

Half Year Report for Catella Credit Opportunity

I January 2017 – 30 June 2017

Good risk appetite and continued flows to corporate bonds

The fund rose 5.04 percent after fees and the risk level was low.

The first half of 2017 offered a favourable environment for investments in corporate bonds. Strong risk appetite and continued flows to corporate bonds were contributors to the good returns during the period on, in particular, bonds issued by less creditworthy companies. Interest rates on government bonds rose initially before falling back later in the period and overall ending the first half of the year broadly at the same levels as at the start.

High market activity during the period created good conditions for the overall objective of the portfolio, to create returns regardless of market trends. The fund returned 5.04 percent in the first half of the year. The portfolio is today characterised by a larger number of bonds issued by companies active in different types of industries, allowing a higher degree of risk diversification than previously. In addition, the portfolio had a high proportion of cash and cash-equivalent investments with low risk during the period. During the majority of the first half of the year the portfolio held put options on the stock exchange aimed at stabilising the return during unfavourable market outcomes.

Price increases account for approximately half of the return and current yield accounts for the remainder of the fund's returns. The main positive contributors to the return during the period were the holdings in oil refinery Preem, recycling company Norsk Gjenvinning and Bayport, which is active in micro-lending in Africa and South America. The fund holds a broad sector diversification that differs from the Nordic market portfolio. However the largest individual industry is banking/finance, but instead of bank bonds the fund has chosen to focus its investments on bonds issued by debt collection companies such as Norwegian Lindorff, the UK's Cabot and German Garfunkel. These investments have performed well and, towards the end of the period, the fund chose to realise profits in some of the cases. The holdings in OMX put options and hedging of interest rate risk reduced the return during the period. Several of the best performing holdings in the portfolio, such as Preem and Norsk Gjenvinning, were fully or partially divested during the period and were replaced with newly issued bonds that contribute to the spread of risk in the portfolio.

The portfolio's holdings of bonds issued in foreign currency are normally hedged back to Swedish kronor so the currency effect is small.

Fund facts

Fund managers: Thomas Elofsson, Stefan Wigstrand

Unit value 110.54
 Number of unit holders..... 22
 Net fund assets (SEKm) 396

YIELD PAST HALF YEAR

Catella Credit Opportunity 5.04%
 Benchmark (OMRX TBill) -0.38%

AVERAGE ANNUAL YIELD

Past two years

Catella Credit Opportunity 4.13%

AVERAGE ANNUAL YIELD

Past five years

Catella Credit Opportunity N/A

RISK

Total risk fund 3.27%
 Duration, 30 June 2017 (years) 0.51
 Interest-rate risk from 1% rise in
 interest rate, %..... -0.50%

TURNOVER/COSTS

Rate of turnover (times/year) 1.92
 Transaction costs (SEKm)..... 0.06
 as percentage of securities traded..... 0.01
 Management fee..... 0.95%
 Management fee charged (fixed and variable)*
 Ongoing charges..... *

* Costs for funds with performance fees
 are provided in the annual report

TURNOVER OF FINANCIAL INSTRUMENTS THROUGH ASSOCIATED SECURITIES INSTITUTIONS

Percentage of total turnover 0.00%

TURNOVER OF FINANCIAL INSTRUMENTS MANAGED BY CATELLA FONDFÖRVALTNING

Percentage of total turnover 0.00%

The fund is a UCITS fund

Fund inception: 24 November 2014

Opening price: SEK 100

Dividends: The fund does not pay any dividend.

Management company: Catella Fondförvaltning AB

Corporate registration number of the fund: 515602-3482

PPM fund number: Catella Credit Opportunity is not available as a PPM fund.

