

SUSTAINABILITY MATTERS!

**THE POWER OF
SUSTAINABILITY IN
ASSET MANAGEMENT**



GlobalEvolution

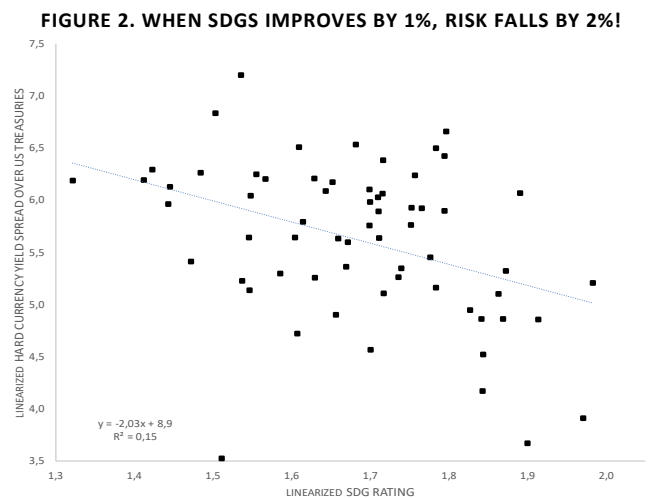
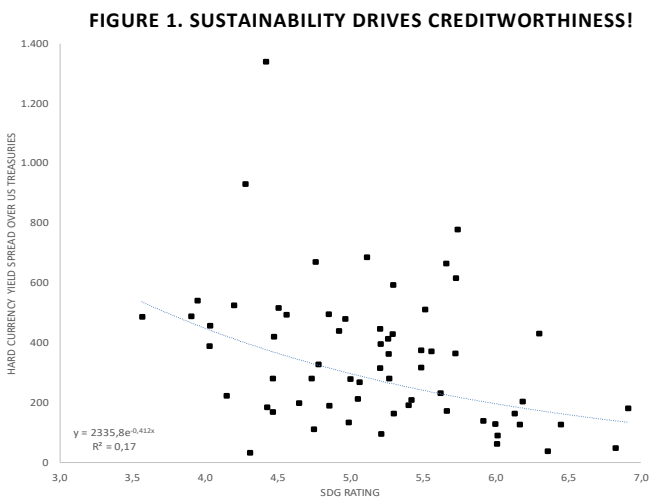
SUSTAINABILITY DRIVES DEVELOPMENT IN EMERGING MARKETS

SUSTAINABILITY MATTERS FOR DEVELOPMENT, FOR OUR CLIENTS, AND FOR US! The world has embraced the importance of sustainability; and so has the asset management business. In fact, it has become a global mega-trend that makes complete sense from both an ethical and business perspective. But why?

Rainbow-washing is a key concern! The extent of “green-washing” and “rainbow-washing”¹ clouds the importance of sustainability in many areas. In our view, the discourse about SDGs and ESG is not addressed in an appropriate way by many because they basically use the SDGs and ESG in vain as dubious “marketing stunts” without genuinely taking it seriously in their investment process.

There is one reason for that! Financial markets still do not comprehend and internalize the business case for integrating SDGs into investment decisions. Until they internalize the return-generating potential, sustainability will not be taken sufficiently seriously, and sustainable development will not gain traction. This includes the importance of climate change mitigation, promotion of human rights, improvement of governance, and many other important sustainability concerns.

The solution! We continuously communicate to stakeholders why integrating E, S, and G indicators makes sense to. Once widely understood and internalized, a sustainability revolution can gain traction. The figures illustrate how SDGs drive creditworthiness in emerging markets countries and over time.² The result is statistically significant with a coefficient for SDGs in its correlation with the spreads of -115 indicating that a one notch SDG Rating increase leads to 115bp spread compression; and a 1% improvement in SDGs improves creditworthiness by 2%: An improvement in creditworthiness implies lower borrowing cost and better debt sustainability metrics, and ultimately a better potential for development.



Source: Global Evolution proprietary SDG ratings based on data from Verisk-Maplecroft, and Bloomberg for yield spreads. Figure 2 illustrates log-linearized data for the purpose of deriving the percentage change in creditworthiness when sustainability improves by 1%.

