to verify and ensure absolute compliance to international standards. If there is a "norm-based" breach, the 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 improve their routines and to help them make the company's ESG or sustainable behaviour in line with international standards. If, on the other hand, the company is unwilling to cooperate, there would be immediate divestment.

Guidelines in detail

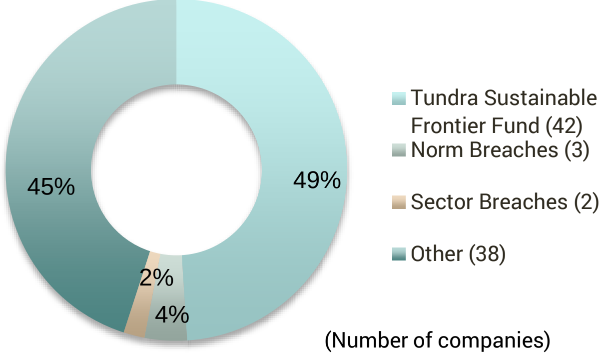
Norm-Based Breaches	• Environment • Human Rights • Labour Rights • Corruption
Controversial Weapons*	• Nuclear Weapons Biological Weapons • Chemical Weapons • Non-detectable Fragments • Blinding Laser Weapons • Anti-personnel mines • Cluster Munitions • Incendiary Weapons • Depleted Uranium Ammunition *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%

Portfolio Impact

As a starting point, around 85 companies in Tundra's Frontier Market universe, i.e. Pakistan, Vietnam, Bangladesh, Sri Lanka etc., were screened for the fund by the ESG team along with our external expert consultant in Stockholm, ISS-Ethix. During the research process it became clear that a number of companies out of the 85 screened were obvious violators of the international regulations and guidelines governing ESG or sustainability and were therefore excluded from the fund. These included a packaging company with a child labour incident in a supply chain in Pakistan, large-scale human rights and environmental violations in a Vietnamese company that cleared lands illegally to make way for its rubber plantations and a South African telecommunications company that has been accused of enabling the ruling regimes in Syria and Iran to carry out gross violations against the civilian population.



Further, two African breweries were excluded from the fund as the companies' total revenue from alcoholic products exceeded the allowed limit of 5% (see table, page 4 for details). It is worth noting that four out of the five companies considered for the fund, that eventually were excluded, underperformed the fund's benchmark return during the period August 3rd (fund inception) to end of Q3. In total, 42 companies were chosen to be part of the Tundra Sustainable Frontier Fund.



EXCLUDED COMPANIES

Tundra's screening process includes a thorough research of companies including any actual or potential ESG issues that it may face. This entails monitoring top news sources, company websites and a comparative analysis of its competitors in order to gauge an industry benchmark. Moreover, there are several assured risks and exposures that a company faces that are specific to particular industries or sectors. These potential threats are also mapped and collated in reports that illustrate their impact. When the Tundra Sustainable Frontier Fund was being set up, the screening process revealed that the following companies were in violation of international ESG standards.

Norm Breaches

Packages Limited (Pakistan)

The company is involved in the manufacture and sale of paper, paperboard, packaging materials and tissue products. Through its subsidiaries, it also engages in ink products and construction projects. The company holds a dominant market position in the country. There was a confirmed occurrence of child labour in one of the supply chains of Bulleh Shah Packaging – a joint venture between Packages (65% holding) and Stora Enso (35% holding). While Stora Enso admitted to the problem, Packages did not and was therefore excluded from the fund.

Since the allegation, Stora Enso started a dialogue with the International Labour Organization and relevant stakeholders to work towards eliminating child labour in the company. According to Enso's CEO, the child labour tier of the supply chain had been dismantled whereas almost 20% of the affected children had been put into schools and their parents had been compensated. Bulleh Shah, too, sprung into action and identified the children that were likely to be involved in collecting recycled material from landfills and began assisting teir families with financial support to discourage child labour. Packages, however, considers Bulleh Shah a separate entity and does not take responsibility of the child labour incident. It is our understanding that in order for the company to make any real progress, it needs to acknowledge this unfortunate incident and simultaneously make and implement an action plan to combat this issue.