BALANCE SHEET AND INCOME STATEMENT

BALANCE SHEET, SEkk	30-Jun-17	31-Dec-16
ASSETS		
Transferable securities (Note 1)	340 664	230 421
OTC derivatives with positive market value (Note 1)	2 652	2 504
Other derivatives with positive market value (Note 1)	340	0
Total financial instruments with positive market value	343 656	232 925
Bank balances and other cash and cash equivalents	66 852	33 253
Prepaid expenses and accrued income	4 867	4 377
Other assets	175	0
TOTAL ASSETS	415 550	270 555
Accrued expenses and prepaid income	1 081	721
Other liabilities	17 972	13
TOTAL LIABILITIES	19 053	724
NET FUND ASSETS Note 2	396 497	269 831
MEMORANDUM ITEMS		
Collateral pledged for OTC derivatives	2 426	2 094
Collateral pledged for other derivatives	3 181	1 094
INCOME STATEMENT, SEkk		
INCOME AND CHANGES IN VALUE		
Change in value of transferable securities	8 078	6 540
Change in value of OTC derivatives	3 230	-20 741
Change in value of other derivatives	-445	-1 293
Interest income	8 529	26 419
Dividends	466	2 734
Net foreign exchange gains and losses	1 179	1 716
Other income	2	238
TOTAL INCOME AND CHANGES IN VALUE	21 039	15 613
EXPENSES		
Management costs		
Payments to companies conducting fund operations	5 551	6 852
Payments to depositary	76	178
Other expenses	45	93
TOTAL EXPENSES	5 672	7 123
PROFIT FOR THE YEAR	15 367	8 490
Note 2 TO BALANCE SHEET		
CHANGE IN NET FUND ASSETS	30-Jun-17	31-Dec-16
NET FUND ASSETS AT BEGINNING OF YEAR	269 831	667 382
Unit sales	129 135	130 967
Unit redemptions	-17 836	-537 008
Profit for the year per income statement	15 367	8 490
NET FUND ASSETS AT END OF PERIOD	396 497	269 831

FUND'S HOLDINGS OF FINANCIAL INSTRUMENTS

Note Securities	QUANTITY	PRICE	(SEKk)	%
MARKET-LISTED EQUITIES*				
REAL ESTATE				
Pioneer Prop Pref, Norway, NOK	13 591	99.00	1 355	0.34
			1 355	0.34
TOTAL MARKET-LISTED EQUITIES			1 355	0.34
NOT MARKET-LISTED EQUITIES**				
INDUSTRIALS				
Bong Ljungdahl TO	3 000 000	0.29	870	0.22
			870	0.22
TOTAL NOT MARKET-LISTED EQUITIES			870	0.22
MARKET – LISTED BONDS*				
GOVERNMENT				
Statsobligation loan 1047 201201	10 000 000	118.26	11 826	2.98
			11 826	2.98
OTHER				
AINMT Scandinavia Holdings FRN 220407, Norway, NOK	10 000 000	101.17	10 189	2.57
B2 FRN 211004, Norway, EUR	1 000 000	107.96	10 386	2.62
Bayport 191117	14 000 000	98.96	13 854	3.49
Care Bidco FRN 210324, Norway, NOK	5 000 000	102.75	5 174	1.30
Catena Media FRN 190916, Malta, EUR	1 000 000	102.62	9 873	2.49
Crayon FRN 200606, Norway, NOK	4 000 000	101.38	4084	1.03
DDM TREASURY 9% 200130, EUR	1 000 000	102.50	9 861	2.49
Eniro 6% 200414	119 999	21.38	26	0.01
Gaming innovation Group, USA	13 000 000	102.50	13 325	3.36
Genova Property FRN 210407	5 000 000	100.62	5 031	1.27
Golar LNG Partners FRN 210515, Marshall Islands, USD	400 000	99.82	3 369	0.85
Hoist FRN 210629	10 000 000	100.50	10 050	2.53
IB Bostad FRN 181021, NOK	10 000 000	104.21	10 495	2.65
Ixat Intressenter FRN 200612	10 000 000	100.25	10 025	2.53
Jefast FRN 190124	5 000 000	104.17	5 209	1.31
JSM Financial Group FRN 200420	9 000 000	100.46	9 041	2.28
Nackahusen Holding FRN 200813	10 000 000	101.25	10 125	2.55
Nova Austral 8,25% 210526, Chile, USD	2 100 000	101.25	17 939	4.52
Perstorp Holding 7,625% 210630.2, EUR	1 000 000	103.94	9 999	2.52
Samhällsbyggnadsbolag FRN 200406	10000000	100.71	10 071	2.54
SEB Hypotek 572 3% 190619	20000000	106.36	21 271	5.36
Sergel FRN 201229	15000000	102.44	15 366	3.88
SHH Bostad FRN 210607	10000000	100.05	10 005	2.52
Swedbank Hypotek 190 210915	20000000	102.40	20 479	5.17
Velcora FRN 210715	5000000	106.25	5 312	1.34
Vostok New Ventures 5,5% 200622, Bermuda	5000000	100.75	5 038	1.27
VV Holding FRN 190710, Norway, NOK	7000000	99.22	6 995	1.76
			262 592	66.23
TOTAL MARKET-LISTED BONDS			274 418	69.21
NOT LISTED BONDS**				
Corral Petroleum 12,25% 210515	10 000 000	108.86	10 886	2.75
Garfunkelux 11% 231101, Luxembourg, GBP	1 000 000	111.07	12 165	3.07
Host Property FRN 191208, Norway	5 000 000	103.50	5 175	1.31
Naviagor Holdings 7,75% 210210, Marshall Islands, USD	800 000	99.50	6 716	1.69
OPR Vakuuus 8% 220518, Finland, EUR	1 500 000	102.12	14 738	3.72
Unilab 5,75% 250515, EUR	1 000 000	101.25	9 741	2.46

