Handbook Series
October 2019

insights

INVESTING ALONG THE 17 SHADES OF SDGs

10 REDUCED INEQUALITIES

8 DECENT WORK AND ECONOMIC GROWTH

4 QUALITY EDUCATION

1 NO POVERTY

5 GENDER EQUALITY

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

7 AFFORDABLE AND CLEAN ENERGY

2 ZERO HUNGER

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

3 GOOD HEALTH AND WELL-BEING

15 LIFE ON LAND

13 CLIMATE ACTION

17 PARTNERSHIPS FOR THE GOALS

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

14 LIFE BELOW WATER

6 CLEAN WATER AND SANITATION

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TABLE *of* CONTENTS

SDG talk

5 the editor's word
Beyond the lapel pin

6 SDGs by the book
An interview of Tiina Landau

8 Mapping the SDGs
The third dimension of risk-return

12 SDGs Matter for Institutional Investors

44 about our partners

investment strategies

14 SDG Integration
Shaping an Investment Strategy Around the Sustainable Development Goals

18 Green Bonds
ESG Integration and Investing in the SDGs: Why and How?

22 MDB Bonds
Solid Yields for SDG-Supportive Investments

24 Real Assets
Addressing the SDGs with the long term in sight

30 Social Infrastructure
Measuring and Managing Impact

34 Impact Investing
Imagining the Next Evolution in Economies and Finance

38 Gender Diversify Your Strategy

40 Climate Goals
A Breakthrough Sustainable Climate Strategy

the editor's word

Beyond the lapel pin

As I often roam the premises of international conferences on sustainable investment and impact, I have started noticing an increasing number of delegates wearing a lapel pin in the shape of the SDG wheel. So much so that I wanted one for myself, feeling that without it, I might look like an outsider.

These pins, I soon found out, sell on the UN DP website for as little as $7.99 or, more locally, on the Swedish UN site for 55 Swedish kronor. Hence being part of the club is relatively cheap. But what then? What does it mean to support the SDGs and wearing the colorful pin?

Most investors like the framework, they easily admit, because it isn't hard to relate to. Before they were rebranded into the SDGs, the Millenial Goals existed for about 15 years but never made it into mainstream investors' radar screen. Perhaps they lacked the tangibility that the new set of seventeen goals seems to offer.

So now they are appealing, but how do investors use them? Do they have concrete progress to report or is it all SDG-washing, as the detractors like to cry out? We went to find out.

On the one hand, we encountered managers that endeavor to integrate the goals as a framework to measure their overall impact. Perhaps the investment strategy hasn't changed, because they already aimed at generating positive impact before the SDGs came along. The opportunity lies in the ability to demonstrate the impact more clearly and thereby attract more capital into their investment vehicle.

Other strategies are specifically designed to address targeted themes, which relate to one or more goals. We examined with them how their investments may help contribute to closing the funding gap required to reach the SDGs.

Finally, we also looked at the current efforts led by Dutch pension manager PPGM which, among others, are supporting the the Impact Management Project, in an attempt to set up an SDG-related standard to report the impact generated by targeted investments.

Investing along the SDGs is clearly still a work in progress. We hope that this collection of articles will inspire more actors to join in and, with or without lapel pin, to support this relatable set of goals.

Aline Reichenberg Gustafsson, CFA

Editor-in-Chief

NordSIP

SDGs by the Book

by Aline Reichenberg Gustafsson, CFA

Earlier this year, Tiina Landau, formerly senior responsible investment officer at Finnish pension insurance company Ilmarinen, co-authored *Vastuullisuudesta ylituottoa sijoituksiin* (so far only available in Finnish), a comprehensive manual on responsible investments, together with Hanna Silvola, associate professor at the Hanken School of Economics. Given the depth and breadth of research she has undertaken, we sought Landau's view about the Sustainable Investment Goals. We asked her what she thinks is the best way to use the SDGs in shaping an investment strategy.

Tiina Landau, a graduate of Aalto University School of Economics in Finland, and a Certified European Financial Analyst (CEFA) began her career as a management consultant on corporate responsibility and responsible investment at KPMG in Helsinki in 2012. After this she moved to Ilmarinen, where she was a Senior Responsible Investment Officer and also served on the board of Finsif, Finland's sustainable investment forum.

At Ilmarinen, Landau developed the company's responsible investment policy, as well as sustainability ratings for the systematic integration of ESG in investment decisions. She also developed a climate policy and corporate responsibility concept, while coordinating engagements and drafting voting instructions for general meetings. Her work received wide international recognition, with Ilmarinen's climate strategy ranking in the top 10 (AAA) of the 500 largest asset owners globally in AODP's research in 2017. Today, Landau is Sustainability Manager at Neste. In her new position, she continues to advance the questions that are important to her from inside one of the companies leading the energy sector in matters of sustainability.

In her capacity at Ilmarinen, Landau had the opportunity to write blogs, "I liked it," she admits. "I found it very rewarding to write about things I cared about while engaging and getting the readers' attention." As the interest in sustainable investments grew wider among companies as well as private investors, the author felt the need for a more substantial contribution. "Academia isn't yet providing a comprehensive education in the matter of responsible investing," she says. "Many companies find it difficult to recruit the right people as well. I already knew my co-author, Associate Professor Hanna Silvola. We talked about these educational needs, and we realised that we could combine our expertise from both academia and the industry to write a book together. We wanted to share practical knowledge through case studies and expert interviews."

The book, Landau says, has received much attention in Finland, which shows how eagerly readers were anticipating such a publication. Even internationally, she has been surprised to see how much interest the book has generated. "We have found there is interest to translate the book into English. Before too long it will hopefully be possible for many more to get access to the knowledge, we are eager to share," she says happily.

In her book, Tiina Landau makes extensive reference to Dutch pension manager PGGM as a standard set for good ESG and sustainability practices. She notes the foresight of PGGM in designing its own "taxonomy" of investment classifications together with the Dutch APG pension fund in May 2017. Published two months before the interim report of the EU's High-Level Expert Group on sustainable finance, the PGGM and APG's taxonomy was one of the first to map investment opportunities to the SDGs.

The finance sector has adopted the SDGs, as the goals or sub-goals offer a wide range of investment opportunities. "Many investors want to find companies that can provide solutions," says Landau. "However, they can be difficult to identify sometimes. The tools available to investors are still imperfect. Data and index providers can help with a starting point, but before making an investment and claiming that it solves the SDGs still requires a lot of work. For this purpose, the work that PGGM has done with APG can help identify opportunities."

While the most popular use of the UN framework is to identify a profitable business that solves the SDGs, it can also be used to design an engagement strategy. "The same way we have been using the Global Compact for many years, the SDGs can provide a solid background for engagement efforts. Similarly, the goals can help set targets against which to report progress."

When it comes to actual impact measurement, Landau remains somewhat cautious. "Many investors look at mapping revenues, but what is the actual impact in terms of externalities?" she asks. "The same solution can generate a different impact depending on where you are in the world. Energy efficiency gains or health gains are positive impacts that can't be measured only in monetary terms."

Tiina Landau, Author, *Vastuullisuudesta ylituottoa sijoituksiin*
Photograhy by Alma Talent / Meeri Utti ©

To focus the efforts of an organisation around the UN framework, Landau believes that it makes sense to pick the most relevant goals. "SDGs are not designed specifically for financial investments. Several of the goals are for governments and public entities to achieve. Some particular goals such as Good Heath, Clean Water or Climate Action, on the other hand, make for appropriate targets for financial investments."

"We shouldn't prioritise the SDGs per se, but we should be aware that some are more investable than others," she clarifies. "For engagement and reporting, for example, an organisation should focus on the goals that are the most relevant to its activity. Also, people shouldn't forget that the SDGs are only one part of the assessment. ESG considerations and financial valuation are also part of the equation."

For Landau, the next phase lies in perfecting impact measurements. "Carbon footprint or energy gains are already quite prominent, but there are many others that still need to be addressed. How good are the investment targets at fulfilling the SDGs? That's what we should be able to know. But no one is going to solve the SDGs on their own. Cooperation is at the core of this initiative," she concludes.

Mapping the SDGs

The Third Dimension of Risk-Return

by Aline Reichenberg Gustafsson, CFA

"After the financial crisis, reconnecting to the real world was the name of the game. One of the lessons we took was that there is a third dimension of risk-return and impact that pension funds want to understand better," says Piet Klop, Senior Adviser on Responsible Investments at PGGM, the asset management arm of the Dutch Pension Fund for Care and Well-Being, the second-largest pension fund in the Netherlands with €20billion in assets.

Speaking to an audience of investors and responsible investment specialists at AMWatch's Nordic Investment Forum in Copenhagen in early Summer 2019, Klop shared the impact insights that the Dutch asset manager has gleaned over the years.

"The UN's Sustainable Development Goals (SDGs) provide, perhaps, the simplest approach to measuring impact, to the extent that one can map the investment volumes to the SDGs," he explains. "Another alternative is a scoring approach where one can net out positive and negatives. You can throw everything in the mix and out comes a score." Many data providers tend to follow such an approach, but Klop argues that the absolute impact measurement approach is superior. "There's an outcry for simplicity from our board of trustees at almost every meeting."

"Doing the Right Thing"

When considering sustainability, impact investing and the role of the SDGs, Klop emphasises the difference between "doing the right thing" and "doing things right". Doing the right thing is about the integration of sustainability factors in investment decisions, which should be a part of investors' risk management relevant to their fiduciary duty. Doing things right is a choice, and it is where impact investment and the SDGs come in.

