

Annual Report for Catella Avkastningsfond

**| January 2016 – 31 December 2016**

## Another year of focus on central banks

**As we sum up 2016, the focus is once again on the central banks, with falling long and short-term interest rates consequent upon expansive monetary policies.**

The fund rose by 0.9 percent after fees and the risk level was low.

Swedish market rates on the short-term portion of the yield curve dropped in the wake of the Riksbank's repo rate cut from -0.35 to -0.5 percent. Long-term rates fell during the first three quarters of the year, in pace with the Riksbank's purchases of government bonds. Expectations of a more expansive fiscal policy in the United States after Trump won the presidential election drove up rates during the final months of the year.

Inflation is still below the Riksbank's target and the market is pricing in a negative repo rate through the end of the first quarter of 2019. It should be kept in mind that the reliability of forecasts beyond the next year is low and our view is that the outcome space is lopsided. By that, we mean that long-term rates can hardly fall much more from current levels, but may very well rise sharply in the event of inflation surprises on the upside. Pricing is governed by expectations and in our view they are too low with regard to future inflation but above all, too high with regard to continued central bank stimulus packages.

In the light of the lopsided outcome space for the interest rate level, our assessment is that bonds with long maturities should be avoided. We further believe that the central banks' expansive monetary policies have minor impact on growth and inflation trends, but major impact on the pricing of financial assets. Accordingly, we advise caution about excessive exposure to illiquid assets. Our conclusion is that in an environment of low probability of recession, credit risk remains the risk premium in the bond market that is clearly worth the exposure and that corporate bonds will be in a good position to generate better yields than government bonds in the next few years.

As before, the fund's duration will be kept relatively short through its large share of securities that are immune to rising market rates. At the end of December, duration was 0.8 years.

The largest positive contributors to the fund were the holdings in bonds issued by Vattenfall, DONG, Storebrand and Gjensidige Forsikring. Bonds issued by DNB, SEB, Seadrill and Nordea had negative impact on performance.

As all currency exposure is mitigated using currency forwards, exchange rate changes had no effect on fund performance.

Management of the fund was taken over in September 2016 by Thomas Elofsson and Stefan Wigstrand after Magnus Nilsson and Fredrik Tauson chose to leave the company.

## Fundfacts

Fund manager: Thomas Elofsson, Stefan Wigstrand

Unit value ..... 127.72

Number of unit holders..... 338

Net fund assets (SEKm) ..... 7 700

### YIELD PAST YEAR

**Catella Avkastningsfond** ..... **0.88%**

Benchmark index

(50% OMRX TBill + 50% OMRX TBond)... 1.70%

### AVERAGE ANNUAL YIELD

#### Past two years

**Catella Avkastningsfond** ..... **0.22%**

Benchmark index

(50% OMRX TBill + 50% OMRX TBond).0.73%

#### Past five years

**Catella Avkastningsfond** ..... **2.17%**

Benchmark index

(50% OMRX TBill + 50% OMRX TBond).1.54%

### RISK

**Catella Avkastningsfond** ..... **1.15%**

Benchmark index

(50% OMRX TBill + 50% OMRX TBond).2.17%

Active risk.....2.30%

Duration, 31 Dec 2016 (years).....0.78

Interest-rate risk from 1% change in

interest rate, %.....-0.77%

### TURNOVER/COSTS

Rate of turnover (times/year) ..... 0.74

TTC, Transaction costs (SEKm)..... 0.03

percentage of securities traded .....0.00%

SC costs (SEKm)..... 0.00

Management fee.....0.70%

Ongoing charges.....0.72%

### COSTS FOR TYPE OF SAVING

Lump-sum deposit SEK 10.000

Management cost (SEK) .....70.34

Monthly savings SEK 100

Management cost (SEK) ..... 4.56

### TURNOVER THROUGH ASSOCIATED SECURITIES INSTITUTIONS

Percentage of total turnover .....0.00%

### TURNOVER OF FINANCIAL INSTRUMENTS MANAGED BY CATELLA FONDFÖRVALTNING

Percentage of total turnover

Catella Credit Opportunity .....0.36%

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The Fund is an investment fund

Fund inception: 1 February 1999

Opening price: SEK 100

Dividends: From 2013 the fund will pay no dividend.

