

## Half Year Report for Catella Credit Opportunity

I January 2018 – 30 June 2018

## Cautious performance pending interest rate hikes

**After a strong 2017, this year got off to a weaker start. Expectations of tightening monetary policy and its impact on the markets initially resulted in greater fluctuations in stock markets, steeper interest rate curves and widening credit spreads.**

The fund managed relatively well initially as held put options in the stock market contributed to smoother performance during the turbulent first months of the year. Subsequently, the fund lost its return since it was positioned for rising interest rates and individual credit events were an adverse surprise. Although market volatility fell back towards the end of the period, credit spreads continued to widen, thus hampering the fund's return.

We remain optimistic about the potential returns from credit investment opportunities, but we are also aware that for a long time we have had a very stimulating environment for asset markets in the form of low interest rates combined with good economic growth. This is likely to have created imbalances that we are not currently fully aware of. For example, in the past six months we have noted a number of credit events or doubts that showed weaknesses in last year's issues. We therefore believe it is wise to take a somewhat more cautious stance towards the credit markets than before, and to maintain a balanced and well diversified portfolio with an element of hedging in various asset classes.

The fund's return was 0.25 percent in the first half of the year, which is below the target return of 4-6 percent for the full year. The reason for the lower return is mainly the fund's positioning for higher interest rates and the credit event in telecom operator Lebara. Otherwise, the portfolio of higher-risk corporate bonds (high yield) has performed well and, together with the investments in stock options, accounts for most of the period's return. The positive contributions to returns were evenly distributed, and essentially consisted of the running coupon returns. The main positive contributors were the holdings of corporate bonds issued by consumer credit company OPR, oil exploration company Okea and chemicals company Perstorp.

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

## Fund facts

Fund manager: Thomas Elofsson, Stefan Wigstrand

Unit value ..... 112.37  
 Number of unit holders..... 25  
 Net fund assets (SEKm) ..... 534

### YIELD PAST HALF YEAR

**Catella Credit Opportunity**..... 0.25%  
 Reference rate OMRX TBill ..... -0.38%

### AVERAGE ANNUAL YIELD

#### Past two years

**Catella Credit Opportunity**..... 4.72%

#### Since start

**Catella Credit Opportunity**..... 3.29%

### RISK

**Total risk**..... 1.66%  
 Duration, 30 June 2018 (years) ..... 1.31  
 Interest-rate risk from 1% change in  
 interest rate, %..... -1.31%

### TURNOVER/COSTS

Rate of turnover (times/year) ..... 1.41  
 Transaction costs (SEKm)..... 0.13  
 Percentage of securities traded ..... 0.02  
 Management fee..... 0.95%  
 Management fee charged  
 (fixed and variable) ..... \*  
 Ongoing charges\*\* ..... \*

\* For funds with a performance fee, the expenses will be presented in the annual report

\*\* See accounting policies

### TURNOVER THROUGH ASSOCIATED SECURITIES INSTITUTIONS

Percentage of total turnover ..... 0.00%

### TURNOVER OF FINANCIAL INSTRUMENTS MANAGED BY CATELLA FOND FÖRVALTNING

Percentage of total turnover ..... 0.00%

The Fund is an investment fund

Fund inception: 24 November 2014

Opening price: SEK 100

Dividends: The fund does not pay any dividend.