"Ideally, we want to make a difference that we can measure in real terms, whether it's through figures about employment, emissions or litres of water," the adviser explains. "Doing the right thing is often product-related, which is why we spend so many resources mapping revenues onto different SDGs. We want to understand what part of your revenues is driven by a product or a service that is being sold for impact."

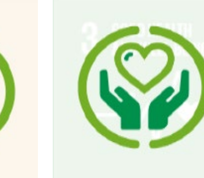
Mapping Impact with the SDGs

According to Klop, impact, as a sustainable development investment, is not an asset class in its own right, but rather something that you can do across a variety of asset classes.

PGGM's own approach is to focus on four themes of climate, water, food and health. As shown on Exhibit 1, they can be mapped onto Zero Hunger (SDG2), Good Health and Well-being (SDG3), Clean Water and Sanitation (SDG6), Affordable and Clean Energy (SDG7) and Responsible Consumption and Production (SDG12). "These are the SDGs we are currently targeting," Klop explains. "These are the themes that resonate with the interests of our beneficiaries, according to the board of trustees".

In contrast to the negative approach of exclusions, the SDGs are a tool that

Piet Klopp
Senior Adviser on Responsible Investments
PGGM



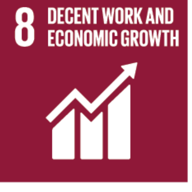


Exhibit 1. PGGM's four themes mapped onto the SDGs

drives positive investment and impact. "The SDGs allow the board to articulate what they stand for rather than just talk about what PGGM opposes," the adviser says.

Despite the appeal of its simplicity, Klop is wary of mapping the SDGs without some underlying framework to guide the process. "The SDGs are so broad that you can drive a truck right through them. We have mapped 16% of our entire portfolio to the SDGs, but that could easily be 100% if one tweaked with the definitions," he warns. "For instance, we could argue that our entire portfolio is a complete match to SDG8 – Economic growth."

"To avoid SDG-washing, we need to be critical and specific," the senior adviser explains. "We designed our own taxonomies and decision rules, and we started mapping our entire portfolio against those taxonomies."

Using the SDGs to Measure Impact and Engage

"Measurement is key. If impact investing is to be taken seriously, we cannot just focus on a value or a score. It needs to make more sense than that," Klop emphasises. "The measure needs to communicate that we have a purpose."

The key to real impact is that it is measurable, but also intentional and additional, according to the PGGM adviser. "Additionality means that the impact would not have happened without us and it is what distinguishes real impact in private markets from sustainable impact in public markets," says Klop. "Investing in private markets makes more of a difference than in public markets."

"As mainstream investors, there is a limit to how much resources we are going to pour into impact measurement. We have to keep things simple and practical," he says, describing PGGM's impact assessment model. "We took our original four themes, mapped them onto the SDGs they correspond to and zoomed in on a few impact indicators that we use internally and with our external managers."

PGGM's model begins by breaking down the sales of a company by activity. Based on PGGM's in-house taxonomies, the pension manager then maps each activity to the solutions it is facilitating, in euro-terms. Based on research from Harvard University, the City University of New York

Exhibit 2. Impact modeling

Exhibit 3. Impact Indicators for Selected SDGs

THEME	SDG	DESCRIPTION	UNIT
	7 AFFORDABLE AND CLEAN ENERGY; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Annual renewable energy produced Annual avoided greenhouse gas emissions Annual avoided pollution or other emissions that would otherwise end up in the biosphere	MWh Tonnes CO2 eq. Tonnes
	6 CLEAN WATER AND SANITATION	Annual water savings Annual number of people with adequate access to clean water Annual waste water treatment	m3 People m3
	2 ZERO HUNGER	Annual increase in yield Annual avoided harvest , transport and storage losses Annual Improvements in nutritional value Annual increase in number of people with local access to nutritious food	Tonnes/ha Tonnes Tonnes People
	3 GOOD HEALTH AND WELL-BEING	Annual number of people treated Annual reduction in sick days Annual reduction in costs for standard treatments and medicines	People Days €

(CUNY) and Wageningen University & Research, PGGM can convert this value into impact. Using information from company reports it can map that impact into the relevant SDG to arrive at an estimate of impact per euro invested.

"Like any other model, ours is not always accurate, but it gives us the necessary ammunition to engage with our companies and provoke them into disclosing more information. We can push them to provide us data on real product- or service-related impact, not just in-house operational performance," the PGGM adviser adds.

Awareness and Data Problems

Discussing the model, Klop admits that "it is a work in progress". Aware of the imperfect nature of any such process, PGGM's focus has been on seeking to refine its model to improve the quality of its disclosure and become more reliable every year. "It signals to other companies that these are issues investors such as ourselves are interested in," he adds.

"We have also sought to mainstream our process," Klop says. "Rather than coming up with our own homebrew of impact indicators we tried to using existing data for reporting the impact performance of our fund managers".

"Ultimately, I take great comfort from the fact that mainstream data providers are looking very seriously at revenue breakdowns," the PGGM adviser says, pointing to recent efforts from Bloomberg.

"But it's a crowded space. There are too many initiatives that overlap or compete and are often incomprehensible," Klop remarks. "It leaves investors with the impression that the impact investing space is not mature enough. One of the main challenges we face is to keep impact measurement manageable and understandable for all those involved," he concludes.

THE IMPACT MANAGEMENT PROJECT

PGGM also contributed to the Impact Management Project (IMP), a partnership where 2,000 stakeholders across more than 50 countries have come together to agree on norms for impact management

The IMP is advised and funded by a group of 21 organisations, including the Ford Foundation, UKaid, AEGON Asset Management, BlackRock, Hermes Investment Management and UBS.

PGGM worked with the IMP to provide its clients more accurately information about the difference their investments make in the real economy and what PGGM's role in the process was.

Exhibit 4. The landscape of investment opportunities

		Avoid harm	Benefit stakeholders	Contribute to solutions
IMPACT GOALS	WHAT	Important negative outcomes	Important positive outcomes	Specific important positive outcome(s) AND
	HOW MUCH	Marginal and For few	Various	Deep, and/or for many and/or long-term AND
	WHO	Underserved	Various	Underserved
	CONTRIBUTION	Likely same or better	Likely same or better	Likely better
	RISK	Various	Various	Various
INVESTOR'S CONTRIBUTION	Signal that impact matters + Engage actively + Grow new or under-supplied capital markets + Provide flexible capital	E.g. Ethical bond fund	E.g. Positively-screened/best-in-class ESG fund	E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to underserved people or renewable energy projects
	Signal that impact matters + Engage actively + Grow new or under-supplied capital markets + Provide flexible capital	E.g. Shareholder activist fund	E.g. Positively-screened/best-in-class ESG fund using deep shareholder engagement to improve performance	E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people
	Signal that impact matters + Engage actively + Grow new or under-supplied capital markets + Provide flexible capital	E.g. Anchor investment in a negatively-screened real estate fund in a frontier market	E.g. Positively-screened infrastructure fund in a frontier market	E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation
	Signal that impact matters + Engage actively + Grow new or under-supplied capital markets + Provide flexible capital		E.g. Positively-screened private equity fund making anchor investments in frontier markets	E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for underserved people
	Signal that impact matters + Engage actively + Grow new or under-supplied capital markets + Provide flexible capital			E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people
	Signal that impact matters + Engage actively + Grow new or under-supplied capital markets + Provide flexible capital			E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people

FINANCIAL GOALS: Competitive risk-adjusted financial returns

Source: Impact Management Project, THE INVESTOR'S PERSPECTIVE, Constructing a portfolio on the efficient impactfinancial frontier within one asset class

Tycho Sneyers
Managing Partner, LGT Capital Partners and Board Member, UN PRI

"The most urgent and important topic humankind is facing is climate change. Climate change has become a top priority of most nations and citizens."

SDGs Matter for Institutional Investors

by Filipe Pires de Albuquerque

The results of a recent survey were released, summarizing the views of alternative investors about ESG integration and the SDGs. Tycho Sneyers, Managing Partner LGT Capital Partners and Board Member of the UN PRI comments on these results and tells us what he believes are the most pressing questions to address at the moment.

The survey interviewed 207 participants from 28 countries, who invest in private equity, real estate, private debt, infrastructure and hedge funds. The answers show that this group of investors is clearly supportive of the SDGs. A total of 91% of respondents agree that "the SDGs will help the financial industry to address pressing environmental and social issues". 89% similarly felt that "the SDGs will help investors to measure more specific ESG outcomes" and 78% agreed that "the SDGs will create new investment opportunities."

"What was particularly surprising was the very high degree of support for the SDGs from institutional investors globally," Tycho Sneyers comments. "As the SDGs were set up as a framework for governments and not as an investment concept, we did not expect to see such a strong support for the SDGs in the financial industry. Although the active implementation is somewhat lagging behind, the importance of the SDGs for investors exceeded our expectations."

However, investors seem to be taking their time to integrate the SDGs into their activities. While a majority of the investors LGT Capital Partners surveyed had plans to incorporate the goals by the end of 2021, only a small number had already integrated the SDGs into their reporting, assessment or impact metrics.

Nonetheless, 18% of the investors already have concrete investment allocation targets that are impact or SDG related. Analysing this in more detail, it becomes apparent that investors who are more experienced with ESG integration are also more likely to have defined target allocations.

"In our opinion, a good way to get started with the SDGs is to undertake a high-level qualitative mapping of which investments have a positive or negative impact to the SDGs," Sneyers advises. "We have recently seen an uptake of this approach with various investors."

"What is much harder to achieve, especially given that there are not yet set industry standards, is a quantitative assessment of real impact based on facts and figures," he continues.