Valuation model integration of SDGs is key! The enhanced potential for emerging market sovereign debt investment performance from integrating SDGs is clear from the analyses above. Our valuation models therefore in econometric detail operate with indicators for sustainability. This is the kind of business case that financial market actors need to internalize for sustainability to gain traction and bring prosperity to the world and returns to our clients.

¹ Green-washing refers to actions that people and companies take especially in climate-related areas that they would have done anyway with no regard to the climate, but to market their efforts in a pseudo-responsible way they portray themselves as taking climate-related issues into account even if such concerns were never part of their considerations. Similarly, for rainbow-washing which refers to the SDGs and the circular colorful representation of the 17 SDGs.

² This strong finding is further enhanced by a panel regression approach to the correlation between SDG Ratings and creditworthiness as measured by hard currency (HC) sovereign bond yield spreads in emerging markets: A panel regression approach is developed for 64 countries regressed on SDG Ratings comprising a proprietary weighted average of ratings across the 17 SDGs with a time dimension covering quarterly data since 201Q1. See table 1 in the appendix for the regressions are illustrated in the figures where the p-values of the SDG ratings is statistically significant and less than 0.01 in both cases.

Appendix

VARIABLE	HARD CURRENCY YIELD SPREADS											SDG RATINGS (proprietary)											
	20171	20172	20173	20174	20181	20182	20183	20184	20191	20192	20193	20194	20171	20172	20173	20174	20181	20182	20183	20184	20191	20192	20193
Angola	640	615	586	456	450	501	658	541	554	629	670	3,8	3,8	3,7	3,8	4,0	3,9	3,9	4,0	4,4	4,3	4,2	4,3
Argentina	442	432	377	351	420	608	623	817	774	835	2.143	2.169	5,9	5,9	5,9	5,9	5,8	5,8	5,7	5,6	5,4	5,5	5,5
Armenia	334	313	266	208	239	299	263	327	249	201	207	234	4,8	5,1	5,2	5,2	5,3	5,3	5,3	5,2	5,3	5,3	5,3
Azerbaijan	237	259	219	209	217	226	168	243	206	184	191	216	5,0	5,1	5,2	5,0	5,0	5,0	5,1	5,1	5,1	5,1	5,1
Belarus	385	395	348	325	330	376	323	433	375	320	358	380	5,6	5,7	5,8	5,8	5,7	5,7	5,7	5,5	5,5	5,5	5,5
Belize	655	730	669	771	753	750	761	858	845	837	878	892	5,5	5,5	5,5	5,6	5,7	5,7	5,8	5,7	5,7	5,8	5,9
Bolivia	102	211	217	203	209	295	202	378	280	253	291	309	4,9	5,0	5,0	5,2	5,1	5,1	5,0	4,9	5,1	5,0	5,1
Brazil	266	284	242	234	241	328	290	272	249	234	242	259	5,1	5,0	4,6	4,3	4,5	4,3	4,6	4,5	4,5	4,5	4,7
Chile	20	53	68	72	83	97	76	113	74	76	90	86	6,3	6,3	6,3	6,1	6,0	6,0	6,0	5,9	6,0	6,0	6,0