Management company: Catella Fondförvaltning AB

Corporate registration number of fund: 515602-3482

PPM fund number: Catella Credit Opportunity is not a fund within PPM

## BALANCE SHEET AND INCOME STATEMENT

<b>BALANCE SHEET, SEkk</b>	<b>30-June-18</b>	<b>31-Dec-17</b>
<b>ASSETS</b>		
Transferable securities (Note 1)	476 885	419 146
Money market instruments (Note 1)	20 000	19 944
OTC derivatives with positive market value (Note 1)	0	2 636
Other derivatives with positive market value (Note 1)	80	
<b>Total financial instruments with positive market value</b>	<b>496 965</b>	<b>441 726</b>
Bank balances and other cash and cash equivalents	37 599	80 331
Prepaid expenses and accrued income	4 471	4 006
Other assets	107	189
<b>TOTAL ASSETS</b>	<b>539 142</b>	<b>526 252</b>
<b>LIABILITIES</b>		
OTC derivatives with negative market value (Note 1)	4 426	0
Total financial instruments with negative market value	4 426	0
Accrued expenses and prepaid income	433	406
Other liabilities	195	162
<b>TOTAL LIABILITIES</b>	<b>5 054</b>	<b>568</b>
<b>NET FUND ASSETS Note 2</b>	<b>534 088</b>	<b>525 684</b>
<b>MEMORANDUM ITEMS</b>		
Collateral pledged for OTC derivatives	12 911	4 841
Collateral pledged for other derivatives	10 267	1 736
<b>Note 2 TO BALANCE SHEET</b>		
<b>CHANGE IN NET FUND ASSETS</b>	<b>30-June-18</b>	<b>31-Dec-17</b>
<b>NET FUND ASSETS AT BEGINNING OF YEAR</b>	<b>525 734</b>	<b>269 831</b>
Unit sales	250 127	430 438
Unit redemptions	-242 144	-196 304
Profit for the year per income statement	371	21 769
<b>NET FUND ASSETS AT END OF PERIOD</b>	<b>534 088</b>	<b>525 734</b>

## FUND'S HOLDINGS OF FINANCIAL INSTRUMENTS

Note	Securities	QUANTITY	PRICE	(SEKk)	%
<b>MARKET-LISTED EQUITIES*</b>					
<b>INDUSTRIALS</b>					
	Bong Ljungdahl TO	3 000 000	0.12	360	0.07
				<b>360</b>	<b>0.07</b>
<b>TOTAL MARKET-LISTED EQUITIES</b>				<b>360</b>	<b>0.07</b>
<b>MARKET - LISTED BONDS*</b>					
<b>GOVERNMENT</b>					
	Statsobligation loan 1047 201201	10 000 000	113.54	11 354	2.13
	Statsobligation loan 1054 220601	20 000 000	115.00	23 000	4.31
				<b>34 354</b>	<b>6.43</b>
<b>OTHER</b>					
	Akelius 3.875% 781005, EUR	500 000	97.79	5 108	0.96
	Allgon FRN 220607	10 000 000	100.50	10 050	1.88
	Axactor FRN 210623, Norway, EUR	500 000	100.62	5 256	0.98
	B2 frn 230523, Norway, EUR	500 000	99.14	5 179	0.97
	Brado FRN 230307	12 500 000	96.50	12 062	2.26
	Care Bidco FRN 210324, Norway, NOK	2 000 000	98.75	2 168	0.41
	Cibus FRN 210526, EUR	800 000	101.00	8 441	1.58
	DDM Treasury 9% 200130, EUR	1 000 000	103.50	10 813	2.02
	Eniro 6% 200414	119 999	0.00	0	0.00
	Genova Property FRN 210407	11 000 000	98.75	10 862	2.03
	Georg Jensen FRN 230515, Denmark, EUR	1 000 000	100.50	10 500	1.97
	Havilafjord FRN 230619, Norway, NOK	5 000 000	100.50	5 516	1.03
	Hoist Finance 8% 230901, EUR	1 000 000	100.25	10 473	1.96
	Hospitality Invest FRN 221031, Norway, NOK	5 000 000	97.25	5 338	1.00
	Host Property FRN 191208, Norway	9 000 000	101.50	9 135	1.71
	Ice Group FRN 211012, Norway, NOK	5 000 000	97.50	5 352	1.00
	Idavang FRN 211211, Denmark, EUR	500 000	99.00	5 171	0.97
	Ixat Intressenter FRN 200612	8 000 000	101.09	8 087	1.51
	Jefast FRN 210327	9 000 000	99.75	8 978	1.68
	Jotul Holdings FRN 220131, USA, NOK	7 000 000	97.75	7 512	1.41
	Kvalitena FRN 200930	1 000 000	98.17	982	0.18
	Lebara FRN 220907, Europe, EUR	1 000 000	76.50	7 992	1.50
	Lendify FRN 200530	8 000 000	101.12	8 090	1.51
	Logistri Portfolio 4% 210520	10 000 000	97.50	9 750	1.83
	Nackahusen Holding FRN 200813	10 000 000	99.00	9 900	1.85
	Nova Austral 8.25% 210526, Chile, USD	1 000 000	95.35	8 533	1.60
	Okea 7.5% 201116, Norway, USD	1 400 000	103.71	12 993	2.43
	Perstorp Holding FRN 220915, EUR	1 000 000	98.67	10 308	1.93
	Quant FRN 230215, EUR	600 000	99.75	6 253	1.17
	Recipharm 2.75% 211006	5 000 000	99.11	4 956	0.93
	RopoHold FRN 201201, Finland, EUR	1 000 000	102.50	10 708	2.01
	Samhällsbyggnadsbolag 2.9% 191220	5 000 000	100.40	5 020	0.94
	SEB 1.5% 221221	40 000 000	104.46	41 785	7.82
	Sergel FRN 201229	5 000 000	105.06	5 253	0.98
	SHH Bostad FRN 210607	10 000 000	97.25	9 725	1.82
	SI Bidco FRN 230206, The Netherlands, EUR	1 600 000	100.75	16 841	3.15
	Sunborn Finance FRN 230209, Finland, EUR	500 000	99.50	5 198	0.97
	Swedbank Hypotek 190 210915	10 000 000	102.93	10 293	1.93
	Transcom 6.5% 230322, EUR	1 000 000	96.50	10 082	1.89
	Tresu Investment FRN 220929, Denmark, EUR	800 000	92.50	7 731	1.45
	Unilab 5.75% 250515, EUR	1 000 000	95.63	9 990	1.87
	Verisure FRN 231201	10 000 000	101.29	10 129	1.90
	Vostok New Ventures 5.5% 200622, Bermuda	8 000 000	103.25	8 260	1.55
				<b>376 773</b>	<b>70.55</b>
<b>TOTAL MARKET-LISTED BONDS</b>				<b>411 127</b>	<b>76.98</b>

