

Annual Report for Catella Avkastningsfond

| January 2018 – 31 December 2018

CEO's message

Jack Bogle of Vanguard once said, "Half the time, I wonder why I have so much in stocks, and other times I wonder why I have so little." The quotation rather neatly sums up the past year, but also investment decisions in general.

Managing money is not easy. We are putting a year behind us in which we cannot be satisfied. As we have seen so many times before, the year was tinged with uncertainty. As it began, the markets were extremely shaky and volatility hit the roof. This was followed by a period of gradual recovery and the index hit the peak for the year by summer's end, in spite of both macroeconomic and political unrest in several places in the world. As the autumn storms rolled in, things happened very fast. Even though neither business nor the real economy showed any signs of weakness, the market outlook went from optimistic to pessimistic, resulting in a relatively massive dip in which cyclical and energy companies in particular took a beating.

We, who had for quite some time been advocating the "modern portfolio" with a larger element of more market-neutral strategies, were hoist with our own petard when we did not manage to deliver a positive return during the most difficult months. A taxing period of brief dips that had started by spring and summer and attracted new buyers every time, also made the market difficult for a group of fund managers inclined to scepticism. The cost of staying outside turned out to be too high, and several were pulled along with the prevailing trend. "Buy the dips..." There are many lessons to be learnt, and we will use this experience to enter 2019 stronger.

In this context, it is a real comfort that our flagship product, Catella Hedgefond, had already undergone several changes in recent years. The product is managed in a more diversified manner than it used to be and the correlation against the equity market has gone down significantly. Likewise, the total risk was low, which mitigated the product's loss in spite of several investments that did not turn out as expected. The fund is composed of several different strategies, where the more successful were able to compensate for the poorer performers to a certain extent. We are definitely not satisfied with the outcome, even though it was not statistically unreasonable for a bad year, considering the risk level of the product.

As I write this, the market remains turbulent and even though we are still reeling a bit, our absolute faith in the asset class is unshaken. We are in a market where the stock exchanges have delivered growth during one of the longest periods in memory, interest rates seem to have hit bottom after decades of downturns and the riskless alternatives are offering zero return. Like Bogle implied in the quotation above, you can lose sleep over having too much in stocks one day and over having too little in stocks the next. In this kind of environment, an absolute return strategy is supposed to help you sleep better through lower volatility than the equities in the portfolio while offering higher return than the interest rates that have been pushed so low. I am convinced that we are headed for a brighter 2019, and we look forward to continuing to work with you.

We thank you for your trust.

Erik Kjellgren
CEO Catella fondförvaltning AB

Market trends 2018

A challenging 2018

After several years of stable growth, global financial markets once again demonstrated their idiosyncrasy, and one word sums up 2018: Challenging.

The year began in the same style as last year ended, with rising stock markets, rising interest rates and a general sense of good times. But by the end of January this feeling had changed entirely. The market had been lulled by an overly secure world in 2017, and the pattern of each slight dip being bought was flipped. A large downturn led many participants to switch behaviour after a shock awakening. The VIX index, which is a measure of market pricing of future volatility, rose steeply and stock exchanges fell. The rise in interest rates that had begun in the United States and then spread globally, and which suggested that the world was emerging from the tough years following the financial crisis, came to nought. The year has been challenging for active managers, who in most cases tend to buy “cheap” shares and sell “expensive” ones. This is a strategy that works over time, but which has been difficult in 2018 since cheap companies have become even cheaper and expensive ones have become even more expensive.

Even after the market turmoil had calmed slightly, there was an obvious difference compared to 2017. Donald Trump began to tweet about a trade war, cyclical companies turned gains into losses, and cyclical industrial metals fell. There was a common message from many directions in the market – we are headed for weaker times. And in weaker times companies make less money, with the biggest impact on those most sensitive to the state of the economy. In periods of weaker growth, the performance of emerging market stocks is inhibited since they are most sensitive to the economic trends. Commodities fall. Bonds with lower credit ratings are poor performers, and the only entirely secure assets are government bonds. The message from the market was clear. Even oil prices fell in the final months of the year, which can also be interpreted as a signal that global demand is weaker than expected. One positive effect of falling commodity prices is lower inflation, which means, all else being equal, less need for tighter monetary policy. Lower commodity prices also free up the ability of companies and households to consume, and can be compared to a tax cut. The losers from lower commodity prices are, of course, the companies and countries that produce them.