Encouragingly, according to the survey results, SDG integration will see a strong uptake in the next two years as 28% of investors state that they are planning to implement allocation targets to impact and SDGs in this time frame.

Exploring the focus of investors with regard to the SDGs, the survey shows that goals related to a specific investment opportunity are ranked the highest. These goals include Climate Action, Affordable & Clean Energy as well as Clean Water & Sanitation. Asked to mention a number one goal, SDG 13 (Climate Action) was placed as the most important by 35% of investors surveyed, followed by SDG 3 (Good Health and Well-being), which was the most important SDG for 9% of investors. And 8% of investors regarded SDG 6 (Clean Water & Sanitation) and SDG 7 (Affordable & Clean Energy), as most important to them.

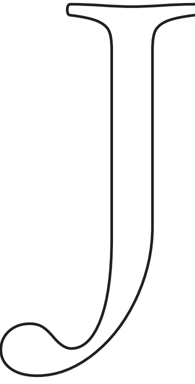
"The most urgent and important topic humankind is facing is climate change," states Sneyers. "Climate change has become a top priority of most nations and citizens. This development has been driven by two important initiatives, the Paris agreement on climate change as well as the adoption of the SDGs by all UN member states. Against this backdrop SDG 13 (Climate action) is the most important SDG, which holds also true for investors as our survey has illustrated."

The interviewees carried out a wide range of roles, including portfolio managers/Heads of Asset class (45%), CEOs/CIOs (28%), ESG officers (11%) and Trustee/Board Members (6%). The investors surveyed came from various parts of the financial industry, such as pension funds (36%), endowments/foundations/family offices (20%), Investment management firms (13%), bank/wealth managers (10%) as well as insurers/reinsurers (8%).

SDG Integration

Shaping an Investment Strategy Around the Sustainable Development Goals

by Christian Regnicoli, CAIA



Christian Regnicoli, CAIA
Head Institutional Clients
responsAbility

The last few years have seen surging interest in impact investing, fuelled in particular by the adoption of the UN's Sustainable Development Goals (SDGs) in 2015. Experience in this area shows that an investment strategy that puts the SDGs at its centre can generate sustainable impact as well as competitive financial returns – as long as investors observe a number of key considerations when choosing their investments.

Just as consumers are becoming more aware of the environmental and social impacts of their consumption choices, investors are paying increasing attention to the environmental and social implications of their investment decisions. More and more of these investors are using the SDGs as a framework for their investment strategies.

As a universal call to action for a sustainable future, the SDGs are creating potentially enormous investment opportunities. According to the IFC, as much as USD 7 trillion a year in global investments will be needed to achieve the SDGs by 2030 — including up to USD 4.5 trillion in developing countries. The importance of private sector investments to achieve these goals is widely acknowledged.

What makes investing with the SDGs in mind a compelling opportunity is that investors do not need to compromise on returns to generate impact. Nor are they entering completely unchartered territory. Seasoned impact investors - responsAbility, active in the field for over 15 years, is one of them – have demonstrated that it is possible to consistently deliver high impact as well as attractive returns.

Defining the mission and measuring impact

As with all things, to find the adequate SDG-aligned investment solution for a particular portfolio will require investors to analyse their motives and expectations. When decision makers first decide to add SDG investments to their portfolio or shape their entire investment strategy around the SDGs, they will need to decide what they are looking for and invest some time in understanding what they are offered: empower women or rural communities? Mitigate climate change? Ensure food security?

Objectives vary according to the background an investor may have – and there are a series of different options to fulfil these requirements. Most obviously, climate change is one topic that is raised time and again. As the key to mitigate it will ultimately lie with developments in emerging economies, this is an area where investments in these markets can achieve considerable impact. One of the funds responsAbility manages, founded in 2009, is entirely dedicated to climate change mitigation and we have seen institutional investors like banks or pension funds increase their engagement over the past years.

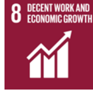
On a much broader level, building up adequate infrastructure in emerging economies is proven to contribute to almost all of the SDGs at the same time. By investing in microfinance institutions and SME banks, for instance, investors actively contribute to creating a stable and inclusive financial sector which helps broad sections of the population to create a livelihood and build resilience. Less poverty translates into better health and education, more equality and a safer environment.

So-called microfinance investments, pioneered by asset managers like responsAbility, have now been around for over 15 years and have long been integrated into institutional portfolios. Stable returns, low correlation with other investment classes and the potential to access to growth markets through tried-and-tested investment solutions make them a compelling choice.

Agriculture: the super-sector for SDG investments

For those seeking to maximise development impact, however, experts agree that there is one sector that beats them all: agriculture. Studies show that economic growth in the agricultural sector is at least twice as effective as growth in other sectors in contributing to poverty reduction. Some of the reasons:

Unsurprisingly, the agricultural sector is the basis for SDG 2, Zero Hunger. Few of us are aware that some 80% of food items are produced by smallholder farmers and family businesses around the world. To meet the increasing demand for food of a growing global population, a financing gap of some US$150 billion needs to be filled.



The sector is also crucial as a source of income. In emerging economies it accounts for 31% of economic output and 34% of employment. Rural areas tend to be the most deprived regions, even within low-income economies. Creating employment and ensuring smallholder farms can live off their work is a crucial element in the quest to end poverty.

Equally, agriculture is where investors can truly create impact when it comes to environmental protection and the safeguarding of healthy ecosystems. The sector accounts for 10% to 12% of total greenhouse gas emissions. Promoting sustainable and more resource-efficient production methods helps to address climate change – through carbon sequestration, the prevention of soil erosion, safeguarding biodiversity as well as better water management.

Agriculture Private Debt: investments for high impact

There are different possibilities of investing in agriculture with the SDGs in mind. As with any other investment, investors should explore the available investment opportunities, identifying how they could complement their portfolios while keeping an eye on the actual impact they are likely to generate.

Initial factors to assess are the same as for any other investment: the investment's correlation with the other portfolio investments; its risk-return profile; its liquidity, and its diversifying properties. To explain this, let's take a look at responsAbility-managed private debt funds in the area of sustainable agriculture, which largely benefit agricultural SMEs and smallholder communities associated with them:

The asset class, Emerging Markets (EM) Private Debt, provides investors with access to an unexploited growth market, new assets, opportunities and returns by providing loans to private companies in developing countries. It also offers attractive long-term risk-adjusted yields. Particularly in the current low-interest environment and thanks to its low correlation with other asset classes, the asset class can serve as a valuable portfolio diversifier. This makes it an interesting investment alternative which has been garnering increasing attention, particularly among institutional investors.

Looking at responsibility's Private Debt portfolio in sustainable agriculture, the annualized performance over the last five years (net of fees - TER 1.9%) was 3.91%. This comes with low correlation with traditional, listed EM Debt and lower volatility than that asset class.

What is 'high impact'?

Gauging the likely impact of an investment is a more complex matter, which is compounded by the fact that a flurry of supposedly SDG-aligned investment products has hit the market since SDG investing has become in vogue. Investors who are unlikely to settle for mediocre financial performance also will be reluctant not accept mediocrity when it comes to impact. To avoid "impact-washing" I recommend to seek out investments with a direct impact and be sure that they understand whether and how that impact is measured.

The good news is that, in the area of sustainable agriculture, quantifying the effect of impact investments is relatively easy. A glimpse at the impact reported by responsAbility-managed Private Debt funds in the area of sustainable agriculture for the year 2017 illustrates this.

The funds provided loans totalling **US$250 million** to **124 borrowers** in the agricultural sectorwith **420 affiliated companies** benefiting indirectly from these loans. These investments reached **495,650 smallholder farmers** and **535 intermediaries** in **51 countries**. The portfolio companies generated total sales of **US$2.84 billion**, 33% of which was certified as sustainable, while **US$2.25 billion** flowed to smallholder farmers through the purchase of their products. The portfolio companies employed a total of **28,797 workers**, 24% of whom were women and invested **US$3.9 million** in the education and training of staff as well as the smallholder farmers who act as suppliers. In addition, responsAbility can identify which sustainability standards investees have complied with, and whether they invest in energy efficiency and renewable energies.

Investing in the SDGs: a worthwhile opportunity

This is just one example of how to evaluate at an SDG-related investment for its performance when it comes to impact. While there is no universally accepted measurement system, investors can understand what they are offered by asking the right questions – which will come more easily as investors gain experience in the field. In turn, they will be rewarded with access to unique growth markets and investments that create market-based returns at the same time as sustainable impact.

Investors' growing interest in the impact of their investments is a huge opportunity to progress the SDGs, and sends a clear signal to the market that investment capital can help solve some of the world's most pressing challenges. In addition, by adopting an SDG-aligned investment strategy, investors can more clearly communicate how they are considering ESG factors in their investment decisions and how their investments contribute to the broader priorities of global society.

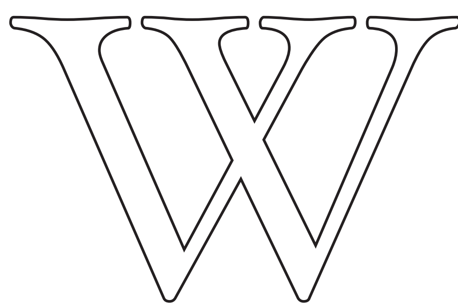
5 STEPS TO ALIGN YOUR PORTFOLIO TO THE SDGS

1. *Understand your purpose*
   What impact do you want to achieve?
2. *Choose your investment area*
   Sector? Geography? Investment philosophy?
3. *Understand its SDG potential*
   What are the specific key performance indicators?
4. *Choose your product specification*
   Asset class? Risk-return profile? Liquidity?
5. *Choose your investment solution*
   Assess financial performance as well as impact

Green Bonds

ESG Integration and Investing in the SDGs: Why and How?

by Filipe Pires de Albuquerque



Since the establishment of the Principles for Responsible Investments (PRI) in 2006, investors have focused on the role of ESG in informing decisions at the asset class level. However, the focus is shifting to strategic asset allocation, according to Stephanie Maier, Director for Responsible Investments at HSBC GAM.