China	21	20	21	22	13	22	30	71	59	54	53	55	4,1	4,3	4,3	4,3	4,3	4,3	4,3	4,2	4,2	4,2	4,2
Colombia	192	200	185	173	180	197	168	228	184	181	183	189	5,4	5,4	5,4	5,3	5,4	5,4	5,4	5,3	5,3	5,4	5,3
Costa Rica	379	372	348	375	347	386	467	529	432	439	478	493	6,3	6,3	6,3	6,2	6,3	6,3	6,3	6,3	6,3	6,3	6,3
Cote D'Ivoire	430	397	369	328	360	427	375	528	425	442	435	444	4,3	4,4	4,4	4,5	4,5	4,5	4,5	4,5	4,7	4,7	4,7
Croatia	183	158	125	100	114	146	98	157	89	67	62	82	6,7	6,8	6,7	6,4	6,4	6,4	6,5	6,3	6,3	6,3	6,3
Dominican Republic	333	321	283	275	292	348	305	371	318	334	358	366	4,9	4,9	4,8	4,8	4,8	4,8	4,8	4,7	4,7	4,7	4,8
Ecuador	669	706	606	459	544	761	622	826	592	580	677	684	5,2	5,1	5,1	5,2	5,2	5,1	5,1	5,0	5,0	5,0	5,0
Egypt	425	456	421	393	389	510	451	574	489	490	521	543	5,0	5,0	4,9	5,0	5,0	5,0	5,0	4,8	4,8	4,7	4,7
El Salvador	553	561	448	383	380	450	445	515	447	459	461	476	5,0	5,0	5,0	5,2	5,2	5,2	5,2	5,2	5,2	5,2	5,2
Gabon	486	478	473	377	388	597	458	632	513	483	516	542	4,3	4,4	4,5	4,5	4,5	4,5	4,5	4,8	4,8	4,8	4,8
Georgia	209	170	133	78	154	163	170	172	133	145	83	85	5,9	6,1	6,2	6,2	6,1	6,1	6,1	6,1	6,2	6,2	6,1
Ghana	638	543	456	354	337	526	468	660	554	563	617	642	4,7	4,8	4,8	4,9	4,9	4,9	4,8	4,8	4,7	4,7	4,8
Guatemala	200	200	204	184	193	233	199	272	233	268	254	269	4,3	4,1	4,0	3,8	4,0	4,1	4,4	4,1	4,3	4,2	4,4
Honduras	344	320	263	260	242	298	235	356	263	269	272	294	4,6	4,6	4,5	4,6	4,6	4,8	4,8	4,6	4,8	4,7	4,7
Hungary	137	124	91	86	112	146	111	149	118	91	100	114	6,6	6,7	6,6	6,4	6,3	6,3	6,1	6,0	5,7	5,8	5,8
Indonesia	175	180	155	152	170	199	165	211	176	167	165	171	4,3	4,4	4,4	4,5	4,5	4,5	4,4	4,3	4,4	4,4	4,4
Iraq	581	588	490	406	387	518	374	556	414	412	452	530	3,9	4,0	3,9	4,0	4,0	4,0	4,1	4,0	4,0	4,0	4,0
Jamaica	349	336	298	304	295	340	297	346	318	327	330	345	5,5	5,5	5,6	5,6	5,4	5,5	5,5	5,6	5,7	5,7	5,7
Jordan	356	354	370	385	382	446	406	486	418	418	429	446	5,4	5,5	5,4	5,4	5,3	5,3	5,3	5,3	5,5	5,5	5,4
Kazakhstan	196	209	178	154	167	183	131	182	160	138	148	162	5,5	5,6	5,5	5,3	5,3	5,3	5,3	5,4	5,3	5,4	5,4
Kenya	438	417	413	312	394	508	461	622	475	473	517	543	4,7	4,4	4,5	4,5	4,6	4,6	4,5	4,5	4,5	4,4	4,4
Lebanon	383	430	445	482	440	744	733	773	789	858	1.282	1.307	4,7	4,8	4,8	4,8	4,8	4,8	4,7	4,8	4,7	4,7	4,7
Lithuania	84	64	51	29	49	62	28	61	60	50	24	28	7,0	7,1	7,1	6,9	6,9	6,8	6,8	6,8	6,7	6,8	6,8
Malaysia	95	95	89	79	88	114	84	100	85	81	78	81	5,4	5,4	5,4	5,4	5,3	5,2	5,2	5,1	5,0	5,0	5,0
Mexico	191	186	166	183	183	203	176	240	204	200	208	213	4,8	4,8	4,6	4,6	4,7	4,6	4,6	4,7	4,6	4,6	4,8
Mongolia	448	462	397	317	322	408	304	422	298	309	355	366	5,1	5,1	5,1	5,3	5,3	5,3	5,2	5,4	5,4	5,4	5,4