Management company: Catella Fondförvaltning AB

Corporate registration number of fund: 504400-5147

PPM fund number: I 12 755

## BALANCE SHEET AND INCOME STATEMENT

BALANCE SHEET, SEKk	31-Dec-16	31-Dec-15
<b>ASSETS</b>		
Transferable securities (Note 1)	7 137 736	10 405 645
OTC derivatives with positive market value (Note 1)	12 311	39 516
Unit Funds (Note I)	60 518	0
<b>Total financial instruments with positive market value</b>	<b>7 210 565</b>	<b>10 445 161</b>
Bank balances and other cash and cash equivalents	439 280	834 189
Prepaid expenses and accrued income	61 295	62 734
<b>TOTAL ASSETS</b>	<b>7 711 140</b>	<b>11 342 084</b>
Accrued expenses and prepaid income	4 576	6 938
Other liabilities	6 290	22 640
<b>TOTAL LIABILITIES</b>	<b>10 866</b>	<b>29 578</b>
<b>NET FUND ASSETS Note 2</b>	<b>7 700 274</b>	<b>11 312 506</b>
<b>MEMORANDUM ITEMS</b>		
Collateral pledged for OTC derivatives	26 630	0
Collateral pledged for other derivatives	12 403	0
<b>INCOME STATEMENT, SEKk</b>		
<b>INCOME AND CHANGES IN VALUE</b>		
Change in value of transferable securities	24 172	-415 103
Change in value of OTC derivatives	-66 752	-9 915
Change in value of money market instruments	0	-18
Change in value of fund units	518	1 647
Change in value of other derivatives	-5 030	0
Interest income	161 998	254 130
Net foreign exchange gains and losses	17 152	198 984
Other income	22	224
<b>TOTAL INCOME AND CHANGES IN VALUE</b>	<b>132 080</b>	<b>29 949</b>
<b>EXPENSES</b>		
<b>Management costs</b>		
Payments to companies conducting fund operations	62 307	92 672
Payments to depositary	1 331	2 157
Other expenses	26	32
<b>TOTAL EXPENSES</b>	<b>63 664</b>	<b>94 861</b>
<b>PROFIT FOR THE YEAR</b>	<b>68 416</b>	<b>-64 912</b>
<b>Note 2 TO BALANCE SHEET</b>		
<b>CHANGE IN NET FUND ASSETS</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>
<b>NET FUND ASSETS AT BEGINNING OF YEAR</b>	<b>11 312 506</b>	<b>12 556 422</b>
Unit sales	1 361 088	5 253 957
Unit redemptions	-5 041 736	-6 432 961
Profit for the year per income statement	68 416	-64 912
<b>NET FUND ASSETS AT END OF PERIOD</b>	<b>7 700 274</b>	<b>11 312 506</b>