Stephanie Maier
Director, Responsible Investments
HSBC GAM

"We believe that ESG issues are material to our investment decisions," says Stephanie Maier. "We were early adopters of the PRI and in 2007, under the direction of our Global CIO, moved quickly to launch a central ESG data platform and training for all of our analysts and fund managers."

ESG integration into the investment process allows the bank to understand the complexities of global megatrends, such as climate change. Thus equipped, investors can position themselves to manage the emerging risks and opportunities associated with these new paradigms. Through thoughtful ESG integration, Maier argues investors can guarantee the long-term profitability of their portfolios while helping the world to remain on a sustainable development path.

The Portfolio Impact of Climate Change

To the sustainability specialist, ESG integration is not a fad. It is a tool with which to enhance asset management and inform investment decisions beyond the purely financial considerations that have traditionally been the norm. Along the environmental track of ESG, interest has been increasing in models that simulate and forecast the effects of climate change on GDP and asset returns. Academic research[1] suggests that in a scenario where global temperatures rise by 4°C by 2100, the GDP may fall by 10.5% in the USA, 13% in Canada and 12% in Switzerland.

HSBC's in-house research echoes these concerns. "Since the end of 2017 we incorporate climate considerations as part of our ESG integration," the Director for Responsible Investments explains. "However, with the launch of the Taskforce on Climate-related Financial Disclosure (TCFD) recommendations, we started working on the impact of different transition scenarios on equity valuations and then credit ratings".

HSBC has developed[2] a four-stage approach with which to consider the impact of the low-carbon transition on a diversified equity portfolio. The approach combines scenario design, top-down integrated assessment modelling and bottom-up value stream modelling to estimate equity impacts. It begins by identifying low carbon transition pathways based on expert assessment of policy and technological uncertainties. HSBC then incorporates these assumptions into an integrated assessment model of revenues and costs that are, in turn, treated as an input for companies' returns.

"We learned a lot in the process [of applying this model] about how the changes in climate policy and technology impact company valuations," Maier says. "As you would expect, certain scenarios are more challenging for specific sectors, but there is also significant variation within sectors with clear winners and losers. These insights inform our integration and engagement efforts."

The SDGs and Closing the Investment Gap

The UN's 17 Sustainable Development Goals (SDGs) represent another useful lens through which investors can identify investment opportunities and potential sources of global GDP growth. Covering topics such as climate change, human rights, inequality and economic growth, the goals were initially aimed at policy makers. However, the SDGs also matter for long term investors. "Failure to achieve the SDGs can present significant sources of systemic risk, in particular for large universal asset owners," Maier argues.

The danger is material. Estimates suggest that, at current levels, the world is US$1.9-3.1 trillion behind on the US$5-7 trillion of annual investment required to meet the SDGs over the years of 2015 to 2030.

Taking into account the sustainability impact of each asset class enhances asset managers' understanding of the efficient investment frontier and can result in a more meaningful allocation of capital to SDG-aligned investments, according to HSBC's Director for Responsible Investments.

Financing the SDGs Through Green Bond Funds

"We are committed to mobilising capital into projects that deliver on SDGs by collaborating with institutional investors, development finance institutions and policy-makers," Maier explains.

Financially, HSBC has focused on supporting the green bond market. "Green bonds are an excellent asset class through which we can deliver impact due to the clarity around the use of proceeds," the Director for Responsible Investments explains. "To date, we have seen most green bond issues in developed markets and a few notable emerging markets. Financials have also tended to dominate."

However, Maier argues that the market needs to grow if we are to meet SDGs. HSBC can help by helping issuers fund their projects. "Catalysing new issues from real economy corporates, delivering capital in the markets where we need to finance the low carbon transition is a huge challenge," she says. For HSBC, the role of green bond funds is clear. "Increasingly, we are also seeing institutional investors signalling appetite for investments that mobilise capital to address systemic sustainability challenges such as climate change," says the responsible investments specialist. "This appetite for sustainability sends a strong signal to issuers and creates an incentive for us to find solutions, such as the HSBC Real Economy Green Investment Opportunity (REGIO) GEM Bond fund," she adds.

Building Green Bond Capacity

Investing in Green bonds can be challenging. As an investor, HSBC requires clarity and transparency from the green bond issuers it invests in. At the same time, it also needed to invest in the internal expertise and capacity to judge the quality and evolution of these projects. Beyond the general training it has provided its employees, specialist stewardship and ESG research teams also provide ESG integration and engagement support to the analysts and fund managers. "We continually review our ESG data sources, tools and training to best support our teams," says the Director for Responsible Investments.

But HSBC has also invested in Green bond-specific processes and dedicated resources. "We need to have clarity around the types of activities we would include within an impact fund," Maier explains. She notes that the analysis often needs to go beyond what is offered by existing standards. "The current Green Bond Principles outline broad categories for eligible activities. Nevertheless, in assessing whether a green bond is delivering impact in line with the SDGs, we need to be more specific about for the types of project we would consider.

The need for added sophistication drove HSBC to develop its own classification model of what constitutes a green investment, the 'Green Impact Investment Guidelines'. "We define the activities we consider to be 'green' and map these to specific SDG targets," the Director for Responsible Investments says. "We developed the framework with input from several development finance institutions, which was invaluable." These guidelines standardise and clarify what investments HSBC is willing to engage with in-house analysts as well as to potential investees.

"We also have a dedicated Green bonds committee. It is responsible for ensuring that any green bond we invest, within our impact strategies, meets the requirements of the Green Impact Investment Guidelines," she explains. "The guidelines cover not just the use of proceeds but also the sustainability requirements of the issuers."

"As the debate deepens, we may see a greater focus on aligning strategic asset allocation to achieve tangible sustainability impacts. Such a shift will unlock more capital to finance the SDGs while delivering on risk and return objectives," Maier concludes.

[1] https://www.nber.org/papers/w26167
[2] https://www.assetmanagement.hsbc.co.uk/-/media/files/attachments/uk/common/exploring-scenario-analysis-for-equity-valuations.pdf

MDB Bonds

Solid Yields for SDG-Supportive Investments

by Filipe Pires de Albuquerque

One of the main hurdles to achieving the UN's ambitious sustainable development goals (SDGs) set out in 2015 by the UN's Agenda 2030 is galvanising the necessary funds towards these ends.

At the forefront of this struggle, Multilateral Development Banks (MDBs) have spent the last seven decades refining the expertise necessary to succeed in this journey. Now, new indexes and ETFs make it possible for investors to help MDBs close the US$ 2.5 trillion SDG funding gap while accessing an attractive low-risk asset class.

Stable and attractive yields

MDBs are supranational financial institutions dedicated to providing financial support and know-how for economic and social development projects. Also known as multinational lending institutions (MLIs), they were established between the 1940s and 1960s both to ensure that funding for development would be available at reasonable terms and to support emerging markets in their economic convergence.

These banks' ownership is split between multiple member states. MDBs are more policy- than profit-driven. Lending criteria are prudently determined and, besides the banks' status as preferred creditors, guarantees from a government are usually required to grant loans to specific home-country projects. Due to strong backing by G7 countries and robust capital position, supranational banks feature high credit ratings and have access to the bond market at low funding rates.

Due to their high, stable credit ratings and resilience to weakening in the credit quality of their member countries, bonds of the largest global MDBs should not offer a credit risk premium over benchmark government bonds like US Treasuries in USD or German Bunds in EUR. MDBs do however offer extra yield, which over the past three years ranged from 5 to 25 basis points (bps). This incremental yield is partly a compensation to investors for slightly lower market liquidity.

A natural fit to fund the SDGs

MDBs' mission to fuel inclusive economic development and convergence naturally positions them to target projects that support the SDGs, so that MDB bonds are a are natural fit for ESG and socially responsible investors.

The International Bank for Reconstructions and Development (IBRD), the International Finance Corporation (IFC) and International Development Association (IDA) as well as the European Bank for Reconstructions and Development (EBRD), the Asian Development Bank (ADB) and the African Development Bank (AfDB) have issued various bonds, for which the use of proceeds is targeted at fulfilling the SDGs, including gender equality (SDG5), good health and well-being (SDG3), responsible consumption and production (SDG12) and climate action (SDG13) clean water and sanitation (SDG6), life below water (SDG14) and no poverty (SDG1) and zero hunger (SDG2).

These projects involve creating physical infrastructure such as roads, railways, bridges, telecommunication, water management facilities, solar and wind farms, schools, hospitals and other social infrastructure projects.

Investors can support the 2030 agenda and invest in MDB bonds through funds that track the "Solactive UBS Global Multilateral Development Bank Bond" index family, introduced in the Spring of 2018. One such example, the Solactive UBS Global Multilateral Development Bank Bond USD 25% Issuer Capped Index" focuses on MDB fixed rate bullet or callable international bonds, rated no less than AA- (S&P) or AA3 (Moody's), denominated in US Dollars, with a minimum of US$ 500 million outstanding with more than 12-month time to maturity. Each issuer is weighted by market capitalisation and capped at 25% of the index.