Voyage Care 230501, Great Britain, GBP	400 000	104.99	4 600	1.16
			64 021	16.15
TOTAL NOT LISTED BONDS			64 021	16.15
TOTAL TRANSFERABLE SECURITIES			340 664	85.92
EXCHANGES TRADED DERIVATIVES				
Bond Future				
Swe Gov. Bond Future 10Y	-30	0.93	0	0.00
			0	0.00
Index option				
OMX 17 S 1380 sept	1000	3.40	340	0.09
			340	0.09
TOTAL EXCHANGES TRADED DERIVATIVES			340	0.09
Exchange traded Derivatives with positive market value			340	0.09
Exchange traded Derivatives with negative market value			0	0.00
OTC-DERIVATIVES				
FX-Forwards				
FXFWD EURSEK 170914 9.738306, Europe, EUR	-9 110 000	9.62	1 105	0.28
FXFWD EURSEK 170914 9.738457, Europe, EUR	-701 000	9.62	85	0.02
FXFWD GBPSEK 170914 11.037897, Great Britain, GBP	-1 400 000	10.94	144	0.04
FXFWD GBPSEK 170914 11.058264, Great Britain, GBP	-150 000	10.94	18	0.00
FXFWD NOKSEK 170914 1.026354, Norway, NOK	-40 000 000	1.00	875	0.22
FXFWD USDSEK 170914 8.4725, USA, USD	-2 100 000	8.41	138	0.03
FXFWD USDSEK 170914 8.645935, USA, USD	-1200000	8.41	287	0.07
			2 652	0.67
TOTAL OTC-DERIVATIVES			2 652	0.67
OTC Derivatives with positive market value			2 652	0.67
OTC Derivatives with negative market value			0	0.00
TOTAL HOLDINGS OF FINANCIAL INSTRUMENTS			343 656	86.67
OTHER ASSETS AND LIABILITIES			52 841	13.33
TOTAL			396 497	100.00

* 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	17.53

* 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:

Vostok New Ventures 5,5% 200622

Nackahusen FRN 200813

Ixat Intressenter FRN 200612

SHH Bostad FRN 210607

SBB FRN 200406
 Hoist Group FRN 210629
 Legres FRN 201229
 Golar LNG Partners FRN 210515
 Care Bidco FRN 210324
 AINMT Scandinavian Holding FRN 220407
 IB Bostad FRN 181021
 Crayon Group FRN 200606
 Nova Austral 8,5% 210526