## FUND'S HOLDINGS OF FINANCIAL INSTRUMENTS

Note   Securities	QUANTITY	PRICE	(SEKk)	%
<b>MARKET –LISTED BONDS*</b>				
<b>GOVERNMENT</b>				
Statsobligation lån 1047 201201	20 000 000	121.30	24 260	0.32
Statsobligation lån 1051 170812	20 000 000	102.83	20 566	0.27
Statsobligation lån 1052 190312	20 000 000	110.82	22 165	0.29
Statsobligation lån 1054 220601	50 000 000	119.71	59 854	0.78
Statsobligation lån 1058 250512	20 000 000	117.93	23 587	0.31
			150 431	1.95
<b>OTHER</b>				
AF FRN 200512	60 000 000	99.74	59 846	0.78
Atrium FRN 171115	45 000 000	100.68	45 308	0.59
Bergvik Skog 8,5% 340324	50 000 000	117.98	58 992	0.77
Billerud Korsnäs FRN 180327	50 000 000	102.37	51 186	0.66
Catena Media FRN 190916, Malta, EUR	1 300 000	100.50	12 517	0.16
Danske Bank 5,683% 490215, Danmark, GBP	5 000 000	100.26	56 248	0.73
Danske Bank FRN 180403, Danmark	200 000 000	100.34	200 683	2.61
DNB Bank 6,011% 490329, Norge, GBP	7 000 000	100.32	78 797	1.02
DSV FRN 220318, Danmark, DKK	100 000 000	103.00	132 736	1.72
FastPartner FRN 190922	10 000 000	101.47	10 147	0.13
Fingrid FRN 181119, Finland	50 000 000	100.18	50 090	0.65
Hemfosa FRN 191206	50 000 000	100.33	50 164	0.65
Hexagon FRN 191126	125 000 000	100.67	125 838	1.63
IB Bostad 18 AB FRN 181021, NOK	18 000 000	101.00	19 180	0.25
ICA Gruppen FRN 190617	170 000 000	101.80	173 052	2.25
Ikano Bank FRN 181114	70 000 000	99.81	69 868	0.91
Ikano Bostad FRN 190325	100 000 000	101.26	101 258	1.31
Kommuninvest i Sverige 2,25% 190312	300 000 000	105.78	317 346	4.12
Kommuninvest i Sverige 2,5% 201201	70 000 000	109.18	76 427	0.99
Landshypotek FRN 171130	100 000 000	100.61	100 609	1.31
Lantmännen FRN 201207	28 000 000	101.51	28 422	0.37
Lifco 1,11% 180403	100 000 000	100.82	100 820	1.31
LKAB FRN 191209	45 000 000	99.13	44 610	0.58
MTG FRN 180319	100 000 000	101.14	101 140	1.31
Nibe FRN 200528	44 000 000	100.51	44 225	0.57
Norcell Sweden Holding 3 3,625% 210623	40 000 000	102.44	40 975	0.53
Nordea Hypotek 5530 2,25% 190619	400 000 000	105.78	423 132	5.49
Nordea Hypotek 5521 3,25% 200617	200 000 000	110.47	220 945	2.87
Nya Svensk Fastighets Finansiering FRN 200309	170 000 000	99.58	169 285	2.20
Saab FRN 191212	120 000 000	100.75	120 896	1.57
Sandvik FRN 200114	120 000 000	100.67	120 799	1.57
Sandvik FRN 210114	71 700 000	101.01	72 423	0.94
Scania FRN 190405 2	200 000 000	100.61	201 217	2.61
Scania FRN 190405	20 000 000	100.61	20 122	0.26
SCBC 2% 200617	200 000 000	106.14	212 275	2.76
SEB Hypotek 571 3% 180620	100 000 000	104.97	104 968	1.36
SEB Hypotek 572 3% 190619	200 000 000	107.64	215 275	2.80
Skandiabanken FRN 191021	190 000 000	101.28	192 423	2.50
Sparbanken Syd FRN 191021	54 000 000	99.92	53 958	0.70
Sparbanken Öresund FRN 160118	63 000 000	103.27	65 060	0.84
Stadshypotek 1582 2,5% 190918	300 000 000	106.86	320 582	4.16
Stadshypotek 1580 3% 1580 180321	200 000 000	104.22	208 442	2.71
Stadshypotek 2011 FRN 190403	100 000 000	102.62	102 624	1.33
Steen FRN 171208, Norge	25 000 000	100.61	25 152	0.33
Storebrand FRN 180529, Norge, NOK	80 000 000	100.52	84 837	1.10
Storebrand FRN 490331, Norge, NOK	35 000 000	96.59	35 667	0.46
Sveaskog FRN 231030	100 000 000	98.13	98 132	1.27
Swedbank Hypotek 188 3,75% 190619	200 000 000	109.48	218 966	2.84
Swedbank Hypotek 180 5,7% 200512	400 000 000	118.52	474 062	6.16

Note I Securities	QUANTITY	PRICE	(SEKk)	%
<b>MARKET –LISTED BONDS*</b>				
Södra Skogsägarna FRN 210607	100 000 000	101.41	101 414	1.32
Tele2 FRN 210511	75 000 000	101.43	76 074	0.99
Tele2 FRN 220316	75 000 000	100.36	75 273	0.98
Telenor FRN 190319, Norge	32 000 000	99.98	31 993	0.42
Telia Company FRN 231108	150 000 000	98.78	148 174	1.92
Trelleborg FRN 210118	100 000 000	99.69	99 694	1.29
Troax Group FRN 200612, EUR	7 455 900	105.00	75 004	0.97
TVO FRN 200317, Finland	100 000 000	97.25	97 246	1.26
TVO 3,875% 180913, Finland	62 000 000	104.79	64 972	0.84
Vacse FRN 190603	120 000 000	102.22	122 659	1.59
Vattenfall 3,125% 220319	185 000 000	98.96	183 076	2.38
			<b>6 987 410</b>	<b>90.74</b>
<b>TOTAL MARKET-LISTED BONDS</b>			<b>7 137 841</b>	<b>92.69</b>
<b>TOTAL TRANSFERABLE SECURITIES</b>			<b>7 137 841</b>	<b>92.69</b>
<b>Funds Units</b>				
Catella Credit Opportunity	575 043.1280	105.24	60 518	0.79
			<b>60 518</b>	<b>0.79</b>
<b>TOTAL FUND UNITS</b>			<b>60 518</b>	<b>0.79</b>
<b>EXCHANGE TRADED DERIVATIVES</b>				
<b>Bond Future</b>				
Swe Gov Bond Future 10Y	-340	0.57	0	0.00
			0	0.00
<b>TOTAL EXCHANGE TRADED DERIVATIVES</b>			<b>0</b>	<b>0.00</b>
EXCHANGE TRADED DERIVATIVES WITH POSITIVE MARKET VALUE			0	0.00
EXCHANGE TRADED DERIVATIVES WITH NEGATIVE MARKET VALUE			0	0.00
<b>OTC-DERIVATIVES</b>				
<b>Fx-Forwards</b>				
FXFWD DKKSEK 170315 1.30827, Danmark, DKK	-102 000 000	1.29	2 095	0.03
FXFWD EURSEK 170315 9.7187, Europa, EUR	-7 800 000	9.58	1 120	0.01
FXFWD EURSEK 170315 9.7286, Europa, EUR	-1 300 000	9.58	200	0.00
FXFWD GBPSEK 170315 11.6159, Storbritannien, GBP	-12 000 000	11.20	5 006	0.07
FXFWD NOKSEK 170315 1.0712, Norge, NOK	-19 000 000	1.05	376	0.00
FXFWD NOKSEK 170315 1.08195, Norge, NOK	-115 000 000	1.05	3 515	0.05
			12 311	0.16
<b>TOTAL OTC-DERIVATIVES</b>			<b>12 311</b>	<b>0.16</b>
OTC DERIVATIVES WITH POSITIVE MARKET VALUE			12 311	0.16
OTC DERIVATIVES WITH NEGATIVE MARKET VALUE			0	0.00
<b>TOTAL HOLDINGS OF FINANCIAL INSTRUMENTS</b>			<b>7 210 565</b>	<b>93.64</b>
<b>OTHER ASSETS AND LIABILITIES</b>			<b>489 709</b>	<b>6.36</b>
<b>TOTAL</b>			<b>7 700 274</b>	<b>100.00</b>