The index offers higher yields compared to duration-matched US Treasuries with an option adjusted spread of 6 basis points (bps) (as of September 2019). Provided no defaults are incurred on this triple-A portfolio going forward, the mentioned 6 bps is suggestive of expected outperformance of similar magnitude. Historically, the option adjusted spread over the past eight years gradually compressed from 45 bps to the current level. The index duration is just above 3 years, while yield-to-maturity has increased in the recent period to 3.3%.

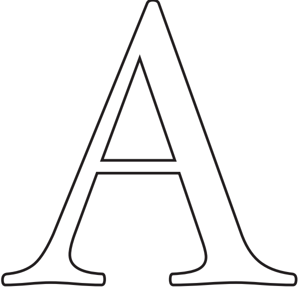
By investing in this index, investors can gain exposure to MDB bonds and the impact investments they conduct across the SDGs, their high-grade certified by triple-A issuer ratings, good liquidity, and a modest yield-pickup relative to US Treasuries.

UBS offers an ETF in this spirit, the "UBS ETF (LU) Sustainable Development Bank Bonds UCITS ETF", which is available in accumulating and distributing share classes, in USD, or hedged to Swiss Franc or to the Euro. The funds' holdings replicate the benchmark and provide a diversified exposure to sustainable bonds issued by IBRD, IFC, IDA, EBRD AfDB and ADB.

Real Assets

Addressing the SDGs with the long term in sight

by Aline Reichenberg Gustafsson, CFA



Achieving the Sustainable Investment Goals requires long-term capital commitments, which is sometimes difficult to accomplish through liquid investment vehicles. At a recent event in Gothenburg, on the west coast of Sweden, NordSIP found three real asset investment strategies which contribute to the SDGs in different ways. While the managers have not chosen to highlight the goals specifically, we found a strong fit with some of the goals' underlying targets for each strategy, and not necessarily the easiest to address profitably.

Nick Tapp
Craigmore

Goal 2 – Zero Hunger

Not many investment strategies can relate to such an important goal as goal 2 "Zero Hunger". "A profound change of the global food and agriculture system is needed if we are to nourish the 815 million people who are hungry today and the additional 2 billion people at risk of undernourishment by 2050. Investments in agriculture are crucial to increasing the capacity for agricultural productivity, and sustainable food production systems are necessary to help alleviate the perils of hunger," the UN states.

Nick Tapp at investment manager and farmer, Craigmore, makes a compelling argument for why investing in New Zealand agriculture is a sound choice, both from a financial and from a sustainability point of view. While the underlying fundamental demand trend is strong, the asset class is particularly unusual for several reasons. In several countries, the government impose restrictions on institutional ownership of farmland, for instance. The revenue may be uncorrelated to equity markets, but the inherent exposure to the weather, commodities market and even political risk requires a particular type of expertise. These risks are well known, they can be analysed and controlled for, but too few perform the needed work, according to Tapp.

New Zealand is particularly attractive for agricultural investments. It is politically secure, and its geographical location is ideal: it enjoys the sunshine of Spain and the rainfall of Ireland. Rain provides reliable irrigation, and since grass grows abundantly all year round, cattle can graze on natural feed, which is more cost effective, more climate-friendly, and healthier than the soy- or maize-based feed most other countries rely on. This means that New Zealand has a global competitive advantage to provide low-cost dairy. Without the weight of water, powdered milk can be shipped to deliver cost-efficient animal proteins to feed people around the world, particularly to neighbouring Asian countries.

SDG Target 2.4 aims at "ensuring sustainable food production systems and implement resilient agricultural practices that increase productivity and production (...)" Interestingly, Tapp points out, New Zealand has abolished farm subsidies. This means that agriculture has become a highly innovative, competitive and more productive industry. This radical change in government policy has encouraged the industry to focus on what the farms can do well. Young entrepreneurial minds are attracted by the challenges and opportunities offered by this dynamic agricultural sector, instead of concentrating on urban jobs.

For Tapp, agriculture can develop competitive advantages by focusing on details. "Have you ever tried a 'golden kiwi'?" he asks. "It is transformational! Demand for this fruit has become stratospheric." The breeding of this new variety of kiwifruit illustrates what the agricultural sector is capable off when they are given the means to invest competence in generating sustainable revenues. Such adaptability becomes increasingly crucial, as climate change disturbs the meteorological balance agriculture relies on to optimise food production.

At Craigmore, ESG management doesn't stop at avoiding risks, but it is an integral part of the business culture. The farmers that manage properties owned by the Craigmore Partnerships are co-owners and together work on long-term targets that are aimed at improving the environment and communities.

Goal 15 – Life on Land

"Forests cover 30.7 per cent of the Earth's surface and, in addition to providing food security and shelter, they are key to combating climate change, protecting biodiversity and the homes of the indigenous population. By protecting forests, we will also be able to strengthen natural resource management and increase land productivity," say the United Nations about goal 15, "Life on Land".

At Finnish-based United Bankers, Kari Kangas has been in charge of the UB Timberland fund

Kari Kangas
UB Timberland
United Bankers

Peter Lindbom
Obligo

since inception in 2016. He has a strong background in forestry and firmly believes in the benefits of responsible forest ownership. In Finland, 632,000 private forest owners currently own 60% of the forests, while 26% belong to the State of Finland, 9% to companies and 5% to the church, municipalities and other smaller entities. Kangas and his team are some of the few professional investors active in consolidating the market, and professionalising forest management, by practising what United Bankers call "Rational Forestry."

One driver of the philosophy is, of course, the Finnish Forest Act, which requires age management and continuous cover forestry. This means that the practice of clear-cutting (i.e. cutting down entire sections of a forest) has become rare, which is essential for the preservation of biodiversity, for example. The second target of SDG 15 specifically states the importance to "promote the implementation of sustainable management of all types of forests." Operating sustainably can also generate positive financial performance. Management costs in the UB Timberland fund are lower on average than for other owners who do not apply UB's forestry management practices.

The second leg of UB's Rational Forestry is the Program for the Endorsement of Forest Certification (PEFC), an international forest certification system promoting ecologically, socially and economically sustainable forestry throughout the world. To meet the organisation's certification requirements, forest management must satisfy specific standards concerning biodiversity, forest health and maintenance, as well as recreational use.

Furthermore, net forest growth must also remain positive over more extended periods, which contributes to an increased carbon sink. In other words, forests store more carbon dioxide than it releases into the atmosphere. Overall, Finnish carbon storage reserves as a function of timber and soil, continue to grow and represents over 100 million m3 per year. As such, timberland investments also contribute to mitigating climate change and represents a partial solution to achieving more climate-neutral portfolios.

When considering the entire value chain forestry belongs to, pulp production location and carbon leakage must also form part of the equation when talking about climate change. Keeping production capacity local, close to the forests, is critical in strengthening climate change mitigation efforts. A responsible owner of forest land must, therefore, support initiatives for domestic production and supply of raw materials from local properties. When trees are used as wood for construction, they will continue to store carbon dioxide for many years. When they are transformed into pulp and paper products, they may not last so long, but they may significantly contribute to replacing plastic in consumer and industrial products and packaging. Goal 12 "Responsible Consumption and Production" includes target 12.2, which prescribes to achieve sustainable management and efficient use of natural resources by 2030. The use of renewable forest-based products can take a significant part in that equation. Investing in timberland, therefore, not only represents a positive climate investment today, but it will likely benefit from positive demand shifts going forward.

Goals 9 – Industries, Innovation and Infrastructure

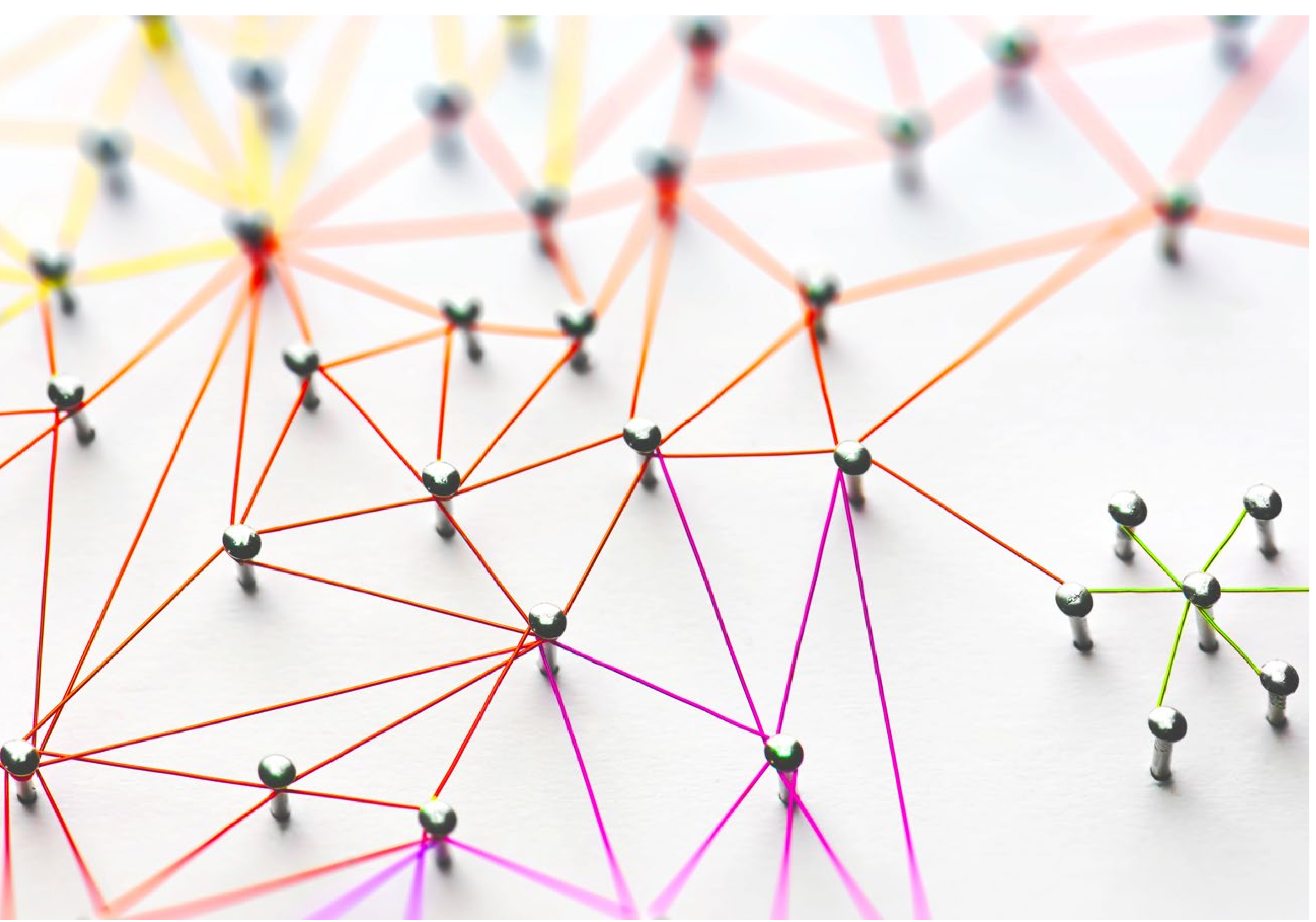
Infrastructure may come to mind quickly to any investor thinking of linking the SDGs to real assets. Whether in developing countries or mature economies, infrastructure needs to be upgraded to accommodate a larger world population and gain efficiencies. Goal 9 "Industries, Innovation and Infrastructure" is probably the most obvious of the 17 goals for this asset class. Target 9.4, for example, aims at "upgrading infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes" (...) by 2030. Goals 6 "Clean water and sanitation" and 7 "affordable and clean energy" are also central for many infrastructure projects.