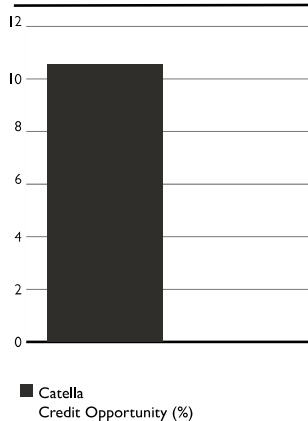
COUNTERPARTIES FINANCIAL DERIVATIVE TRANSACTIONS

COUNTERPART	COLLATERAL RECEIVED
SEB	0
Danske	0

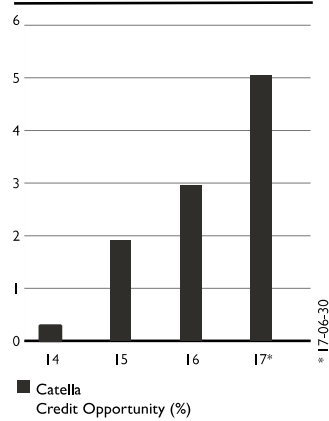
HISTORICAL FUND ASSET, NET ASSET VALUE, NUMBER OF UNITS AND DIVIDENDS

Date	Dividend SEK/unit	Unit Value SEK	No of units	Net fund Assets SEKk
141231	0.00	100.29	2 787 648	279 576
151231	0.00	102.21	6 529 661	667 382
161231	0.00	105.24	2 563 999	269 831
170630	0.00	110.54	3 586 758	396 497

YIELD SINCE INCEPTION



YIELD SINCE INCEPTION



TRADE IN DERIVATIVES

In accordance with its fund rules, the fund may trade in derivatives as part of its investment strategy. During the period the fund has not exercised its right to lend or borrow securities.

Leverage is calculated as the sum of the underlying exposed gross values of derivatives.

Highest leverage	Lowest leverage	Average leverage
147.89%	23.74%	71.83%

Risk assessment method for calculating total exposure: Value at Risk

Value at Risk The fund uses the Monte Carlo VaR model with a 1-day horizon and a 95% confidence.

At Jun 30, 2017	Highest	Lowest	Average
0.10%	0.42%	0.07%	0.15%

Your share of the fund's costs

In the account statements you receive from us in January 2018 we report your share of the fund's costs for 2017.

"Management costs" are your share of the fund's expenses in 2017 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) and Finansinspektionen's regulations FFFS 2013:9 governing investment funds. Special funds apply the Alternative Investment Fund managers Act (2013:561) and Finansinspektionen's regulations (FFFS 2013:10) governing managers of alternative investment funds. All funds apply the applicable recommendations of the Swedish Investment Fund Association for reporting and the ESMA guidelines.

Fund holdings have been recognised in the balance sheet at market value on 30 June 2017. Market value is the the closing price. 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 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 the management company, market value is determined according to generally accepted valuation models based on information from independent brokers or other external independent sources.

Negative interest rates have been recognised as negative interest income in each fund.

Exchange rates are the closing rates at 30 June 2017.

DKK	1.2939
EUR	9.6206
GBP	10.9528
NOK	1.0071
USD	8.4369

Unitholder taxation

The Fund is a separate taxable entity, but is not subject to tax on the income of the assets included in the fund. Instead it is the unit holders that are taxed using a standard 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 includes 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

Individuals who are fully taxable in Sweden and who own units in the fund must from tax year 2012 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.

Disclosures in accordance with the Swedish 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

Information about remuneration paid in 2017 for Catella Fondförvaltning AB is provided in the funds' annual reports for 2017.

Issue guarantees

Within the framework of the respective fund rules, the Swedish Investment Funds Act (2004:46) and the Alternative Investment Fund Managers Act (2013:561), all funds have the option to guarantee securities issues. Catella Hedgefond, Catella Småbolagsfond and Catella Sverige Aktiv Hållbarhet took advantage of this opportunity in 2017.

Related-party transactions

Trading with related companies has taken place in certain funds during the period, as detailed under "Fund Facts" for each fund.

OUR OWNERSHIP POLICY

1. Introduction

Finansinspektionen's regulations regarding investment funds (FFFS 2013:9), 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, or on a particular matter 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 certain 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 certain 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 of voting rights and monitoring of 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 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 stance by signing the United Nations Principles for Responsible Investments (UN PRI), and by preparing a policy for responsible investment and by generally and transparently disclosing its work with

ethics. This is the backbone of our ethical profile. Based on our own values and our clients' preferences, this position has resulted in the integration of environmental, social and governance aspects with our management activities. The policy applies to Catella Fonder's equity funds, except Catella Sverige Index, and their equity holdings.

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, with one exception. Valuations of securities at the end of months other than June and December take place at the closing price if these are available at the time the NAV is calculated for that day. All fund managers, executive management, employees in Risk and Middle Office, as well as the heads of Compliance, 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

Information on paid remuneration in 2017 for Catella Fondförvaltning AB is provided in the Funds Annual Report for 2017.