\* Financial instruments admitted to trading on a regulated market or equivalent market - outside EEA.

\*\* Financial instruments not admitted to trading on a regulated market or equivalent market outside the EEA.

**SUMMARY, ISSUERS\***

ISSUER	% of net fund assets*
SEB AB	12.48
Stadshypotek AB	8.20
Danske Bank A/S	3.34
TVO Voima OYJ	2.10

\* The table shows the total percentage share of the net fund assets per issuer in those cases the fund holds more than one type of security issued by the same issuer.

**ADDITIONAL DISCLOSURES, FINANCIAL INSTRUMENTS**

Financial instruments expected to be admitted to trading on a regulated market within one year of issue are:

Scania FRN 190405

Hemfosa FRN 191206

SBB Bostad FRN 181021

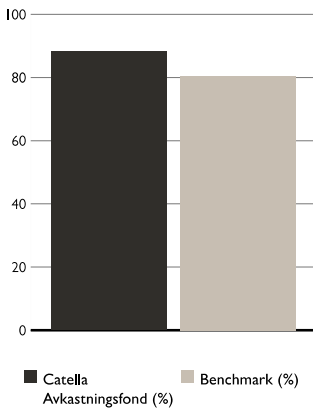
**COUNTERPARTS FINANCIAL DERIVATIVE TRANSACTIONS**

COUNTERPART	Collateral received
SEB	0

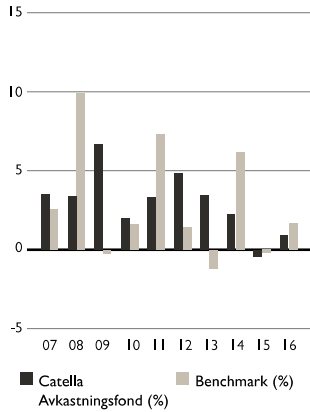
**HISTORICAL FUND ASSET, NET ASSET VALUE, NUMBER OF UNITS AND DIVIDENDS**

	Dividend	Unit Value	No of	Net fund assets
Date	SEK/unit	SEK	units	SEKk
071231	3.40	113.70	4 162 547	473 268
081231	4.95	112.49	3 305 270	371 804
091231	2.60	117.32	9 829 838	1 153 253
101231	1.89	117.74	18 024 405	2 122 222
111231	3.68	117.94	15 701 555	1 851 768
121231	3.27	120.26	25 119 593	3 020 900
131231	0.00	124.40	50 483 539	6 279 941
141231	0.00	127.17	98 740 463	12 556 422
151231	0.00	126.61	89 352 751	11 312 506
161231	0.00	127.72	60 291 381	7 700 274

**YIELD SINCE INCEPTION**



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**TRADE IN DERIVATIVES**

In accordance with its fund rules, the fund may trade in derivatives as part of its investment strategy and aims to create leverage in the fund. Leverage means that the fund's investment scope is greater than the investment scope consequent upon capital contributed by unit holders.

During the period the fund did not exercise its right to issue securities lending.