Regardless of the SDGs, Infrastructure investments are long-term in nature. Sustainability is, therefore, a necessary feature in any project. Some investors cite investments made only 10 or 15 years ago, that increased environmental concerns have already made obsolete. At Obligo, an Oslo- and Stockholm-based specialised manager focused on real estate, infrastructure and shipping, ESG integration resides at the centre of the investment process. The company is also the first Nordic signatory of GRESB Infrastructure, an investor-led organisation which benchmarks ESG performance for real assets. It also provides a standardised ESG reporting methodology specially targeted at infrastructure, as well as data, screening criteria and selection process.

In recent years, infrastructure as an asset class has increased in popularity among investors looking to diversify from highly valued real estate and hoping to capture some additional return from a long-term illiquidity discount. Given the nature of infrastructure projects, however, the asset class remains mostly accessible only to investors with substantial portfolios. While direct investments require a high degree of expertise and significant amounts of capital, infrastructure funds offer better access, but minimum investments remain high, and the internal manager selection and monitoring processes are costly.

Obligo proposes, therefore, a fund-of-funds strategy, which also presents better diversification characteristics than many investors can achieve on their own. Given that the time horizon of infrastructure funds typically exceeds that of other private equity vehicles, obtaining a suitable vintage mix can prove particularly challenging for single investors. The high level of required expertise also results in sector concentrations, which may be challenging to diversify when minimum investments are so significant. The costs of a fund-of-fund may worry some organisations, but the benefits on an asset allocation over time may prove substantial, nonetheless. As Peter Lindbom showed investors in Gothenburg, a 15% allocation to OECD infrastructure to a conservative institutional portfolio composed of bonds, equity, real estate and cash, can improve historical returns over 20 years by 70 basis points, while reducing maximum annual drawdowns and historical volatility.

Investors looking at allocating capital to the SDGs can find opportunities in all asset classes, but few funds can address goals 2, 9 and 15 as effectively as real assets while providing relatively safe returns and very low correlation to equity and fixed income markets.



Social Infrastructure

Measuring and Managing Impact

by John G. Levy, CAIA
Raymond J. Jacobs
Riccardo Abello

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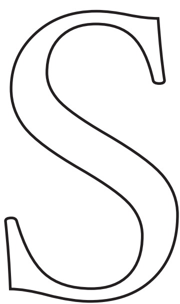

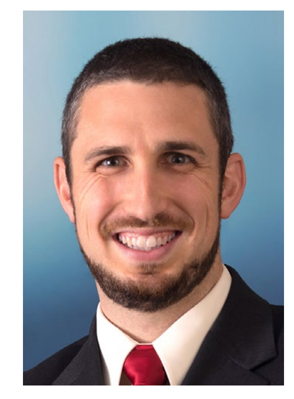

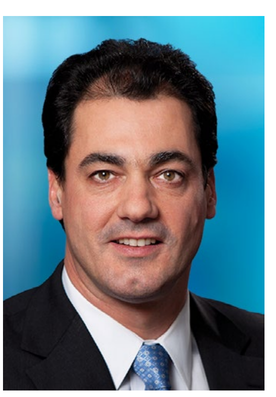

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Since the 2008 financial crisis and its aftermath, governments across Europe have been struggling to meet the growing demand for the building blocks of strong communities – affordable housing, schools and libraries, and hospitals and nursing homes. Between 2009 and 2016, private investment in social infrastructure grew to €247 billion, according to Preqin and McKinsey.

These assets are particularly attractive to long-term investors because they offer a dual return: an above-market rate financial return that typically comes from long-term lease contracts, and an impact return, which is the measurable improvement in the quality of life of communities resulting from investments that upgrade a school or a hospital, for example, or increase the supply of social housing.

The tools available to measure financial performance are straightforward. But how should investors measure the social and environmental impact of investments in social infrastructure?

Towards a framework for measuring impact

Impact investing is a relatively new field, and like many frontier disciplines, it suffers from varying expectations of investors, a fragmentation of approaches and a lack of standardisation for measuring and managing the social and environmental outcomes of investments.

Efforts are under way to define potential and actual impacts but we still lack the long-term data that would allow investors to compare the results of different approaches to impact investing.

At Franklin Templeton, our Real Assets team proposes a three-step theory of change for measuring and managing impact in social infrastructure investments: identifying the challenges, defining our potential contribution to solutions, and finally achieving impact which we measure and manage throughout the life of each asset.

Exhibit 1. Creating Social and Environmental Impact in Social Infrastructure.

Theory of change

CHALLENGE	CONTRIBUTIONS	IMPACT
Lack of quality Social Infrastructure across Europe	• Aligned capital • Function enhancement • Environmental upgrades • Purpose-driven development • Stakeholder partnerships	More hired, housed, healthy and happy communities

Source: Franklin Templeton. For illustrative and discussion purposes only

The challenge

It is important to begin by identifying the challenges we seek to address and aligning them with the United Nations' Sustainable Development Goals. In the case of social infrastructure, we believe these challenges can be grouped into two categories – community and environment.

The community challenge is straightforward: there is an inadequate supply of quality social infrastructure in Europe. The environmental challenge has many dimensions – global warming, water scarcity, biodiversity, to name but a few.

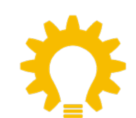
Take climate action. By many measures, buildings use more energy than either industry or transport and account for 20 per cent of global greenhouse gas emissions, according to a January 2016 World Economic Forum report , which also calculates that buildings generate 30 per cent of all the waste in the EU. Our climate challenge, therefore, is to reduce the climate footprint of social infrastructure assets.

The Contribution of Investors and Managers

Once the challenges are set, investors need to define the ways in which they can make a difference. Here are five broad ways in which we believe we can do so.

ALIGNED LONG-TERM CAPITAL

It refers to how investors and managers of social infrastructure assets can align long-term capital in order to be reliable stewards of the assets they hold. In some arrangements, like a buy-and-lease-back, we can free up much-needed public capital and provide liquidity to municipalities.



FUNCTION ENHANCEMENTS

This contribution speaks about investors' ability to create a positive social impact by serving communities better – through investments that renovate or deliver new affordable housing, for example, or increase the space available for community living.

ENVIRONMENTAL UPGRADES

Third, building renovations can also create a positive environmental impact by reducing pollution (installing solar heating, for example), saving water, improving energy efficiency and encouraging the responsible recycling and disposal of waste.

PURPOSE-DRIVEN DEVELOPMENTS

Select investment opportunities may arise for purpose-driven developments, such as converting a warehouse or factory into buildings with a social purpose.

STAKEHOLDER PARTNERSHIPS

Stakeholder engagement is the fifth, crucial, way in which social infrastructure investors and managers can make a difference. Tenant and community partnerships, for example, can help investors identify the need for co-working spaces or childcare facilities.

By ensuring that investments include one or more of these five actions, it is possible to track how investments are better serving communities and nature.

Impact must be measured to be managed

We believe that measuring the impact is not just a matter of looking at the end result. Our goals must be met at a cost acceptable to investors, and this requires integrating impact management throughout the investment process: sourcing, due diligence, portfolio construction and monitoring & reporting.

At Franklin Templeton, we do this with tools that give us continuous feedback on our impact objectives, measuring our progress in a way that allows the roadmap to be corrected or reassessed as needed. We believe this is the best approach to align investment and impact considerations at every step.

It's clear that not all possible avenues of impact are economically viable. To this end, we have created an internal impact rating system that measures the current and projected state of each asset's community and environmental performance. This proprietary rating system is rooted in industry metrics such as IRIS impact standards. Progress can be quantified by tracking key performance metrics over time.