Investments in the United States have provided a decent return in 2018, thanks to the stronger dollar. Growth has stepped down a gear and there are now multiple problems with this. The greatest risk from weak growth right now is that large parts of the world have little ammunition in the form of monetary policy to parry a recession. Interest rates are already at record lows and, even in an environment of weaker growth, it is difficult to imagine that rates could fall much further. And in addition, fiscal policy is already expansionary, particularly in the United States. Overall, this means the world is more unequipped than ever to handle a recession, which is influencing the pricing of financial assets and leads me to believe that 2019 will be a major challenge for politicians, central bankers and portfolio managers alike.

Challenging environment for bond funds

The fund fell by 0.55 percent after fees.

We are putting yet another year of low interest rates behind us. Yields on government bonds initially increased, reaching a peak in mid-February and subsequently falling to end the year slightly lower than at the beginning. The rate of inflation during the second half of the year was above the Riksbank's target, but signals of weaker growth still led to lower interest rates during this period. The extra compensation for buying bonds with poorer credit quality rose during the year, mainly driven by the weaker economic outlook.

The overall objective of the fund is to create a predictable return regardless of the market climate. The current environment of low absolute interest rates on government bonds, as well as the historically low compensation that can be obtained for taking higher risk in corporate bonds with high credit worthiness, presents a challenge for the fund to generate returns. Based on this background, the fund returned -0.55 percent in 2018, which is somewhat lower than we expected at the beginning of the year.

Breaking down the return, we can observe that high-risk bonds with a lower credit rating (high yield) contributed positively to the fund's return. Investments in cash and cash-equivalent securities also contributed to the fund's return during the year. Investments in bonds with a better credit rating (investment grade) reduced the fund's return during the year. Interest rate derivatives trading has not appreciably affected the fund's return. The main positive contributors to the return were the holdings in Samhällsbyggnadsbolaget (SBB), Cabonline, Heimstaden and longer municipal and housing bonds. Investments in Garfunkelux, Vodafone and Danske Bank reduced the fund's return. Holdings in Samhällsbyggnadsbolaget, Heimstaden and Vodafone were partly or completely divested during the year. During the year, the fund had a high proportion of cash and cash-equivalent holdings, including in commercial paper. Most of the commercial papers were divested during the last quarter.

The portfolio's holdings of bonds issued in foreign currency are hedged back to SEK so the currency impact was marginal.

Fund facts

Fund	Catella Avkastningsfond
Unit class	
Fund manager	Thomas Eloffsson Stefan Wigstrand
Fund inception	1999-02-01
Opening price	100
Fund type	Investment fund
Corporate registration number of fund	504400-5147
PPM fund number	112 755,00
Net fund assets (SEKk)	5 163 214
Unit value	128.27
No of units	40 253 403

Yield

Benchmark index, alt. Reference rate	50% OMRX T-Bill + 50% OMRX T-Bond
Fund, Yield past year (%)	-0.55
Benchmark index (alt. Reference rate), yield past year (%)	0.46
Fund, Average annual yield past two years (%)	0.22
Benchmark (alt. Reference rate), Average annual yield past two years (%)	0.07
Fund, Average annual yield past five years (%)	0.61
Benchmark index (alt. Reference rate), Average annual yield past five years (%)	1.53
Fund, Yield since inception (%)	89.02
Benchmark index (alt. Reference rate), Yield since inception (%)	80.75

Risk (24 months)

Duration, 31 December 2018 (years)	1.98
Interest-rate risk from 1%-point change in interest rate	-1.98
Total risk fund (%)	0.44
Total risk benchmark (%)	1.26
Active risk (%)	1.32
Active share (%) 31 December 2018	N/A

Turnover/costs

Rate of turnover (times/year)	1.22
TTC, Transaction costs (SEKm)	0.28
percentage of securities traded	0.00
SC costs (SEKm)	0.00
TER	0.71
Management fee	0.70
Management fee charged (fixed and variable)	N/A
Ongoing charges %*	0.71

