

Annual Report for Catella Credit Opportunity

**1 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 corporate bonds

### The fund rose by 0.16 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 extra compensation received for investments in bonds with lower credit ratings rose in pace with increasingly weak economic signals during the year, which made it challenging to generate returns. Above all, this was challenging for bonds with better credit ratings (investment grade), where the extra compensation failed to offset the increased spreads. The fund was primarily invested in bonds with higher coupons, which more than offset the wider spreads. The portfolio is today characterised by a larger number of bonds issued by companies operating in different types of industries, thereby enabling a higher degree of risk diversification than before. Furthermore, during the period, the portfolio had a high proportion of cash and cash-equivalent investments with low risk. During much of the year, the portfolio held put options on the stock exchange, aimed at stabilising the return on unfavourable market outcomes.

The holdings in higher-risk (high yield) bonds accounted for most of the year's return. The main positive contributors to the return during the year were the holdings in Perstorp, OPR Finance and Jefast. The fund maintains a broad sector diversification that differs from the Nordic market portfolio. Holdings in Lebara, Tresu and Garfunkelux reduced the year's return.

Holdings in put options on OMX, intended to stabilise the return, contributed positively to this year's return. The hedging and positioning in interest rate risk and credit risk made during the year reduced the return, especially during the first quarter when the fund had a negative duration.

During the year, holdings including Lebara, Nynäs, Okea and Samhällsbyggnadsbolaget were divested. Great emphasis is placed on risk diversification, and at the end of the year the largest sector exposure amounted to 12.3 percent of the portfolio in financial services, with holdings in debt collection companies and consumer credit. Cash and cash-equivalent investments in government and housing bonds amounted to 28 percent of the fund's assets.

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 Credit Opportunity
Unit class	A
Fund manager	Thomas Elofsson Stefan Wigstrand
Fund inception	2014-11-24
Opening price	100
Fund type	Special fund
Corporate registration number of fund	515602-3482
PPM fund number	Catella Credit Opportunity is not a fund within PPM
Net fund assets (SEKk)	459 468
Unit value	112.27
No of units	4 092 370

### Yield

Benchmark index, alt. Reference rate	Reference rate: OMRX T-Bill
Fund, Yield past year (%)	0.16
Benchmark index (alt. Reference rate), yield past year (%)	-0.81
Fund, Average annual yield past two years (%)	3.29
Benchmark (alt. Reference rate), Average annual yield past two years (%)	N/A
Fund, Average annual yield past five years (%)	2.86 *
Benchmark index (alt. Reference rate), Average annual yield past five years (%)	N/A
Fund, Yield since inception (%)	12.27
Benchmark index (alt. Reference rate), Yield since inception (%)	N/A

### Risk (24 months)

Duration, 31 December 2018 (years)	1.8
Interest-rate risk from 1%-point change in interest rate	-1.8
Total risk fund (%)	1.69
Total risk benchmark (%)	N/A
Active risk (%)	N/A
Active share (%) 31 December 2018	N/A

### Turnover/costs

Rate of turnover (times/year)	1.25
TTC, Transaction costs (SEKm)	0.26
percentage of securities traded	0.02
Management fee	0.95
Management fee charged (fixed and variable)	1.38
Ongoing charges %*	0.99

\*See Accounting policies on page 13

### Cost of type saving

Lump-sum deposit SEK 10,000	
Management cost (SEK)	140.15
Monthly saving SEK 100	
Management cost (SEK)	7.93

**Turnover through associated securities institutions**

Percentage of total turnover	0.00
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**Turnover of financial instruments managed by Catella Fondförvaltning AB**

Percentage of total turnover	0.00
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**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