Social infrastructure plays a critical role in the health and vibrancy of local communities. As physical assets, they also have an impact on the health of our planet. By bringing impact-focused private capital to the social infrastructure space, the community and environmental performance of these assets can be markedly improved. But in order to achieve social infrastructure's full potential for dual returns, non-financial impacts must be measured as well as managed.

"Environmental Sustainability Principles for the Real Estate Industry" World Economic Forum, World Economic Forum Industry Agenda Council on the Future of Real Estate & Urbanization and World Bank January 2016

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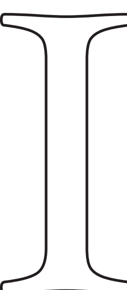
Impact Investing

Imagining the Next Evolution in Economies and Finance

by Gavin Power
PIMCO



Gavin Power
Chief of Sustainable Development
PIMCO

Impact investing is anchored in a fundamental belief that over the long term, healthy societies and healthy markets go hand-in-hand.

In October, the global conservation organization WWF issued a landmark study that should – in this writer's view – be required reading for the investment community. Titled "The Living Planet Report 2018: Aiming Higher," and based on deep empirical evidence and analysis of global trends, this paper credibly posits that we are on the cusp of a truly historical transformation – one that will affect markets, economies and societies everywhere. And this transformation is not good.

The report's driving argument is that exploding human consumption – and related demands for resources including energy, land and water – is now stretching Earth's systems to a breaking point. "There cannot be a healthy, happy and prosperous future for people on a planet with a destabilized climate, depleted oceans and rivers, degraded land and empty forests, all stripped of biodiversity, the web of life that sustains us all," the report states, noting that "natural capital" and its benefits to economic activity is estimated to be worth around $125 trillion a year.

While the focus of this report is primarily on environmental issues, it also addresses major socioeconomic disturbances, including inequality in the distribution of wealth and resources within numerous societies – with clear connections to political and social upheavals and tensions. In turn, these disturbances could have critical implications for the economy. The Financial Times published a lead editorial on the report, so compelling were the links to the macroeconomic performance of economies, sectors and financial markets.

So, what does this have to do with the advancing field of impact investing? In a word: everything.

Impact investing: addressing the influences of human activity globally

At its heart, impact investing – as it is evolving today – represents an important shift in investment mindset, and one that holds the potential to change the arc of human history in ways likely to benefit economies and markets. Understanding the damaging transformational impacts that human activity – in economic, social and environmental terms – is causing in myriad systems, today's impact investors seek to unite financial returns with positive impacts that at a minimum are doing no harm and at the maximum are delivering meaningful and measurable beneficial outcomes to people and planet – blunting or even reversing the malign impacts. This is both a financially grounded and ethically motivated agenda anchored in a fundamental belief that over the long term – or super-secular horizon, if you will – healthy societies and healthy markets go hand-in-hand.

Impact investing may need to become a defining philosophy for the global investment community – augmenting and, at some future stage, perhaps even supplanting today's more risk-oriented ESG (environmental, social, governance) investing movement and, in the process, truly aligning finance and society in ways beneficial to all.

This will take some time and effort as even the multitude of ESG strategies currently offered across markets globally don't represent the complete spectrum of investment asset classes. And in too many firms, ESG remains siloed and considered an exotic – or worse, eccentric – area. ESG's focus on managing key environmental, social and governance risks is designed to support positive societal outcomes in addition to offering risk-adjusted return potential, and thus ESG embraces in many ways the principles of impact investing. After all, ESG investing can help remove obstacles to global sustainable development and foster critical change. Impact investing simply shifts the focus even further by enshrining positive societal outcomes as key investment objectives.

Impact investing could help create a brighter future for societies, economies and markets, but there is much runway to cover. A recent survey by RBC Global Asset Management found 29% of institutional investors said they expect to allocate funds to impact investing in the next one to five years, noting that this is up from 20% in 2017. So, a majority is not switched on – yet.

How do we help propel impact investing?

First, we need to innovate and create new strategies that recognize and target the inherent financial opportunities. Impact investing can and does create results: For example, see the multilateral development banks whose portfolios and books of private sector investments show long track records of revenue-generating projects and assets that are delivering measurable development impacts in social and environmental terms.

Another area of significant opportunity relates to so-called sustainability bonds – be they green bonds, social bonds or SDG bonds (more on the UN Sustainable Development Goals in a moment). Building on the fast-growing market in green bonds, we at PIMCO see enormous promise in new bond issuance by companies and sovereigns that addresses key societal challenges related to health, gender, education or infrastructure more broadly.

Second, we need to fully embrace the UN Sustainable Development Goals and impact investing's overarching framework. As a former UN official, I can relay that the SDGs and the related targets were painstakingly developed via a deeply consultative and informed global process, bringing together the world's leading subject experts, policymakers and leaders from business and civil society.

The SDGs' 17 socioeconomic and environmental goals can be seen as a gift to investors and should be used as the global framework to direct and measure impact investing strategies.

Third, at this crucial juncture, we need to break down professional siloes and collaborate as never before. The UN is doing important work engaging the private sector and private finance, but we must recognize the collective effort that needs to be undertaken – lifting all boats in the process. We need new partnerships and collaborative efforts that bring together policymakers, business and finance leaders, and civil society representatives. The SDGs can provide a common language, and impact investing a shared strategy.

The "Living Planet Report" concludes that there is currently a unique window of opportunity to reverse the trend toward decline in the natural systems that support modern society, noting "everyone – governments, business, finance, research, civil society and individuals – has a part to play."

Gender Diversify Your Strategy

by Filipe Pires de Albuquerque

Investing in companies that have endeavoured to facilitate gender diversity increases the range of diverse views expressed across the corporate world, inspiring a more informed decision-making process and an inclusive example for the next generations of leaders. What's more? These social goals can be achieved at no detriment to financial return. On the contrary, the evidence suggests that such investments may outperform their more homogenous counterparts.

Gender Diversity Research

Research shows that there are substantial benefits to gender diversity for the economy as a whole and for financial returns in particular. A 2015 study from MSCI[1] finds that "companies that had strong female leadership generated a Return on Equity of 10.1% per year versus 7.4% for those without." The same report also found that "companies lacking board diversity tend to suffer more governance-related controversies than average."

Those conclusions are also supported by evidence from a 2016 Peterson Institute paper[2], which presents results supporting the benefits of gender diversity. Statistical analysis of 21,980 firms from 91 countries "suggests that the presence of women in corporate leadership positions may improve firm performance". While there is no evidence that female board quotas contribute to higher profitability, the study does find evidence that "the payoffs of policies that facilitate women rising through the corporate ranks more broadly could be significant". According to the report, the increased performance may be "the payoff to non-discrimination" or reflect "the fact that women increase a firm's skill diversity."

Data from a 2017 analysis conducted by UBS shows that gender-diverse global companies, with at least 20% female representation on the board and senior management on average outperform other companies in terms of return on assets, on invested capital or on equity over a five-year period.

A Gender Equality Benchmark Index

The financial benefits facilitated by gender diversity were the driver for the creation of the "Solactive Equileap Global Gender Equality 100 Leaders Index" family, designed to track the leading companies in sustainability and gender. The research insights are echoed in the performance of the index, which over the last five years, has consistently outperformed the MSCI World Index.

Equileap scores 3500+ companies worldwide. Based on this universe, the organisation builds the index in four steps. Eligible stocks are selected from companies in developed stock exchanges with a market capitalisation of at least US$2 billion and an average daily trading value of no less than US$5 million. Companies in the tobacco, gambling and weapons industries do not make the cut, nor do any other companies on the blacklist of the Norwegian Ethics Council. These companies are scored using 19 metrics to measure their progress towards gender equality across four themes of gender balance in leadership and workforce, equal compensation and work/life balance, policies promoting gender equality, and commitment to women's empowerment. Based on these scores, the index selects the top 100 companies ensuring an equal weight exposure to US listed companies and non-US listed companies.

Investing in Gender Equality

The UBS Gender Equality ETF provides the exposure to the more gender-equal companies for investors seeking to orient their investment in favour of the gender progress. The ETF specifically targets a 50% weight for US companies, while other countries can each make up to no more than 10% of the portfolio at rebalancing.

Investors in the UBS Gender Equality ETF gain a diversified exposure to global stocks, whilst providing companies with a reward for pursuing gender equality, one of the 17 Sustainable development goals endorsed by the UN since 2015.

[1] Linda-Eling Lee Ric Marshall Damion Rallis Matt Moscardi, Women on boards - Global Trends in gender diversity on corporate boards, MSCI Research Insights, MSCI ESG Research Inc., November 2015
[2] Marcus Noland, Tyler Moran and Barbara Kotschwar, Is Gender Diversity Profitable? Evidence from a Global Survey, Peterson Institute for International Economics, 2016

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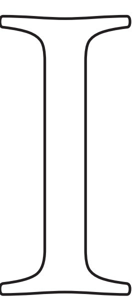
Climate Goals

A Breakthrough Sustainable Climate Strategy

by State Street Global Advisors



Innovative, Effective, Ready

Achieving the ambitious goals outlined in the Paris Agreement requires that investors do more than simply reduce their portfolios' carbon footprints.

This understanding was one of the key drivers behind the development of our Sustainable Climate Strategy.

Since we introduced this customizable equity framework in late 2018, we've received a remarkable level of interest from pension funds, corporations, sovereign wealth funds and asset owners around the world who are committed to addressing climate risk through their portfolio management.

Multifaceted Delivery

Our innovative and highly sophisticated framework establishes a new frontier in the effort to build climate change thematically into equity portfolios. The Strategy is defined by the following characteristics:

Mitigation + Adaptation

To target net carbon emission reductions in the portfolio, the Strategy reallocates capital away from companies with high current and embedded carbon emissions and brown revenues to companies that generate green revenues from low carbon technology.