*See accounting policies on page 13

Cost of type saving

Lump-sum deposit SEK 10,000	
Management cost (SEK)	69.97
Monthly saving SEK 100	
Management cost (SEK)	4.52

Turnover Through associated securities institutions

Percentage of total turnover 0.00

Turnover of financial instruments managed by Catella Fondförvaltning AB

Percentage of total turnover Catella Credit Opportunity A. 0.42

Exchange rates

Closing rates at 31 December 2018

DKK	1.3584
EUR	10.1385
GBP	11.3019
NOK	1.0235
USD	8.867

Balance sheet and income statement

BALANCE SHEET, SEKk	31-dec-18	31-Dec-17
ASSETS		
Transferable securities (Note 1)	4 745 891	4 829 567
Money market instruments (Note 1)	174 951	1 068 765
OTC derivatives with positive market value (Note 1)	6 116	5 274
Unit Funds (Note 1)	0	64 457
Total financial instruments with positive market value	4 926 958	5 968 063
Bank balances and other cash and cash equivalents	217 318	327 515
Prepaid expenses and accrued income	34 113	36 063
Other asset	126	1 877
TOTAL ASSETS	5 178 515	6 333 518
LIABILITIES		
OTC derivatives with negative market value (Note 1)	1 047	0
Total financial instruments with negative market value	1 047	0
Accrued expenses and prepaid income	3 179	3 780
Other liabilities	11 075	12 228
TOTAL LIABILITIES	15 301	16 008
NET FUND ASSETS Note 2	5 163 214	6 317 510
MEMORANDUM ITEMS		
Collateral pledged for OTC derivatives	1 120	11 650
Collateral pledged for other derivatives	7 256	16 533
INCOME STATEMENT, SEKk		
INCOME AND CHANGES IN VALUE		
Change in value of transferable securities	-64 196	-45 142
Change in value of OTC derivatives	-22 276	4 059
Change in value of money market instruments	1 358	983
Change in value of fund units	153	3 939
Change in value of other derivatives	715	33 976
Interest income	87 574	118 922
Net foreign exchange gains and losses	8 286	12
Other income	495	598
TOTAL INCOME AND CHANGES IN VALUE	12 109	117 347
EXPENSES		
Management costs		
Payments to companies conducting fund operations	40 903	47 473
Payments to depositary	896	971
Other expenses	273	215
TOTAL EXPENSES	42 072	48 659
PROFIT FOR THE YEAR	-29 963	68 688
Note 2 TO BALANCE SHEET		
CHANGE IN NET FUND ASSETS	31-dec-18	31-Dec-17
NET FUND ASSETS AT BEGINNING OF YEAR	6 317 510	7 700 274
Unit sales	792 275	794 975
Unit redemptions	-1 916 608	-2 246 427
Profit for the year per income statement	-29 963	68 688
NET FUND ASSETS AT END OF PERIOD	5 163 214	6 317 510