Hoang Anh Gia Lai (HAGL) Group (Vietnam)

The company is a furniture producer, property developer and finances a football club along with operating its rubber plantations. It has considerable investments outside Vietnam, namely Laos, Myanmar, Cambodia and Thailand. According to reports by several international human rights organisations, 17 indigenous communities in the Ratanakiri province of Cambodia were uprooted to make way for HAGL Group's rubber plantations. Instances of environmental degradation and sexual assault of women by the company workers were also noted. More human rights violations including the destroying of sacred land and the deaths of hundreds of livestock were also reported. There were also allegations that the company was involved in corrupt and inequitable means of securing land and is in possession of at least 47,000 hectares of land in Cambodia alone, which is almost five times the legal limit (10,000 hectares).

Initially, the company refuted the claims and deemed assessments unreliable. However, after a thorough investigation by IFC's watchdog Compliance Advisor Ombudsman (CAO) that substantiated the claims of the NGO, the CEO conceded that while Cambodian laws were followed, more attention should have been given for the "development opportunities of the local communities." Even though the allegations have not been completely accepted by the company, the severity of these complaints is enough to exclude the company from Tundra Sustainable Frontier Fund.

MTN Group Ltd (South Africa)

The company is a provider of wireless telecommunications services including mobile voice and data and mobile financial services as well as enterprise services to SME, public sector and corporate clients. Overall, it has excellent ESG reporting and is rated among the top 500 global companies on corporate sustainability and environmental impact in the 2014 Newsweek Green Ratings. However, MTN Group faces criticism related to their operations in countries with restrictive regimes, particularly in Iran and Syria, where the company owns a majority stake in MTN Syria. Major noted issues include Human Rights violations and conflict of interest in management (with assertion of strong ties to the ruling regime).

Some humanitarian organisations have raised alarm that the company might be complicit with the ruling regimes directive making the company violate human rights against civilian population.

- In Syria, this is because the Syrian telecommunications infrastructure falls under state ownership through the Syrian Telecommunications Establishment (STE), and following the directive of the government, filters text messages (censorship) and cuts off services when a city is being attacked.
- In Iran, the company was flagged by a US based advocacy group for HR violation alleging support through material for Iranian government to track and locate cell phone users. The company owns 49% in Iran cell, remaining owned by state consortium.

These violations lead to the companies'' exclusion from the fund.

Sector Breaches

East African Breweries Ltd (Kenya)

The company exclusively manufactures alcoholic and non-alcoholic beverages through its many subsidiaries.

Guinness Nigeria Plc (Nigeria)

The company produces beer, ready-to-drink and soft drink products. Guinness Nigeria has been brewing the 'dark beer' since 1963 and has been listed on the Nigerian Stock Exchange since 1965. Since the total revenue that comes from alcoholic products exceeds 5% (see table, page 4), both the companies were excluded from the sustainable fund.

ENGAGEMENT

In order to make any kind of real impact, effective dialogue with companies is crucial. As shareholders, and active owners, we aim to boost ESG efforts by helping companies realise solutions to their actual and potential problems through engagement. To meet this end, we interact with the company's key players and glean information from them so that we are better able to understand their stance and policies on various important issues. In order to inject ESG trends in the companies that we invest in, it is critical to have this dialogue with them.

In order to ensure that our engagement is successful, it is important that we help the companies we invest in to perform better. It is highly relevant to assess the ramifications of a company's overall actions on the environment and to the society in general. Thus, based on our findings, we provide remedial measures that would best position our companies to become attractive to international investors. For our research and company engagement to be effective, it is important to monitor the companies that we are invested in. For this reason, we use our research tools such as news monitoring and company news for any violations.

According to the nature of a violation, we would suggest a remedial action and a time frame in order to improve the company's performance and ranking within the industry. We will also define and share our expectations of the company as shareholders or potential shareholders. If a remedial plan or action has been proposed, we monitor the company on a quarterly basis, or when a complaint or violation arises (whichever occurs first), and assess any progress or potential obstructions in their path.