In addition to this focus on mitigating the drivers of climate change, the Strategy also increases exposure to companies that are actively adapting to the actual or expected future effects of global warming and other environmental changes , helping investors to build more climate resilient portfolios in the process.

Alignment with Paris Agreement

The Strategy aligns with the ambitious goals of the Paris Agreement and prepares portfolios for the possible introduction of a carbon tax and other regulatory initiatives that could accompany the transition to a low-carbon economy.

Leverages Multiple Data Sources

Given the multifaceted objectives of the Strategy, our framework integrates data from leading providers: S&P Trucost (carbon emission intensity, fossil fuel reserves and brown revenues), FTSE Russell (green revenues) and ISS ESG (adaptation). The seleceted data helps isolate with precision the climate parameters we target .

Flexibility to Meet Client Objectives

We designed the Strategy framework so that it could be customized to meet each investor's needs in terms of climate priorities, desired benchmark, tracking-error budget and any exclusions needed to meet other international norms or sustainability considerations.

The Next Wave, Now

The State Street Sustainable Climate Strategy is a long-only investment approach that uses a mitigation + adaptation methodology to build climate change thematically into equity portfolios.

Designed from the ground up to be flexible, the customizable framework allows us to create client portfolios that target reductions in current and future carbon emissions, increase exposure to green revenues and increase resiliency to the physical risks posed by climate change.

The Strategy is aligned with the most ambitious goals stemming from the landmark 2015 Paris Agreement — including limiting climate change to the 2° Celsius warming scenario over the 21st century.

It's designed for investors who wish prepare their portfolios for the transition to a low-carbon economy, in a scalable and risk-aware way. It's available now to meet those needs.

	MITIGATION				+ ADAPTATION
	1	2	3	4	5
OBJECTIVES	MINIMIZE Carbon Emission Intensity	MINIMIZE Fossil Fuel Reserves	MINIMIZE "Brown" Revenues	MAXIMIZE "Green" Revenues	BUILD Resilient Portfolio
METRICS	CO_2 Emissions / $M Revenues	Embedded CO_2 / $M Revenues	% Revenue from extractive activities	% Revenue from low-carbon tech	Score on climate change preparedness

STEPS TO SUSTAINABILITY: QUESTIONS TO CONSIDER

◊ What are your climate-related investment objectives?

Reduce your portfolio's carbon emissions? Include fossil fuel reserves and brown revenues? Or incorporate longer timeframes into the risk analysis and seek to add more resiliency to their portfolios? Your objectives play a vital role in determining which approach is most appropriate.

◊ What is your total portfolio exposure to climate risk?

With our advanced work in blending multiple sources of best-in-class data and advanced analytics tools, we can help clients assess their exposure to climate risk across all their holdings.

◊ What is the range of available solutions?

An important early step in our conversations is explaining the differences between an exclusionary approach at one end of the spectrum and a mitigation + adaptation approach (Sustainable Climate Strategy) at the other and this across all other asset classes.

◊ What specific constraints and parameters need to be incorporated into the framework?

We start by identifying which benchmark the objectives should be applied to. We'll also identify constraints the investor may have in terms of tracking error budget, geographic or sector concentration, and specific sustainability exclusionary screens.

◊ How would potential solutions affect the risk/return profile of your portfolio?

Once these parameters have been designed and incorporated into the framework, we then back-test the strategy to show how an optimized portfolio would have performed. This is a critical step because it allows investors to see the actual impact on risk/return, tracking error and concentration for various levels of carbon reduction and other climate goals. We can show how implementing the strategy would affect the risk/return profile of the client's entire portfolio. Having this information and seeing hard numbers about the investment considerations allows investors to determine where they want to be on what we call the efficient climate frontier.

Learn how SSGA's ESG strategies could help you meet the climate change challenge and more. Please visit ssga.com/climate for case studies and further information

about our partners

Craigmore manages farm and forest investments in New Zealand. Established in 2008 by two New Zealand family farmers – Forbes Elworthy and Mark Cox – Craigmore now has a highly experienced team managing a mix of dairy, grazing, forestry and horticultural properties spread over both islands and more than 15,000 hectares. Our aim is to be a long-term producer of high quality food and forest products, managing the land sustainably, and working with the best managers in New Zealand.

Franklin Templeton Investments is one of the world's largest asset management groups with over US$717bn in assets under management on behalf of private, professional and institutional investors in over 170 countries. The firm offers investors a range of over 80 funds, which invest across different market sectors, geographies, asset classes and investment styles.

Templeton Global Macro has been a pioneer in unconstrained global fixed income investing for almost three decades, beginning with the launch of its flagship Templeton Global Bond Fund in 1986. The team conducts in-depth global macroeconomic analysis covering thematic topics, regional and country analysis, and interest rate, currency and sovereign credit market outlooks.

The team applies a fundamental, research-driven investment approach that focuses on identifying potential sources of high current income worldwide and seeks to capitalize on duration, currency, and sovereign credit opportunities to provide the best potential for solid risk-adjusted returns. Research into specific Environmental, Social and Governance (ESG) factors, combined with the fundamental macroeconomic analysis, is integral to the decision-making process.

HSCB Global Asset Management is a global asset manager with a strong heritage of successfully connecting clients to global investment opportunities. Our proven expertise in connecting the developed and developing world allows us to unlock sustainable investment opportunities for investors in all regions. Through a long-term commitment to our clients and a structured and disciplined investment approach, we deliver solutions to support their financial ambitions.

As of end of June 2019, we managed USD507.3 billion globally for a range of clients, from some of the largest institutional investors in the world to commercial and corporate clients, financial intermediaries, retail and private banking clients.

Our investment platform includes more than 600 professionals across 26 countries and territories, who perform in-depth due-diligence locally, and share their intellectual capital globally. Being truly global allows us to capture the best opportunities wherever they may arise. Across our global network, our local presence in each region also provides us with greater insight into the markets and companies in which we invest.

Obligo is an international investment and asset management company located in Oslo and Stockholm. We manage direct and indirect investments in real estate, shipping, infrastructure and private equity, as well as providing business- and fund administration services. Obligo Group consists of Obligo Real Estate AS, Obligo Investment Management AS and Obligo Business Services AS. Obligo Group is an independent advisory firm, 100% owned by management.

Obligo Real Estate has been a strategic partner with Blackstone Real Estate Partners since 2015. Obligo Investment Management is a regulated AIF manager under supervision of the Norwegian FSA. Obligo Business Services provides a full suite of management and administrative services, and is an authorized accounting company.

PIMCO is one of the world's premier fixed income investment managers.

With the launch in 1971 in Newport Beach, California, PIMCO introduced investors to a total return approach to fixed income investing. In the 45+ years since, PIMCO has continued to bring innovation and expertise to their partnership with clients seeking the best investment solutions. Today PIMCO has offices across the globe and 2,400 professionals united by a single purpose: creating opportunities for investors in every environment.

PIMCO partners with a wide range of institutions, including corporations, central banks, universities, endowments and foundations, and public and private pension and retirement plans. In addition PIMCO works with financial advisors and millions of individual investors pursuing personal financial goals, from preparing for retirement to funding higher education. Investing our clients' assets is a tremendous responsibility, and for that reason there can be no shortcuts.

responsAbility

Founded in 2003 and headquartered in Zurich, Switzerland, responsAbility Investments AG is an asset manager in the field of development investments and offers professionally-managed investment solutions to private, institutional and public investors. The company's investment solutions supply debt and equity financing predominantly to non-listed firms in emerging and developing economies. Through their inclusive business models, these firms help to meet the basic needs of broad sections of the population and to drive economic development.

With assets under management of over US$ 3 billion, responsAbility has stakes in 540 high impact companies. The firm counts 240 employees in 90 countries worldwide. 85% of its investments are in private debt and the rest in private equity.

STATE STREET GLOBAL ADVISORS

Reinventing Investing
Our clients are the world's governments, institutions and financial advisors. To help them achieve their financial goals we live our guiding principles each and every day: Start with rigor, Build from breadth, Invest as stewards, Invent the future.
For four decades, these principles have helped us be the quiet power in a tumultuous investing world. Helping millions of people secure their financial futures. This takes each of our employees in 27 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's third largest asset manager with nearly US $2.73 trillion* under our care.

*AUM reflects approximately $32.45 billion (as of December 31, 2018) with respect to which State Street Global Advisors Funds Distributors, LLC serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated.

UBS Asset Management is a large scale investment manager with a presence in 23 countries. We offer investment capabilities and investment styles across all major traditional and alternative asset classes.

Our goal is to provide you with access to the best investment ideas and superior investment performance. We serve institutions, wholesale intermediaries and wealth management clients.

Across each of our traditional investment areas we have established a general approach to environmental, social and corporate governance. We are signatories to initiatives such as the Principles for Responsible Investment and the UK Stewardship Code.

United Bankers (UB) is a Finnish group offering investment products and services. UB was founded in 1986 and started the business operations with securities brokerage. Today, the Group's business areas also include asset management, corporate finance and fund management. In asset management, the company specializes in solutions in real estate investments.

The company is largely owned by key personnel within the company and is listed (UNIAV; FI4000081427) on the First North Finland marketplace maintained by Nasdaq Helsinki Oy. The key employees' co-ownership and the dedicated staff are important resources, which ensure UB's expert service. UB's professional skills, experience and courage to follow its own visions are always at the customer's disposal. The company strives for profitable growth in all its business areas.

Investing Along the 17 Shades of SDGs

Handbook Series
October 2019

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