Fund's holdings of financial instruments

Note Securities	QUANTITY	PRICE	MARKET VALUE (SEKK)	FUND WEIGHT %
MARKET-LISTED BONDS*				
GOVERNMENT				
Statsobligation loan 1047 201201	20 000 000	110.38	22 075	0.43
Statsobligation loan 1054 220601	350 000 000	112.71	394 471	7.64
Statsobligation loan 1057 231113	250 000 000	107.43	268 570	5.20
Statsobligation loan 1058 250512	20 000 000	114.89	22 979	0.45
Statsobligation loan 1060 280512	10 000 000	102.68	10 268	0.20
Statsobligation loan 1061 291112	50 000 000	101.05	50 525	0.98
			768 888	14.89
OTHER				
AstraZeneca 3.5% 230817, Great Britain, USD	2 000 000	99.06	17 568	0.34
Castellum 0.85% 210906	24 000 000	98.41	23 619	0.46
Danske Bank FRN 230125, Denmark	100 000 000	96.51	96 507	1.87
DSV FRN 220318, Denmark, DKK	33 000 000	103.50	46 396	0.90
Garfunkelux FRN 230901, Luxembourg	37 000 000	85.25	31 542	0.61
Getinge FRN 210521	26 000 000	97.99	25 477	0.49
Heimstaden FRN 201207	70 000 000	100.18	70 124	1.36
Hexagon FRN 191126	125 000 000	100.41	125 513	2.43
Huvudstaden 1.31% 230628	50 000 000	100.05	50 024	0.97
Ikano Bostad FRN 190325	100 000 000	100.16	100 160	1.94
Intea Fastigheter FRN 220507	90 000 000	100.38	90 344	1.75
Ixat Intressenter FRN 200612	38 000 000	101.25	38 475	0.75
Klövern FRN 220404	9 000 000	98.63	8 876	0.17
Kommuninvest i Sverige 1% 231113	300 000 000	101.82	305 447	5.92
Kommuninvest i Sverige 2.5% 201201	70 000 000	104.74	73 321	1.42
Lifco 0.405 % 200403	70 000 000	99.80	69 856	1.35
Länsförsäkringar Hypotek 220921	193 000 000	106.63	205 799	3.99
Nibe FRN 190603	16 000 000	100.22	16 035	0.31
Nibe FRN 200528	44 000 000	100.78	44 341	0.86
Nibe FRN 220411	29 000 000	101.07	29 310	0.57
Nibe FRN 230904	30 000 000	98.85	29 656	0.57
Nordea FRN 280608, Denmark	50 000 000	98.63	49 316	0.96
Nordea Hypotek 1% 220408	200 000 000	102.17	204 333	3.96
Nordea Hypotek 3.25% 5521 200617	200 000 000	104.88	209 761	4.06
Norlandia FRN 211220, Norway	20 000 000	93.00	18 600	0.36
Nya Svensk Fastighets Finansiering FRN 200309	120 000 000	100.11	120 127	2.33
Olav Thon Eiendomsselskap 0.395% 190906, Norway	50 000 000	99.84	49 922	0.97
Sagax 2% 240117, EUR	5 000 000	100.44	50 917	0.99
Samhällsbyggnadsbolag 2.9% 191220	5 000 000	100.25	5 012	0.10
Sampo FRN 220523, Finland	72 000 000	100.22	72 162	1.40
Scania 0.25% 200915	50 000 000	99.38	49 690	0.96
Scania 0.455% 210504	25 000 000	99.19	24 797	0.48
SCBC 2% 200617	200 000 000	103.06	206 118	3.99
SEB 1.5% 200617	200 000 000	102.33	204 660	3.96
SEB 490513, USD	2 000 000	97.70	17 327	0.34
Sirius International 4.6% 261101, Bermuda, USD	4 100 000	86.69	31 517	0.61
Sparbanken Syd FRN 191021	54 000 000	100.29	54 154	1.05
Stadshypotek 1.5% 211215	20 000 000	103.65	20 730	0.40
Stadshypotek 1583 4.25% 200617	200 000 000	106.34	212 676	4.12
Storebrand FRN 480327, Norway	50 000 000	97.90	48 948	0.95
Storebrand FRN 490331, Norway, NOK	20 000 000	99.78	20 424	0.40
Swedbank Hypotek 180 5.7% 200512	200 000 000	107.92	215 837	4.18
Swedbank Hypotek 189 201216	200 000 000	101.91	203 818	3.95
Svensk FastighetsFinansiering 0.49% 200228	50 000 000	99.60	49 802	0.96
Svensk FastighetsFinansiering FRN 220220	50 000 000	100.19	50 094	0.97
Vacse FRN 230912	26 000 000	98.37	25 575	0.50