<b>NOT LISTED BONDS**</b>					
IB Bostad FRN 181021, NOK	10 000 000	101.62	11 156	2.09	
Hoist FRN 210629	5 000 000	99.75	4 988	0.93	
Kjell Midco 11% 230111	8 678 316	99.75	8 657	1.62	
OPR Vakuuus 10.75% 210217, Finland, EUR	1 000 000	97.50	10 186	1.91	
OPR Vakuuus 8% 220518, Finland, EUR	1 000 000	101.00	10 552	1.98	
Perstorp Holding 10% 221215, Luxembourg, EUR	1 000 000	98.43	10 284	1.93	
Perstorp Holding 210930, USD	1 000 000	107.00	9 575	1.79	
			<b>65 398</b>	<b>12.24</b>	
<b>TOTAL NOT LISTED BONDS</b>			<b>65 398</b>	<b>12.24</b>	
<b>TOTAL TRANSFERABLE SECURITIES</b>			<b>476 885</b>	<b>13.18</b>	
<b>COMMERCIAL PAPER*</b>					
Bergvik cert 180820	10 000 000	100.00	10 000	1.87	
Loomis cert 180920	10 000 000	100.00	10 000	1.87	
			<b>20 000</b>	<b>3.74</b>	
<b>TOTAL COMMERCIAL PAPER*</b>			<b>20 000</b>	<b>3.74</b>	
<b>EXCHANGES TRADED DERIVATIVES</b>					
<b>Index option</b>					
OMX 18 S 1400 July	1 000	0.80	80	0.02	
			<b>80</b>	<b>0.02</b>	
<b>Bond future</b>					
Euro-Bund 10Y 180906, Germany, EUR	84	162.55	0	0.00	
Swe Gov. Bond Future 10Y Sep18	-110	0.52	0	0.00	
			<b>0</b>	<b>0.00</b>	
<b>TOTAL EXCHANGES TRADED DERIVATIVES</b>			<b>0</b>	<b>0.00</b>	
Exchange traded Derivatives with positive market value			<b>0</b>	<b>0.00</b>	
Exchange traded Derivatives with negative market value			<b>0</b>	<b>0.00</b>	
<b>OTC-DERIVATIVES</b>					
<b>FX Forwards</b>					
FXFWD EURSEK 180817 10.284, Europe, EUR	-3 000 000	10.45	-484	-0.09	
FXFWD EURSEK 180830 10.285, Europe, EUR	-17 000 000	10.45	-2 726	-0.51	
FXFWD NOKSEK 180830 1.071083, Norway, NOK	-5 000 000	1.10	-123	-0.02	
FXFWD NOKSEK 180830 1.0760, Norway, NOK	-28 000 000	1.10	-548	-0.10	
FXFWD USDSEK 180830 8.7559, USA, USD	-3 500 000	8.91	-545	-0.10	
			<b>-4 426</b>	<b>-0.83</b>	
<b>TOTAL OTC-DERIVATIVES</b>			<b>-4 426</b>	<b>-0.83</b>	
OTC Derivatives with positive market value			<b>0</b>	<b>0.00</b>	
OTC Derivatives with negative market value			<b>-4 426</b>	<b>-0.83</b>	
<b>TOTAL HOLDINGS OF FINANCIAL INSTRUMENTS</b>					
			492 539	92.22	
<b>OTHER ASSETS AND LIABILITIES</b>					
			41 549	7.78	
<b>TOTAL NET ASSETS</b>					
			534 088	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.