Derivatives used during the period have been currency forward contracts to reduce currency risk.

Leverage calculated as the sum of the derivative instruments' underlying exposed gross values

Maximum leverage	Minimum leverage	Average leverage
31.78%	0.00%	21.15%

Risk assessment method for the calculation of total exposures: Commitment method



## Remuneration

Remuneration policy for Catella Fondförvaltning AB

### “The decision process”

The board of directors of Catella Fondförvaltning AB (the Company) adopted an updated remuneration policy in November 2016, which is based on Finansinspektionen’s regulations (FFFS 2013:9) regarding Swedish UCITS funds and (FFFS 2013:10) regarding alternative investment fund managers. The Company is included in a consolidated situation with Catella Bank S.A. as a guarantor institution and has therefore also observed the regulations that apply to the consolidated situation.

### “Correlation between pay and performance”

The general principle is that remuneration to employees of the Company is comprised of fixed and variable pay related to the Company’s development and individual performance. The pay and remuneration structure is also designed to facilitate the capacity of the Company to achieve good profitability over the short and long terms. The mix of fixed pay and variable pay differs among personnel categories.

### Performance assessment and risk adjustment

The Company has established a process for performance assessment and risk adjustment of variable pay that takes into consideration the performance of the Company, the business units and/or the funds/discretionary mandates, as well as the individual’s performance and the Company’s capital and liquidity requirements. In this context, “funds” refers to all funds managed by the Company.

Specification of remuneration paid during the 2016 financial year

<u>Business unit:</u>	<u>Executive management</u>	<u>Employees with strategic positions.</u>	<u>Control functions</u>	<u>Employees who can affect the level of risk in the Company or the funds</u>	<u>Employees whose total remuneration equals or exceeds the total remuneration paid to any member of executive management</u>	<u>Other employees</u>	<u>Total</u>
<u>Number of employees:</u>	1	4	4	16	4	14	43
<u>Remuneration:</u>	<u>Amount (SEK)</u>	<u>Amount (SEK)</u>	<u>Amount (SEK)</u>	<u>Amount (SEK)</u>	<u>Amount (SEK)</u>	<u>Amount (SEK)</u>	<u>Amount (SEK)</u>
Total remuneration paid	3,512,842	5,020,433	4,193,580	20,404,737	16,241,611	4,543,453	53,916,656
Total fixed pay disbursed in 2016	1,880,842	3,508,433	4,193,580	13,444,737	5,896,277	3,084,120	32,007,989
Total variable pay disbursed in 2015 and preceding years	1,632,000	1,512,000	0	6,960,000	10,345,334	1,459,333	21,908,667

The amounts of fixed and variable pay reported above do include social insurance expenses, etc.

### Your share of the fund's costs

In the account statements you received from us in January 2017 we reported your share of the fund’s costs for 2016.

“Management costs” are your share of the fund’s expenses in 2016 for management, accounting, information, marketing, auditing, and fees to the depositary.

“Other costs” are your share of the fund’s expenses for securities trading, such as analysis and brokerage fees.

“Total costs” are the sum of the two costs above.

You cannot deduct these costs on your tax return.

### Accounting policies

Investment funds apply the Swedish Investment Funds Act (SFS 2004:46), Finansinspektionen's regulations FFFS 2013:9, applicable reporting guidelines issued by the Swedish Investment Fund Association and ESMA guidelines.

Fund holdings have been recognised in the balance sheet at market value, i.e., the closing price at 30 December 2016. Various valuation methods are used to determine the market value depending on the financial instrument and the market in which the instrument is traded. The last reported net asset value per unit is used to determine the value of fund units. The last price paid is normally used to determine the value of market-listed instruments and other instruments actively traded on an established market. The last bid and/or ask price is normally used to determine the value of instruments other than those referred to in the preceding sentence. If the management company deems the aforementioned valuation methods to be misleading, value is determined based upon other objective grounds.

“Objective grounds” refers to valuation based upon available information on the last price paid in relation to external transactions in the instrument or an indicative bid price from a market maker, if a market maker has been appointed by the issuer. If such information is unavailable or is deemed unreliable by Catella, market value is determined according to generally accepted valuation models based on information from independent brokers or other external independent sources. Negative interest has been recognised as negative interest income in the fund.

Exchange rates are the closing rates at 30 December 2016.

DKK	1.2887
EUR	9.5807
GBP	11.2204
NOK	1.0550
USD	9.0812

### Unitholder taxation

The Fund is a separate taxable entity but is not liable for tax on the income of the assets included in the fund. Instead, unitholders are taxed on a standardised income (see below).