Wihlborgs FRN 201228	28 000 000	99.96	27 990	0.54
Volvo Finans FRN 210920	50 000 000	99.41	49 704	0.96
ÅF FRN 200512	60 000 000	100.51	60 307	1.17
ÅF FRN 230620	32 000 000	98.57	31 542	0.61
			3 884 250	75.23
TOTAL MARKET – LISTED BONDS			4 653 138	90.12
NOT LISTED BONDS**				
Laeringsverkstedet FRN 220601, Norway, NOK	50 000 000	98.88	50 599	0.98
RSA Insurance Group FRN PERP, Great Britain	28 000 000	102.50	28 700	0.56
Storebrand FRN 200511, Norway, NOK	13 000 000	101.11	13 454	0.26
			92 753	1.80
TOTAL NOT LISTED BONDS			92 753	1.80
TOTAL TRANSFERABLE SECURITIES			4 745 891	91.92
COMMERCIAL PAPER*				
Getinge cert 190122	60 000 000	99.99	59 993	1.16
Hexagon cert 190305	45 000 000	99.95	44 980	0.87
Indutrade cert 190204	20 000 000	99.99	19 997	0.39
MTG cert 190307	50 000 000	99.96	49 981	0.97
			174 951	3.39
TOTAL COMMERCIAL PAPER			174 951	3.39
EXCHANGE TRADED DERIVATIVES				
Bond Future				
Swe Gov. Bond Future 5Y mars 19	240	0.01	0	0.00
Swe Stadshypotek 5Y mars 19	-250	0.87	0	0.00
			0	0.00
TOTAL EXCHANGE TRADED DERIVATIVES			0	0.00
Exchange traded Derivatives with positive market value			0	0.00
Exchange traded Derivatives with negative market value			0	0.00
OTC-DERIVATIVES				
Fx-Forwards				
FXFWD DKKSEK 190220 1.3777, Denmark, DKK	-35 000 000	1.36	671	0.01
FXFWD EURSEK 190220 10.274, Europe, EUR	-10 800 000	10.14	1 451	0.03
FXFWD EURSEK 190220 10.304, Europe, EUR	-2 000 000	10.14	329	0.01
FXFWD EURSEK 190220 10.326903, Europe, EUR	5 600 000	10.14	-1 047	-0.02
FXFWD NOKSEK 190220 1.0520, Norway, NOK	-82 000 000	1.02	2 491	0.05
FXFWD USDSEK 190220 8.9714, USA, USD	-5 600 000	8.83	771	0.01
FXFWD USDSEK 190220 9.035214, USA, USD	-2 000 000	8.83	403	0.01
			5 069	0.10
TOTAL OTC-DERIVATIVES			5 069	0.10
OTC Derivatives with positive market value			6 116	0.12
OTC Derivatives with negative market value			-1 047	-0.02
TOTAL HOLDINGS OF FINANCIAL INSTRUMENTS			4 925 911	95.40
OTHER ASSETS AND LIABILITIES			237 304	4.60
TOTAL NET ASSETS			5 163 214	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*
Svenska Staten	14.89
SEB AB	8.61
Stadshypotek AB	4.52
Hexagon AB	3.30
Svensk Fastighetsfinansiering AB	1.93
Getinge AB	1.66

* 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:

Wihlborgs Fastigheter FRN 201228

Klövern FRN 220404

Vacse FRN 230912

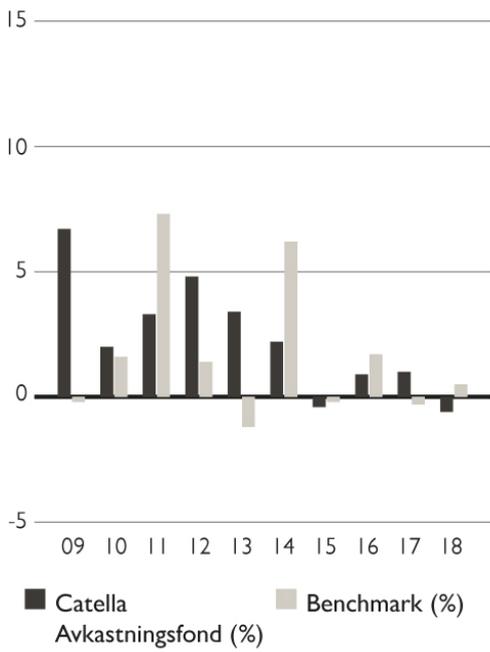
COUNTERPARTIES FINANCIAL DERIVATIVE TRANSACTIONS

COUNTERPARTY	Collateral received
SEB	0,00
Danske Bank	0,00

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

Date	Dividend	Unit Value	No of	Net fund assets
	SEK/unit	SEK	units	SEKk
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
171231	0.00	128.98	48 982 359	6 317 510
181231	0.00	128.27	40 253 403	5 163 214

YIELD YEARLY



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
15.40%	1.32%	8.45%

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

Catella Fonder's Sustainability Reporting 2018

Overall about sustainability work at Catella Fonder

Sustainability work has been harmonised and deepened during the year on a number of points. However, the funds' inherent differences in terms of asset classes, sustainability focus and fund category mean that the implementation of the above differs.