<b>BALANCE SHEET, SEKk</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>
<b>ASSETS</b>		
Transferable securities (Note 1)	396 982	419 146
Money market instruments (Note 1)		19 994
OTC derivatives with positive market value (Note 1)	3 115	2 636
Other derivatives with positive market value (Note 1)	840	0
<b>Total financial instruments with positive market value</b>	<b>400 937</b>	<b>441 776</b>
Bank balances and other cash and cash equivalents	55 328	80 331
Prepaid expenses and accrued income	4 060	4 006
Other assets	50	189
<b>TOTAL ASSETS</b>	<b>460 375</b>	<b>526 302</b>
<b>LIABILITIES</b>		
OTC derivatives with negative market value (Note 1)	497	0
Total financial instruments with negative market value	497	0
Accrued expenses and prepaid income	387	406
Other liabilities	23	162
<b>TOTAL LIABILITIES</b>	<b>907</b>	<b>568</b>
<b>NET FUND ASSETS Note 2</b>	<b>459 468</b>	<b>525 734</b>
<b>MEMORANDUM ITEMS</b>		
Collateral pledged for OTC derivatives	1 148	4 841
Collateral pledged for other derivatives	9 377	1 736
<b>INCOME STATEMENT, SEKk</b>		
	<b>2018</b>	<b>2017</b>
<b>INCOME AND CHANGES IN VALUE</b>		
Change in value of transferable securities	-6 321	6 458
Change in value of money market instruments	19	23
Change in value of OTC derivatives	-10 466	4 072
Change in value of other derivatives	-2 794	-843
Interest income	25 784	20 656
Dividends	0	465
Net foreign exchange gains and losses	1 502	1 212
Other income	0	1
<b>TOTAL INCOME AND CHANGES IN VALUE</b>	<b>7 724</b>	<b>32 044</b>
<b>EXPENSES</b>		
<b>Management costs</b>		
Payments to companies conducting fund operations	7 299	10 069
Payments to depositary	212	149
Other expenses	241	57
<b>TOTAL EXPENSES</b>	<b>7 752</b>	<b>10 275</b>
<b>PROFIT FOR THE YEAR</b>	<b>-28</b>	<b>21 769</b>
<b>Note 2 TO BALANCE SHEET</b>		
	<b>31-Dec-18</b>	<b>31-Dec-17</b>
<b>CHANGE IN NET FUND ASSETS</b>		
<b>NET FUND ASSETS AT BEGINNING OF YEAR</b>	<b>525 734</b>	<b>269 831</b>
Unit sales	367 928	430 438
Unit redemptions	-434 166	-196 304
Profit for the year per income statement	-28	21 769
<b>NET FUND ASSETS AT END OF PERIOD</b>	<b>459 468</b>	<b>525 734</b>

## Fund's holdings of financial instruments

Note   Securities	QUANTITY	PRICE	MARKET VALUE (SEK)	FUND WEIGHT %
<b>MARKET-LISTED EQUITIES*</b>				
<b>INDUSTRIALS</b>				
Bong Ljungdahl TO	3 000 000	0.00	4	0.00
			<b>4</b>	<b>0.00</b>
<b>TOTAL MARKET-LISTED EQUITIES</b>			<b>4</b>	<b>0.00</b>
<b>MARKET-LISTED BONDS*</b>				
<b>GOVERNMENT</b>				
Statsobligation loan 1047 201201	10 000 000	110.38	11 038	2.40
Statsobligation loan 1054 220601	10 000 000	112.71	11 271	2.45
Statsobligation loan 1057 231113	20 000 000	107.43	21 486	4.68
			<b>43 795</b>	<b>9.53</b>
<b>OTHER</b>				
Allgon FRN 220607	10 000 000	97.50	9 750	2.12
Axactor FRN 210623, Norway, EUR	500 000	99.25	5 031	1.10
Care Bidco FRN 210324, Norway, NOK	2 000 000	97.86	2 003	0.44
Containerships FRN 211122, Finland, EUR	1 000 000	102.00	10 341	2.25
DDM Treasury 9.5% 200130, EUR	1 000 000	100.50	10 189	2.22
Garfunkelux FRN 230901, Luxembourg	5 000 000	85.25	4 262	0.93
Garfunkelux Holdco 3 220801, Luxembourg, EUR	500 000	89.05	4 514	0.98
Genova Property FRN 210407	10 000 000	98.75	9 875	2.15
Georg Jensen FRN 230515, Denmark, EUR	900 000	100.50	9 170	2.00
Havilafjord FRN 230619, Norway, NOK	5 000 000	100.50	5 143	1.12
Heimstaden FRN 201207	10 000 000	100.18	10 018	2.18
Hoist Finance 8% 230901, EUR	1 000 000	99.00	10 037	2.18
Hoist FRN 210629	5 000 000	98.88	4 944	1.08
Hospitality Invest FRN 221031, Norway, NOK	5 000 000	97.25	4 977	1.08
Host Property FRN 191208, Norway	8 000 000	100.50	8 040	1.75
Ice Group FRN 211012, Norway, NOK	5 000 000	98.00	5 015	1.09
ldavang FRN 211211, Denmark, EUR	500 000	95.83	4 858	1.06
lxat Intressenter FRN 200612	2 000 000	101.25	2 025	0.44
Jefast FRN 210327	9 000 000	99.50	8 955	1.95
Jotul Holdings FRN 220131, USA, NOK	2 000 000	97.50	1 996	0.43
Logistri Portfolio 4% 210520	10 000 000	98.50	9 850	2.14
Magnolia FRN 221003	4 000 000	99.00	3 960	0.86
Nackahusen Holding FRN 200813	12 000 000	98.00	11 760	2.56
Nordea Bank 490923, USD	1 000 000	98.46	8 730	1.90
Nova Austral 8.25% 210526, Chile, USD	1 000 000	91.89	8 148	1.77
Quant FRN 230215, EUR	500 000	98.00	4 968	1.08
Samhällsbyggnadsbolag 2.9% 191220	5 000 000	100.25	5 012	1.09
SEB 1.5% 221221	20 000 000	103.87	20 775	4.52
SEB 490513, USD	1 000 000	97.70	8 663	1.89
SHH Bostad FRN 210607	10 000 000	96.75	9 675	2.11
SL Bidco FRN 230206, The Netherlands, EUR	1 000 000	96.00	9 733	2.12
Stillfront Group FRN 221122	3 750 000	100.08	3 753	0.82
Sunborn Finance FRN 230209, Finland, EUR	500 000	98.75	5 006	1.09
Swedbank Hypotek 190 210915	10 000 000	102.15	10 215	2.22
Transcom 6.5% 230322, EUR	1 200 000	89.50	10 889	2.37
Tresu Investment FRN 220929, Denmark, EUR	800 000	65.00	5 272	1.15
Unilab 5.75% 250515, EUR	1 000 000	90.82	9 207	2.00
Verisure 5.75% 231201, EUR	1 000 000	96.73	9 807	2.13
Wittur Intl. Hldg. 8.5% 230215, Germany, EUR	1 000 000	99.08	10 045	2.19
Vostok New Ventures 5.5% 200622, Bermuda	8 000 000	102.00	8 160	1.78
			<b>304 771</b>	<b>66.33</b>
<b>TOTAL MARKET-LISTED BONDS</b>			<b>348 566</b>	<b>75.86</b>