#### *Capital gains tax*

Natural persons (individuals) who are fully taxable in Sweden must report capital gains and capital losses on the divestment of units in the fund as income from capital at a tax rate of 30 percent. Divestment include sales and redemptions. The same rules apply to estates provided the deceased was fully taxable in Sweden.

Capital gains and capital losses are calculated as the difference between the sale price (less any fees) and the tax basis amount. The tax basis amount is the purchase price paid for the divested fund units. The tax basis is normally calculated according to the average cost method.

#### *Standard taxation*

As of the 2012 income year, individuals who are fully taxable in Sweden and who own units in the fund must report a standardised income of 0.4 percent of the value of their fund holdings at the beginning of the year. The standardised income must be reported as income from capital at a tax rate of 30 percent, which results in an effective tax levy on the fund value of  $(0.4 \times 0.3 =) 0.12$  percent per year. The same rules apply to estates provided the deceased was fully taxable in Sweden.

#### *Miscellaneous*

If the fund is linked to an investment savings account, endowment, IPS or premium pension, special tax rules apply. Special tax rules also apply to legal persons and foreign unitholders.

### *Statements for tax returns*

The management company provides information to the Tax Agency concerning gains or losses upon sale or redemption of units in the fund, standardised income and, if applicable, dividends. Information is provided concerning natural persons and estates taxable in Sweden.

## **OUR OWNERSHIP POLICY**

### **1. Introduction**

Finansinspektionen's regulations regarding investment funds, Chapter 15, Section 9, and Article 37 of the EU Commission Delegated Regulation, require the boards of directors of fund management companies and alternative investment fund managers to adopt internal rules specifying the strategies the company must apply to determine when and how voting rights linked to the financial instruments included in each fund are to be exercised.

The purpose of this document is to present how Catella Fondförvaltning AB ("Catella Fonder") exercises its owner influence, including how and in what situations the voting rights linked to investments made within the context of the company's business are to be exercised. The fundamental policy in all situations is that Catella Fonder shall act solely in the joint interests of fund unitholders and that voting rights must be exercised to the exclusive benefit of each fund.

The objective is that the funds should generate the highest possible return. The ownership role is exercised so as to maximise the long term value of portfolio companies and thus fund units. Fund assets are not included in the balance sheet of Catella Fonder and unit holders may at any time withdraw their money from the funds. It is therefore important that Catella Fonder is able to sell its shares as necessary and without delay.

### **2. Policy for exercise of shareholder influence**

Catella Fonder invests on behalf of the funds, primarily in equities, bonds and other debt instruments and derivative instruments. The development of companies in which Catella Fonder invests is continuously monitored and if the developments give reason for discontent, Catella Fonder may elect to express this discontent by selling its holding, engaging in dialogue with management or exercising influence through the rights conferred by the funds' ownership.

As a shareholder, Catella Fonder shall actively intervene in a portfolio company if, in the judgement of Catella Fonder it is possible by so doing, either alone or jointly with other shareholders, to create financial added value for unitholders. The potential to create added value varies among portfolio companies and depends upon factors including the size of the funds' holding, the funds' potential return from the holding, what opportunities exist for improving governance of the portfolio company and the ownership structure of the portfolio company in other respects.

### **3. Attendance at general meetings**

Catella Fonder shall normally attend general meetings of the companies in which the funds are major shareholders, as well as the general meetings of other companies at which key issues are raised, and shall exercise its voting rights at these meetings. Catella Fonder considers itself a "major shareholder" if the funds own 5 percent or more of equity and/or voting rights in a portfolio company. Depending upon the ownership structure in other respects and existing opportunities for owner cooperation, Catella Fonder may also actively intervene in other portfolio companies.

### **4. Participation in nominating committees, etc.**

If it is possible in Catella Fonder's judgement to create added value for unitholders, Catella Fonder may exercise shareholder influence by having representatives on the nominating committees of portfolio companies. In exceptional cases, Catella Fonder may also appoint representatives to the boards of directors of portfolio companies.

Decisions to nominate representatives to the nominating committee or board of directors of a portfolio company are at the discretion of the CEO of Catella Fonder.

### **5. Exercising voting rights and monitoring corporate actions**

1. There are several companies within the Catella group ("Catella") that invest on their own behalf or on behalf of clients. Operations within Catella Fonder are clearly segregated from these other operations and Catella Fonder shall therefore, in exercising its voting rights, consider only the best interests of unitholders irrespective of any interests Catella may otherwise have in the company concerned. However, this does not preclude that coordinated action between Catella Fonder and another Catella company (or, for that matter, an external

owner) in respect of specific matters may be deemed to the benefit of unitholders. When Catella Fonder exercises its voting rights, it does so in accordance with the investment objectives and policy of each fund as set forth in the respective fund rules. When Catella Fonder exercises its voting rights, an assessment is made in every case as to whether any conflict of interest may arise for the fund or fund unitholders and, if so, how such conflicts should be managed.