- Greater emphasis has been placed on the UN Global Sustainable Development Goals for actively managed equity-related funds. Based on this work, we have identified a number of companies that we have chosen to invest in/short sell.
- Clear exclusion criteria have been implemented in the funds.

The fund management company/AIF manager has intensified the work on ownership issues. We use an external sustainability advisor, Sustainalytics, for verification of international conventions according to the UN Global Compact and corporate performance in sustainability. The fund's managers receive detailed reports on the companies that are part of the fund's investment universe. A reported weakness for any of the fund's holdings is followed up by the fund's manager. If deficiencies are serious, or if it is not possible to establish a dialogue with the company, the fund chooses to dispose of the holding. Sustainability-related ownership dialogues are documented on an ongoing basis. The portfolio management organisation holds quarterly meetings with a focus on sustainability issues and the progress of ongoing company dialogues. It is the responsibility of the lead manager to engage in dialogue with the company on both financial and sustainability issues. Each lead manager also has a number of dialogues on his or her score card as part of the annual evaluation.

CATELLA AVKASTNINGSFOND

Overall comments on sustainability work

The fund's sustainability work has deepened during the year and the fund now completely excludes companies active in coal, weapons, tobacco, alcohol, pornography, fossil fuels and commercial gaming for money. Environmental, social and corporate governance factors (ESG) have become an integral part of the investment process during the year. The fund uses an external sustainability advisor, Sustainalytics, for the verification and compliance of company development in this area.

The fund has included

During the year, the fund has not actively included any holdings as a result of sustainability aspects.

The fund has excluded

During the year, the fund has not actively excluded any holdings due to sustainability aspects.

The fund company has advocated

During the year, the fund has posed questions by letter to almost 50 companies with securities that it has invested in but that are not covered by Sustainalytics. This is to ensure that these companies also live up to the UN norms and conventions according to the Global Compact and that they are not active in our excluded sectors. The response rate amounts to just over 30%, with 10 companies stating that they plan to discuss the issue or that they comply with the Global Compact.

Accounting policies

Your share of the fund's costs

In the account statements you received from us in January 2019 we reported your share of the fund's costs for 2018.

- "Management costs" are your share of the fund's expenses in 2018 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, 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 31 December 2018. Market value is 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.

Taxation of unit holders

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).

Taxation of capital gains

Natural persons 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 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.

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, Middle Office and Sales, as well as the heads of Compliance and Business Support 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 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.

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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 19 for information about remuneration paid in 2018 by Catella Fondförvaltning AB. Information is also provided on the website (www.catella.se/fonder) and in the Company’s annual report for 2018. 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 fund rules, the Swedish Investment Funds Act (2004:46), the fund have the option to guarantee securities issues. Catella Avkastningsfond did not take advantage of this opportunity in 2018.

Related-party transactions

Trading with related companies has taken place in certain funds during the period, as detailed under “Fund Facts”.

Charges

Double charges do not occur. If the Fund invests in any of the fund management company’s other funds, the fee is discounted and the fixed charge and, where relevant, the performance fee is reversed in the underlying 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

Helena Nordman-Knutson
Executive director, partner, Hallvarsson & Halvarsson

Thomas Raber
MD Alvine Capital Management Ltd

Ownership policy

1. Introduction

Chapter 15, Section 9 of Swedish Financial Supervisory Authority (Finansinspektionen) Regulations regarding investment funds and Article 37 of the EU Commission Delegated Regulation, require the board of directors of a fund management company and an alternative investment fund manager to adopt internal rules specifying the strategies the company shall 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 shareholder influence, including how and in what situations the voting rights linked to investments made within the context of the company's business shall be exercised. The fundamental precept in all situations is that Catella Fonder shall act solely in the joint interests of fund unit holders and that voting rights shall be exercised to the exclusive benefit of each fund. The objective is that the funds should generate the highest possible return given the fund's risk level. 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 unitholders may at any time withdraw their money from the funds. It is therefore essential that Catella Fonder is able to sell the funds' shares as necessary and without delay.