Issue guarantees

Within the framework of the respective fund rules and the Swedish Investment Funds Act (2004:46), the fund has the option to guarantee securities issues. During the first half of 2017 the Catella Credit Opportunity has not exercised this ability.

Related-party transactions

There were no transactions with related companies during the period.

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 (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). Therefore, 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 for a 1 percentage 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.

Active share

Active share is another measure of how "closely" the fund follows its benchmark, but unlike active risk, active share does not take into account whether the holdings are similar. This means that if one share in the fund's holdings is switched for another share that has similar performance, active risk is not affected, but active share is affected. Active share indicates, as a percentage, the proportion of the fund that deviates from its benchmark. This indicator ranges from zero to one hundred percent, with zero percent active share indicating that the fund has exactly the same holdings and allocation of holdings as the benchmark. One hundred percent active share means that none of the fund's holdings are included in the index. Active share is calculated as the sum of the differences between the shares' weightings in the fund portfolio and in the benchmark index, divided by two.

Value at Risk (VaR)

Value at risk is a way to measure and express risk, other than total risk. In contrast to total risk, which is backward-looking and calculates how the return on the fund has actually varied, value at risk is forward-looking and attempts to calculate how much money the fund could lose in one day. Catella uses the Monte Carlo simulation with a 1-day horizon and 95 % confidence. A VaR of 1 %, for example, therefore means that the fund should not lose more than one percent in a day (with 95 % probability).

Important Information:

Investments in fund units are associated with risk. Past performance is no guarantee of future returns. The money invested in a fund can increase and decrease in value and it is not certain that you will get back the full amount invested. No consideration is given to inflation. The Catella Credit Opportunity is a special fund under the Swedish Alternative Investment Fund Managers Act (SFS 2013:561) (AIFM). For more details, complete prospectuses, key investor information, and annual and half-yearly reports, please refer to our website at catella.se/fonder or phone +46 8 614 25 00.

Market Outlook H1 2017 – Intense focus on global politics

The first half of 2017 has been favourable for capital owners, with strong returns on most asset classes. Otherwise, 2017 started as 2016 ended, with a focus on political developments around the world. After last year's Brexit vote and the US presidential election, we looked ahead to a dramatic year of elections in the Netherlands, France and Germany. It certainly has been dramatic, but once again the reality frustrated expectations.

In the Netherlands, the hard-right Party for Freedom failed to gain enough votes to vie for government. The same happened in France, where Marine Le Pen's Front National was roundly defeated by the market-liberal and EU-friendly Emmanuel Macron. In the UK, the incumbent prime minister, Theresa May, announced a snap election, hoping to win a stronger mandate for a tough line in Brexit negotiations. The result was the opposite, with the governing Tory party losing its majority and being weakened ahead of the talks.

The so-called Trump effect on the financial markets has ebbed away. Interest rates, inflation expectations and the dollar have all fallen below the levels they were at before Trump's election victory in early November last year. This is mainly because the Trump administration has been unable to push through almost any of its expansionary financial plans for tax reforms and infrastructure initiatives.

Central banks are at a crossroads, faced with a choice of stubbornly sticking to old inflation targets or taking monetary policy back to something like normality. More recently it actually seems as if the Federal Reserve has decided on the latter. It has raised the US key rate twice this year and said there will be more hikes. It has also announced a plan for shrinking its balance sheet.

Growth in the United States has so far been disappointing. There were hopes of stronger growth early in the year, but right now it seems that the path of 2 percent growth will continue. The opposite is the case in Europe, which has surprised on the upside. EU growth was twice that of the US in the first quarter, and may very well be higher over the full-year for the second consecutive year. In addition to stronger growth, we believe the valuation of European stock exchanges is more attractive compared to the US.

However, although the economic signals were mixed, the reporting season for the first quarter was mostly positive. Outcomes were better than expected in all major regions and analysts will have to upwardly adjust their full-year forecasts. It is clearly positive that stock markets are rising as a result of fundamental earnings improvements rather than the multiple expansion we have seen in recent years.

Despite the optimism about earnings, the ambiguous economic signals we are seeing at the moment are complex to interpret. And this gets even more complicated when we look at the signals from the fixed income market: falling long-term interest rates and falling inflation forecasts are not usually a sign of strength.