2. The fund manager is ultimately responsible for monitoring corporate actions and for ensuring that the fund votes at general meetings in accordance with the investment objectives and policy. However, Catella Fonder applies the fundamental precept that all funds must be in consensus concerning important matters affecting the company's operations. To this end, Catella Fonder has appointed an ownership representative who, in consultation with fund managers, decides how the fund shall vote at general meetings. The ownership representative in turn reports to the CEO and board of directors of Catella Fonder.
3. The foregoing policy that each fund manager is responsible for that a fund votes in accordance with the fund's investment policy ensures that conflicts of interest are managed.
4. Catella Fonder may, if deemed appropriate, issue a proxy to a third party to represent Catella Fonder at general meetings. Such a proxy shall be preceded by the same preparatory work as if Catella Fonder itself, through an employee, were to be represented at the meeting.

Upon request and free of charge, Catella Fonder will subsequently report to unitholders its positions and the underlying rationale concerning key individual ownership issues.

## 6. Information policy concerning social and environmental responsibility and governance

Catella Fonder has taken a clear ethical position by becoming a signatory to UNPRI (United Nations Principles for Responsible Investment), preparing an ethics policy and reporting our ethics programme. This is the framework of our ethical profile. Initiated at our own volition, in combination with the preferences of our clients, this has resulted in the integration of social and environmental responsibility and governance aspects in our management operations. The policy applies to Catella Fonder's equity funds, except Catella Sverige Index, and their Nordic equity holdings. However, equity holdings held for less than one (1) month are exempt.

## 7. Management of insider information in the exercise of shareholder influence

Catella Fonder's mandate in connection with the management of investment funds and alternative investment funds is to act exclusively in the joint interests of unitholders. Accordingly, Catella shall as far as possible avoid restrictions to fund management. Catella therefore avoids, to the greatest possible extent, accessing information that affects prices and which is not generally known or is non-public (insider information), or accessing information bordering on insider information - grey zones, referred to generally as "insider situations". Despite this, Catella will from time to time find itself in insider situations. Policies are in place to manage these situations, including that the group of individuals informed about the insider situation must be kept as limited as possible and that Catella Fonder shall take action to prevent employees from using the information for personal gain or in the company's operations.

*Please direct any questions concerning Catella Fonder's ownership policy to the company's ownership representative or the CEO.*

This ownership policy has been prepared in accordance with the "Guidelines for investment fund managers as shareholders" issued by the Swedish Investment Fund Association

### Swedish Code of Conduct for fund management companies

Catella Fondförvaltning AB (the Company) is a member of the Swedish Investment Fund Association. Through its "Swedish Code of Conduct for fund management companies", the Association summarises the overall principles that apply when conducting fund management activities in Sweden. The Code is designed to promote sound fund activities and thereby to safeguard public confidence in the industry. The Company complies with the Code. All fund managers, executive management, employees in Risk, Compliance and Middle Office, as well as the heads of Business Support and Sales, etc., at the Company are licensed by SwedSec. The Company has also ensured that half of the board of directors is composed of independent directors.

## Disclosures in accordance with the Code of Conduct for fund management companies

Remuneration to the staff of the fund management company comprises salary and bonuses related to the performance of the Company.

### Information about remuneration

See pages 9 for information about remuneration paid in 2016 by Catella Fondförvaltning AB. Information is also provided on the website ([www.catella.se/fonder](http://www.catella.se/fonder)) and in the Company's annual report for 2016. Unitholders who wish to have Catella Fondförvaltning AB's annual report sent to them are requested to contact us on +46 8 614 25 00.

### Issue guarantees

Within the framework of the respective fund rules and the Swedish Investment Funds Act (2004:46), all funds have the option to guarantee securities issues. Catella Avkastningsfond took advantage of this opportunity in 2016.

### Related-party transactions

Trading with related companies has taken place during the period, as detailed under "Facts about the fund".

### The board of directors of Catella Fondförvaltning AB

Knut Pedersen, Chairman, CEO Catella AB (publ)

Lars H. Bruzelius, Senior Partner BSI & Partners

Peter Friberg, LL.M, licensed psychologist, consultant

Johan Nordenfalk, COO Catella AB (publ) and acting CEO of the Management Company

Thomas Raber, MD Alvine Capital Management Ltd

Ando Wikström, CFO Svenska Hyreshus AB (publ) (SHH)

## Risk

### Total risk

The traditional way to measure the price volatility of a fund, or the risk of losing money, is to measure how much the fund's returns have varied. If a fund has a high total risk (for example, an equity fund), the returns have varied more than for a fund with low total risk (for example, a fixed income fund with short term to maturity on interest-bearing assets). However, risk and return are linked, and a higher risk may yield a higher return.