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**SUMMARY, ISSUERS\***


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ISSUER	% OF NET FUND ASSETS*
SEB AB	14.03
Swedish Government	6.43

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\* 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.

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**ADDITIONAL DISCLOSURES, FINANCIAL INSTRUMENTS**

FINANCIAL INSTRUMENTS EXPECTED TO BE ADMITTED TO TRADING ON A REGULATED MARKET WITHIN ONE YEAR OF ISSUE ARE:

Havilafjord FRN 230619  
 Nova Austral 8,25% 210526  
 B2 Holding FRN 230523  
 Borr Drilling 3,875% 230523  
 Allgon FRN 220607  
 Brado FRN 230307  
 Georg Jensen FRN 230515  
 Quant FRN 230215  
 Jotul Holding FRN 220131  
 Transcom Holding 6,5% 230322  
 Ropohold FRN 201201  
 Sunborn Finance FRN 230209  
 Tresu Investment Holding FRN 220929  
 Nova Austral 8,5% 210526

**COUNTERPARTIES FINANCIAL DERIVATIVE TRANSACTIONS**

COUNTERPART	COLLATERAL RECEIVED
SEB	0
Danske Bank	0

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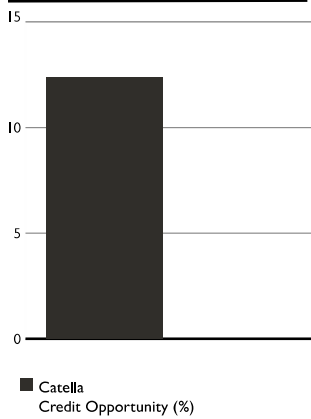
**HISTORICAL FUND ASSET, NET ASSET VALUE, NUMBER OF UNITS AND DIVIDENDS**


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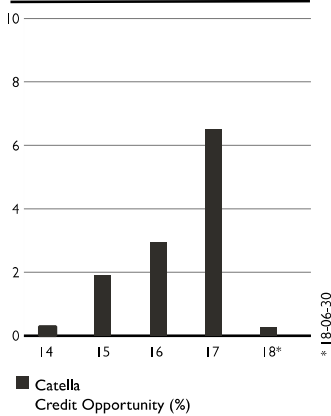
	Dividend	Unit Value	No of	Net fund assets
Date	SEK/unit	SEK	units	SEKk
141231	0.00	100.29	2 787 648	279 576
151231	0.00	102.21	6 529 661	667 382
161231	0.00	105.24	2 563 999	269 831
171231	0.00	112.09	4 690 426	525 734
180630	0.00	112.37	4 753 004	534 088

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**YIELD SINCE INCEPTION**



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**TRADE IN DERIVATIVES**

In accordance with its fund rules, the fund may trade in derivatives as part of its investment strategy. 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.

Highest leverage	Lowest leverage	Average leverage
50.18%	22.75%	36.30%

Risk assessment method for calculating total exposure: Value at Risk

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

At June 30, 2018	Highest 2018	Lowest 2018	Average 2018
0.20%	0.33%	0.05%	0.12%



### Your share of the fund's costs

In the account statements you receive from us in January 2019 we report 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

Alternative investment funds apply the Alternative Investment Fund managers Act (2013:561) and Finansinspektionen's regulations (FFFS 2013:10) regarding alternative investment fund managers, applicable reporting issued by the Swedish Investment Fund Association and the ESMA guidelines.

Fund holdings have been recognised in the balance sheet at market value on 29 June 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.

Exchange rates are the closing rates at 29 June 2018.

EUR	10.4473
GBP	11.8147
NOK	1.0978
USD	8.9488

### 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.

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

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

### Information about remuneration

Information about remuneration paid in 2018 for Catella Fondförvaltning AB is provided in the funds' annual reports and annual accounts for 2018.