<b>NOT LISTED BONDS**</b>	QUANTITY	PRICE	(SEKk)	%
Kjell Midco 11% 230111	9 162 186	98.00	8 979	1.95
OPR Vakuuus 10.75% 210217, Finland, EUR	1 000 000	99.33	10 071	2.19
OPR Vakuuus 8% 220518, Finland, EUR	900 000	100.25	9 147	1.99
Perstorp Holding 10% 221215, Luxembourg, EUR	2 000 000	99.70	20 215	4.40
			<b>48 412</b>	<b>10.54</b>
<b>TOTAL NOT LISTED BONDS</b>			<b>48 412</b>	<b>10.54</b>
<b>TOTAL TRANSFERABLE SECURITIES</b>			<b>396 982</b>	<b>86.40</b>
<b>EXCHANGES TRADED DERIVATIVES</b>				
<b>Index option</b>				
OMX 19 S 1300 january	2 000	4.20	840	0.18
			<b>840</b>	<b>0.18</b>
<b>Bond Future</b>				
Swe Gov. Bond Future 5Y March 19	96	0.01	0	0.00
Swe Stadshypotek 5Y March 19	-100	0.87	0	0.00
			<b>0</b>	<b>0.00</b>
<b>TOTAL EXCHANGES TRADED DERIVATIVES</b>			<b>840</b>	<b>0.18</b>
Exchanges traded Derivatives with positive market value			<b>840</b>	<b>0.18</b>
Exchanges traded Derivatives with negative market value			<b>0</b>	<b>0.00</b>
<b>OTC-DERIVATIVES</b>				
<b>FX Forwards</b>				
FXFWD EURSEK 190220 10.278, Europe, EUR	-15 000 000	10.14	2 081	0.45
FXFWD EURSEK 190318 10.307, Europe, EUR	3 000 000	10.14	-497	-0.11
FXFWD NOKSEK 190220 1.0525, Norway, NOK	-17 000 000	1.02	525	0.11
FXFWD USDSEK 190220 8.9718, USA, USD	-950 000	8.83	131	0.03
FXFWD USDSEK 190220 9.032746, USA, USD	-1 900 000	8.83	378	0.08
			<b>2 618</b>	<b>0.57</b>
<b>TOTAL OTC-DERIVATIVES</b>			<b>2 618</b>	<b>0.57</b>
OTC Derivatives with positive market value			<b>3 115</b>	<b>0.68</b>
OTC Derivatives with negative market value			<b>-497</b>	<b>-0.11</b>
<b>TOTAL HOLDINGS OF FINANCIAL INSTRUMENTS</b>			<b>400 440</b>	<b>87.15</b>
<b>OTHER ASSETS AND LIABILITIES</b>			<b>59 028</b>	<b>12.85</b>
<b>TOTAL NET ASSETS</b>			<b>459 468</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	19.02
Svenska Staten	9.53
Garfunkelux Holdco 3 S.A.	1.91