The value of total risk indicates the range within which the annual return should end up (with 66 percent probability). For a fund with an average return of 5 percent and a total risk of 2 percent, this indicates that the fund's annual return should be between 3 percent and 7 percent (5 percent  $\pm$  2 percentage points).

In this respect, Catella follows the recommendation of the Swedish Investment Fund Association to use 24 monthly values in this measurement. Another name for total risk is "standard deviation" calculated on an annual basis, or volatility. The total risk in a fund gives an indication of the historical risk level of the fund, but is not an infallible forecasting tool. A fund category or fund that has previously had low total risk may actually be risky and lead to price losses if, for example, the stock market is on the verge of decline due to, for example, an economic downturn. Naturally, the opposite is also true.

### Active risk

Another type of risk is that the fund will outperform or underperform the assets on the market in which it invests. Investors buying an equity fund, composed of Swedish equities for example, will probably want to check how much risk the fund has taken in its investments compared to its benchmark index.

Active risk, which is also called "tracking error", is one measure of this. This measurement indicates how closely the fund tracks its benchmark index. High active risk indicates that the fund deviates significantly from its index. Unlike correlation, active risk is dependent not only on the direction of return, but also its magnitude. Thus, a fund with a small proportion of equities and the remainder in bonds may still have a correlation of 1 against the stock exchange, but also high active risk against the stock exchange. Active risk is calculated as the standard deviation of the relative returns compared to the benchmark index. Catella also uses monthly values (24 months) in the calculation of active risk.

### Duration

Duration is the most common measure of interest-rate risk, and indicates the average term to maturity of the fund's fixed-income securities. The higher the duration, the more sensitive the fund is to changes in interest rates. Duration is normally expressed in years. The fund duration is presented for all Catella funds that have holdings in fixed-income

securities. The measure of duration used in the annual report is “effective duration”, which takes into account the period of fixed interest and optionality for, for example, FRN and callable bonds.

*Interest-rate risk at a 1 percentage point change in interest rates*

The interest-rate risk for a 1 percentage point change in interest rates shows how much the fund's value would decrease (or increase) if the interest rate were to rise by 1 percentage point across the entire yield curve; that is, the interest rate rises by 1 percentage point on all maturities. This measure is presented for all Catella funds that have holdings in interest-bearing securities.



Catella Avkastningsfond, corporate registration number 504400-5147

Catella Fondförvaltning AB  
Stockholm, 6 February 2017

Knut Pedersen  
Chairman

Erik Kjellgren  
CEO

Lars H. Bruzelius

Peter Friberg

Johan Nordenfalk

Thomas Raber

Ando Wikström

Our auditor's report was submitted 6 February 2017.

PricewaterhouseCoopers AB

Patrik Adolfson  
Authorised Public Accountant

## Auditor's Report

To the unitholders of the Catella Avkastningsfond, a UCITS fund, corporate registration number 504400-5147

### Report on the Financial Statements

#### *Opinion*

In our capacity as auditors of Catella Fondförvaltning AB, corporate registration number 556533-6210, we have audited the financial statements of Catella Avkastningsfond, a UCITS fund, for 2016.

In our opinion, the financial statements have been prepared in accordance with the Investment Funds Act of Sweden and Finansinspektionen's regulations regarding UCITS funds and present fairly, in all material respects, the financial position of Catella Avkastningsfond, a UCITS fund, as of 31 December 2016 and its financial performance for the year in accordance with the Investment Funds Act and Finansinspektionen's regulations regarding UCITS funds.

#### *Basis for Opinion*

We have conducted the audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under these standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Management Company in accordance with the ethical requirements relevant to our audit of the financial statements in Sweden and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

#### *Other Information*

Catella Fondförvaltning AB is responsible for the other information. The other information comprises the "Årsredogörelse" and "Årsredogörelse – Sifferdel" but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work performed concerning this information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Responsibilities of Management*

The Management Company is responsible for the preparation of the financial statements and for their fair presentation in accordance with the Investment Funds Act of Sweden and with Finansinspektionen's regulations regarding alternative UCITS funds and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could be reasonably expected to influence the financial decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Management Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the Management Company regarding, among other matters, the planned scope, direction and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Stockholm, 6 February 2017  
PricewaterhouseCoopers AB

Patrik Adolfson  
Authorised Public Accountant