Dialogue with Companies

Packages Ltd. (Pakistan)

As stated in the previous section, for Packages to make progress and remove the stigma of the child labour incident, it is necessary to demonstrate an active ownership and act on the incident. This should be enhanced by implementing a plan that aggressively works towards eliminating future occurrences of this nature.. As part of Tundra's engagement approach, the company was contacted to express our concerns and stress the importance of compliance.

HAGL Group (Vietnam)

In January 2015, HAGL conducted a dialogue with the affected communities for the first time in a dispute resolution, led by the International Finance Corporation. In March 2015, the IFC's watchdog Compliance Advisor Ombudsman released an official statement where the parties had agreed to a mediation agreement as well as a joint statement regarding the on-going conciliation process.

Other meetings

In addition to engagement dialogue with companies breaching norms, Tundra has also carried out numerous meetings with other companies as part of the research process. See some examples below.

The K-Electric office building. Karachi, Pakistan

K-Electric (Pakistan)

A meeting with the Pakistani electric utility company K-Electric was carried out in order to discuss some of the company's potential problem areas. These included, among other things, allegations highlighted by the media showing that the company neglected electricity supply to areas of poor recovery. In response, the management discussed some of the major social initiatives that were being carried out – the most impressive one being the expansion of electricity to areas of Karachi where there had never been any.

Vinamilk, PetroVietnam Drilling & Well Services Corporation and Vingroup, (Vietnam)

Points of contact were established in some of the leading Vietnamese companies. The purpose of this communication was to discuss the companies' efforts to promote sustainability, continue adhering to international standards of ESG and most importantly, to identify any underlying or potential issues or problems.

Access Engineering Plc, Tokyo Cement Co. (Lanka) Plc, Sampath Bank Plc, Hemas Holdings Plc, and Lanka IOC Plc (Sri Lanka)

The research team has established contacts and initiated information exchange with the Sri Lankan companies above.

John Keells Holding Plc

A site visit of Ceylon Cold Stores Plc – a John Keells Holdings company – was held in Colombo, Sri Lanka in September as it is among the major holdings in the portfolio. John Keells Holding Plc is Sri Lanka's largest listed conglomerate in the Colombo Stock Exchange. The company has businesses in consumer foods and retail, financial services, information technology, leisure, property, transportation and plantation services.

The Elephant House stockroom. Colombo, Sri Lanka

The Elephant House policies were posted all over the premises.

The bottling plant for Elephant House's soft drinks.

A 'first aid' centre next to the warehouse.

A bio-mass boiler for reducing the company's carbon foot print.

We were taken through the corporate offices of Elephant House – a Ceylon Cold Stores' food and beverage brand – along with their bottling and ice-cream plants. The company reportedly carries out employee satisfaction surveys every year along with engaging other significant stakeholders through consultations, disclosures, certifications and awareness programs. In an effort to promote efficient water usage, treatment plants have been installed in order to treat and re-use waste water. As an initiative to reduce its carbon foot print through the use of a renewable energy, Ceylon Cold Stores installed a five ton per hour bio mass boiler in the ice cream and carbonated soft drink factories and thereby displaced the need for 732,334 litres of furnace oil per annum (see photo previous side). The company is also in compliance with the Global Reporting Initiative (GRI) guidelines.

Network of Partners

We collaborate with different organizations in order to build a trusted network of authentic sources of information. This network comprises the media – especially journalists and editors, the civil society or non-profit organizations including think tanks, academics and related institutions. The goal is to create dialogue, informal feedback, and working partnerships with persons or institutions that understand the urgent need for companies to become more ethical.

In the last quarter, several meetings were held with non-profit organisations such as the WWF in Pakistan and international watchdogs such as Transparency International, the Pakistan branch and Transparency International, Sri Lanka in order to expand our network of collaboration and information-sharing partners that will aid Tundra's screening and engagement process with relevant companies.

The Transparency International Sri Lanka office with the newly-appointed Executive Director, Asoka Obeysekera. – Colombo, Sri Lanka

Upcoming activities

In early December Tundra will host a conference on ESG and sustainable investments in Karachi. The 100 largest listed companies on the Karachi Stock Exchange have been invited to participate. The purpose of the event is to educate and inform companies in Pakistan on aspects of environment, social and corporate responsibilities as seen by foreign investors. More information on this event will be reported in forthcoming publications.

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