\* 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:

- Georg Jensen FRN 230515
- Havilafjord FRN 230619
- Jotul Holding FRN 220131
- Quant FRN 230215
- Stillfront FRN 221122
- Sunborn Finance FRN 230209

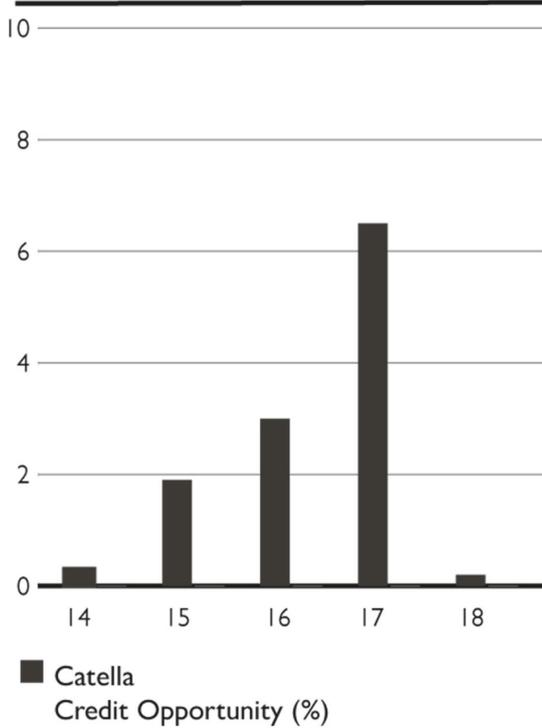
**COUNTERPARTIES FINANCIAL DERIVATIVE TRANSACTIONS**

COUNTERPARTY	COLLATERAL RECEIVED
SEB	0.00
Danske Bank	0.00

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

Date	Dividend 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
171231	0.00	112.09	4 690 426	525 734
181231	0.00	112.27	4 092 370	459 468

**YIELD YEARLY**



**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. During the period the fund has not exercised its right to raise margin loans.

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

<b>Highest leverage</b>	<b>Lowest leverage</b>	<b>Average leverage</b>
120.45%	22.75%	47.26%

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.

<b>At Dec 31, 2018</b>	<b>Highest</b>	<b>Lowest</b>	<b>Average</b>
	0.17%	0.36%	0.05%
			0.13%

## 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 CREDIT OPPORTUNITY

#### **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 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 sold its holdings in the gambling sector, GiG and Catena Media.

#### **The AIF manager has advocated**

During the year, the AIF manager 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

Special funds apply the Alternative Investment Fund managers Act (2013:561) and Finansinspektionen's regulations (FFFS 2013:10) governing managers of alternative 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.

#### 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](http://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 and the Swedish Investment Funds Act (2004:46), the fund has the option to guarantee securities issues. Catella Credit Opportunity did not take advantage of this opportunity in 2018.

#### Related-party transactions

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

#### 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.

### *Active share*

Active share is another measure of how "closely" the fund's investments follow their 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 the reported 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).

## 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 Credit Opportunity, corporate registration number 515602-3482

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 Credit Opportunity, a special fund, corporate registration number 515602-3482

## 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 Credit Opportunity, a special fund, for 2018 apart from sustainability information on pages 12 and 15-16 ("sustainability information").

In our opinion, the financial statements have been prepared in accordance with the Alternative Investment Fund Managers Act of Sweden and Finansinspektionen's regulations regarding manager of alternative investment funds and present fairly, in all material respects, the financial position of Catella Credit Opportunity, a special fund, as of 31 December 2018 and its financial performance for the year in accordance with the Alternative Investment Fund Managers Act and Finansinspektionen's regulations regarding manager of alternative investment funds. Our opinions does not include the sustainability information on pages 12 and 15-16.

### *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 Alternative Investment Fund Manager 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 Alternative Investment Fund Manager is responsible for the preparation of the financial statements and for their fair presentation in accordance with the Alternative Investment Fund Managers Act of Sweden and with Finansinspektionen's Regulations regarding manager of alternative investment 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 Alternative Investment Fund Manager'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 Alternative Investment Fund Manager 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 Alternative Investment Fund Manager that is responsible for the sustainability information on pages 12 and 15-16 and because it has been prepared in accordance the Alternative Investment Fund Managers 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*