Morocco	188	176	158	150	175	209	171	214	202	183	188	202	5,1	5,0	4,9	5,0	4,8	4,9	4,8	4,9	4,8	4,8	4,8
Mozambique	1.808	1.775	1.512	1.461	1.423	1.519	1.314	1.109	942	683	682	682	4,1	4,2	4,3	4,5	4,4	4,4	4,4	4,6	4,5	4,5	4,4
Namibia	258	231	247	224	243	337	281	410	329	283	306	337	5,0	5,1	5,1	5,4	5,3	5,3	5,0	5,2	5,2	5,2	5,2
Nigeria	443	428	416	393	401	506	443	610	483	501	531	566	3,5	3,7	3,7	3,9	3,9	3,9	3,8	3,9	3,9	3,8	3,8
Pakistan	348	317	324	375	440	582	408	525	423	420	474	494	3,0	3,3	3,3	3,6	3,6	3,6	3,5	3,6	3,5	3,5	3,5
Panama	150	150	120	113	131	149	116	167	132	125	128	133	6,0	5,9	5,9	6,0	5,9	5,9	5,9	5,9	5,9	5,9	5,9
Paraguay	241	225	211	200	218	245	214	260	222	212	237	248	5,3	5,4	5,5	5,7	5,6	5,7	5,7	5,6	5,4	5,4	5,4
Peru	147	147	122	116	138	145	113	144	110	105	111	112	5,0	5,1	5,1	5,1	5,0	5,0	4,9	4,8	4,8	4,8	4,8
Philippines	99	96	92	97	103	132	94	120	90	78	79	85	5,0	4,9	5,0	4,8	4,8	4,8	4,7	4,7	4,6	4,6	4,7
Poland	86	62	50	45	55	76	47	81	57	39	34	46	6,3	6,3	6,3	6,0	6,0	6,0	5,9	5,7	5,7	5,7	5,7
Romania	142	136	125	110	143	177	167	213	196	165	175	186	5,8	5,8	5,8	5,7	5,7	5,7	5,6	5,4	5,4	5,4	5,5
Russia	144	160	180	177	193	212	194	244	221	199	191	205	5,5	5,6	5,5	5,4	5,4	5,4	5,3	5,4	5,4	5,4	5,4
Senegal	355	347	322	289	369	470	409	515	431	448	456	476	4,8	4,8	4,8	4,9	4,9	4,9	4,9	4,9	4,9	4,9	4,9
Serbia	186	149	126	102	114	140	106	159	131	89	64	77	6,0	6,1	6,1	6,1	6,0	6,0	6,0	5,7	5,8	5,8	5,8
South Africa	237	253	243	235	234	294	272	320	293	269	317	330	5,0	5,2	5,2	5,0	4,9	5,2	4,9	4,9	4,8	5,0	4,9
Sri Lanka	352	348	285	272	328	429	369	536	421	477	530	550	5,0	5,1	5,2	5,2	5,3	5,3	5,2	5,3	5,2	5,2	5,1
Trinidad & Tobago	209	241	198	163	138	201	201	280	219	245	197	219	6,4	6,4	6,4	6,3	6,2	6,2	6,2	6,2	6,2	6,2	6,2
Turkey	314	293	286	292	325	414	427	427	491	477	465	477	5,1	5,1	5,1	5,2	5,2	5,2	5,2	5,0	5,0	5,0	5,0
Ukraine	649	572	466	456	465	607	554	773	632	507	517	524	5,2	5,3	5,3	5,3	5,3	5,4	5,3	5,2	5,0	5,0	5,1
Uruguay	209	193	165	146	168	200	156	207	170	172	177	183	7,1	7,1	7,0	6,9	6,8	6,9	7,0	6,9	6,9	6,9	7,0
Vietnam	207	167	138	119	157	196	132	198	149	161	113	135	4,3	4,4	4,6	4,6	4,5	4,5	4,4	4,3	4,3	4,3	4,3
Zambia	578	548	509	429	488	799	1.232	1.207	1.331	1.618	1.526	1.641	4,2	4,3	4,4	4,3	4,3	4,3	4,2	4,4	4,3	4,3	4,3
Slovakia	44	33	32	11	37	43	20	57	35	48	42	41	6,5	6,7	6,7	6,4	6,4	6,4	6,3	6,1	6,2	6,2	6,2
Cameroon	496	416	406	347	392	552	526	637	566	555	553	582	3,9	4,0	4,1	4,2	4,2	4,2	4,2	4,4	4,3	4,3	4,3
Ethiopia	500	460	389	337	331	421	313	485	390	381	400	438	3,9	4,0	4,1	4,1	4,1	4,1	4,0	3,9	4,0	3,9	3,9
Tunisia	408	423	393	344	385	522	496	646	625	537	653	674	5,6	5,7	5,7	5,7	5,5	5,5	5,5	5,4	5,4	5,4	5,4
Oman	259	2																					

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