2. Policy for exercising shareholder influence

Catella Fonder invests on behalf of the funds, primarily in equities, bonds and other debt instruments and derivative instruments. The development of portfolio companies in which Catella Fonder invests is continuously monitored and if a company's development gives 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 specific matters, either independently or jointly with other shareholders, if in the judgement of Catella Fonder it is possible thereby to create financial added value for unitholders. Catella Fonder also engages with portfolio companies based on sustainability criteria, which are described in more detail in 6.2 below. As a shareholder, Catella Fonder can influence companies through active engagement in board recruitment processes, voting at general meetings and engaging in dialogue with company management. The potential to create added value varies among portfolio companies and depends upon factors including the size of the funds' holdings, what opportunities exist for improving governance of the portfolio company and the ownership structure of the portfolio company in other respects. Catella Fonder's actions are always based on an assessment of the conditions for achieving an outcome that benefits our unitholders. Our opportunities to exert influence depend upon the type of asset involved. As regards Swedish listed companies in which we are large shareholders, we have well-established forms of shareholder engagement. As for other investments, such as in foreign companies and companies in which we are an indirect owner, the conditions for shareholder engagement are more limited and coordination with other investors thus becomes even more important. Fund managers are responsible for the ongoing dialogue with the companies concerning both financial and ownership issues.

2.1 Attendance at general meetings

Catella Fonder shall normally attend general meetings of the portfolio companies in which the funds are major shareholders as well as the general meetings of other portfolio 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.

2.2 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. In participating in nominating committees, Catella Fonder works actively to achieve balance as regards representation and gender equality. 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.

2.3 Sustainability in corporate governance of portfolio companies

As a shareholder, Catella Fonder strives to ensure that the portfolio companies in which the funds invest take account of ethics and sustainability in the areas of environmental, social and governance (ESG) in their activities. Catella Fonder also works towards increased transparency and reporting of ESG in the companies we invest in. In their ongoing contact with portfolio companies, the portfolio managers should engage in dialogue about the risks associated with ESG, at both company level and supplier level, and should encourage the portfolio companies to be transparent in this area. Fund managers draw attention to shortcomings in sustainability work and promote improvements in portfolio companies with low sustainability scores. It should be natural for the portfolio managers to approach sustainability managers when gathering information about ethics at portfolio companies. The responsible fund managers implement, document and follow up the dialogues.

2.4 Exercising voting rights and monitoring corporate actions

2.4.1 Management of conflicts of interest within the Catella Group

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 separated 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 portfolio company concerned. When Catella Fonder exercises its voting rights, an assessment is made in every instance as to whether any conflict of interest may arise for the fund or unitholders and, if so, how such conflicts should be managed. The responsibility of the fund manager for ensuring that each fund votes at general meetings in accordance with the investment policy ensures that conflicts of interest are managed.

2.4.2 Exercising voting rights

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 fund rules for each respective fund.

2.4.3 Internal accountability

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 portfolio 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, who is currently the CEO of Catella Fonder, in turn reports to the Board of Directors of Catella Fonder.

2.4.4 Coordinated action with other external owners

Coordinated action between Catella Fonder and another Catella company or, for that matter, an external owner, may be taken concerning specific matters. Catella Fonder may, if deemed appropriate, issue a proxy to a third party to represent Catella Fonder at a general meeting. 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.

2.4.5 Reporting of positions

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

3. Principles for sustainability and responsible investment

Sustainability is business critical and can offer both opportunities and risks, with increased global awareness of world-wide challenges and greater client insight in this area. Catella Fonder became a signatory to the UN Principles for Responsible Investment (PRI) in September 2009 as part of its efforts to be a responsible investor and shareholder. These ten principles form the foundation of Catella Fonder's sustainability efforts, and we believe that increased focus on sustainability contributes to the value development of the funds by highlighting the risks and opportunities in the portfolio companies. 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 all of Catella Fonder's managed equity funds. As fund characteristics and asset classes vary, we take various approaches to ensuring compliance with guidelines and the Sustainability and Ownership Policy via external service providers or our own work. For more information, please refer to Catella Fonder's Guidelines for Working with Sustainability and Ownership.

3.1 Review and screening of companies and portfolio companies with shares listed on a regulated market

Catella Fonder's portfolio managers incorporate ethical considerations into their company analysis and investment decisions. The Company has appointed a sustainability manager to guide the ongoing portfolio management. The holdings and investment universe are screened twice annually by an external supplier, based on two aspects;

- The portfolio company's adherence to global norms and conventions in accordance with UN Global Compact that identify portfolio companies involved in violations of international norms relating to the environment, human rights, corruption and working conditions.
- The portfolio company's activity within sectors that are controversial and products where the portfolio company is screened based on the sustainability policy of each fund.

3.2 Monitoring and documentation

The Risk Function is responsible for monitoring compliance with Catella Fonder's policies for sustainability and responsible investment in the management of its funds. Documentation of Catella Fonder's work with sustainability and ownership is quality-assured and monitored by Compliance and the sustainability manager. More information about Catella Fonder's sustainability work is provided on our website.

4. Management of insider information in shareholder engagement

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 the 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, that is, 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 restricted as far as possible and that Catella Fonder must 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 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.

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 68 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, FRNs 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.

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 2018, 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 2018 financial year

Business unit:	Executive management	Employees with strategic positions,	Control functions	Employees who can affect the level of risk in the Company or the funds	Employees whose total remuneration equals or exceeds the total remuneration paid to any member of executive management	Other employees	Total
Number of employees:	1	6	4	12	0	18	41
Remuneration:	Amount (SEK)	Amount (SEK)	Amount (SEK)	Amount (SEK)	Amount (SEK)	Amount (SEK)	Amount (SEK)
Total remuneration paid	5 204 311	11 872 557	4 028 998	30 790 840	0	12 484 173	64 380 879
Total fixed pay disbursed in 2018	2 142 311	7 642 557	4 028 998	18 458 840	0	3 940 173	36 212 879
Total variable pay disbursed in 2017 and preceding years	3 062 000	4 230 000	0	12 332 000	0	8 544 000	28 168 000

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

Catella Avkastningsfond, corporate registration number 504400-5147

Catella Fondförvaltning AB
Stockholm, 5 March 2019

Knut Pedersen
Chairman

Erik Kjellgren
CEO

Lars H. Bruzelius

Peter Friberg

Johan Nordenfalk

Helena Nordman Knutsson

Thomas Raber

Our auditor's report was submitted 7 March 2019.

PricewaterhouseCoopers AB

Daniel Algotsson
Auditor in charge
Authorised Public Accountant

Hanna Wesslén
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

Opinions

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 2018 apart from sustainability information on pages 12 and 16-17 ("sustainability information").

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 2018 and its financial performance for the year in accordance with the Investment Funds Act and Finansinspektionen's regulations regarding UCITS funds. Our opinions does not include the sustainability information on pages 12 and 16-17.

Basis for Opinions

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 mistake.

Auditor's Responsibilities

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 mistake, 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 mistake 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 mistake, 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 mistake, 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 eventual significant deficiencies in internal control that we identify during our audit.

The auditor's opinion on the statutory sustainability information

It is the Management Company that is responsible for the sustainability information on pages 12 and 16-17 and because it has been prepared in accordance the Investment Funds Act of Sweden.

Our review of the sustainability information for the fund has been conducted with guidance where applicable by FAR's statement RevR 12 The auditor's opinion on the statutory sustainability report. This means that our review of the sustainability information has a different focus and a considerably smaller scope compared to the focus and scope of an audit according to International Standards on Auditing and good auditing standards in Sweden. We believe that this review provides us with a sufficient basis for our opinion.

Sustainability information has been provided in the annual report.

Stockholm, 7 March 2019
PricewaterhouseCoopers AB

Daniel Algotsson
Auditor in charge
Authorised Public Accountant

Hanna Wesslén
Authorised Public Accountant