### Issue guarantees

Within the framework of the respective fund rules, the Alternative Investment Fund Managers Act (2013:561), all funds have 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 in certain funds during the period, as detailed under "Fund Facts" for each 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.

## **OUR 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 unit holders 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 unit holders. The potential to create added value varies among portfolio companies and depends upon factors including the size of the funds' holdings, the funds' potential return from the holding, what opportunities exist for improving governance of the portfolio company and the ownership structure of the portfolio company in other respects.

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

Catella Fonder shall normally attend general meetings of the 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.

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

If it is possible in Catella Fonder's judgement to create added value for unit holders, Catella Fonder may exercise shareholder influence by having representatives on the nominating committees of portfolio companies. In exceptional cases, Catella Fonder may also appoint representatives to the boards of directors of portfolio companies. Decisions to nominate representatives to the nominating committee or board of directors of a portfolio company are at the discretion of the CEO of Catella Fonder.

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

1. There are several companies within the Catella group ("Catella") that invest on their own behalf or on behalf of clients. Operations within Catella Fonder are clearly separated from these other operations, and Catella Fonder shall therefore in exercising its voting rights consider only the best interests of unit holders, irrespective of any interests Catella may otherwise have in the portfolio company concerned. However, this does not preclude that coordinated action between Catella Fonder and another Catella company (or, for that matter, an external owner) concerning specific matters may be deemed to the benefit of unit holders. 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. 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 fund unit holders and, if so, how such conflicts should be managed.
2. The fund manager is ultimately responsible for monitoring corporate actions and for ensuring that the fund votes at general meetings in accordance with the investment objectives and policy. However, Catella Fonder applies the fundamental precept that all funds must be in consensus concerning important matters affecting the 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.
3. 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.
4. 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.

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

### **6. Information policy 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's Principles for Responsible Investment (PRI) in September 2009 as part of its efforts to be a responsible investor and shareholder. These six 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 actively managed equity funds, including Catella Hedgefond (Catella Sverige Index is excluded from this part), and their Nordic equity holdings.

- 1) Review and screening of holdings: 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 of each fund (based on the SIXRX and VINX indexes) is screened twice annually by Sustainalytics, based on
  - a) Global norms and conventions that identify portfolio companies involved in violations of international norms relating to the environment, human rights, corruption and working conditions.
  - b) Sectors and products that are controversial based on the sustainability policy of Catella Sverige Aktiv Hållbarhet.

The results of the screening are monitored internally within Catella Fonder by the portfolio managers and the Risk function. Portfolio companies that violate international norms are divested if information is received that a portfolio company is in breach of the above principles. Portfolio companies involved in controversial sectors and products are managed according to the sustainability criteria set for each fund, which are contained in the prospectus.

- 2) Sustainability of governance in portfolio companies: 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 companies to be transparent in this area. It should be natural for the portfolio managers to approach sustainability managers when gathering information about ethics at 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.

- 3) 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. Furthermore, the sustainability work is documented through the following documents.
  - a. Annually in a Sustainability Review in accordance with the guidelines of the Swedish Investment Fund Association, which can be found on our website.
  - b. Swesif's Sustainability Declaration, which is currently prepared for the actively managed funds – including Catella Hedgefond (Catella Sverige Index is excluded from this part).
  - c. PRI survey that reports on the work of Catella Fonder.
  - d. The Annual Reports for our funds, which from 2018 contain accounts of the Sustainability Profile of each fund and any nonconformities and consequent action.

You can find out more about Catella Fonder's sustainability work on our website under "Sustainability Review Catella Fondförvaltning"

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

Catella Fonder's mandate in connection with the management of investment funds and alternative investment funds is to act exclusively in the joint interests of unit holders. 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.*

### 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.

#### **Board of directors of Catella Fondförvaltning AB**

Knut Pedersen  
Chairman  
CEO Catella AB (publ)

Lars H. Bruzelius  
Senior partner BSI & Partners

Peter Friberg  
LL.M, licensed psychologist, consultant

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

Thomas Raber  
MD Alvine Capital Management Ltd

#### **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.

##### *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.

## Half-time rest and summer holidays

Summer holidays and the football World Cup. The fantastic start to the Swedish summer takes me back to the summers of early childhood when sunburn was as expected as sweet interludes with an ice-cream lolly or a Cornetto. For my generation, the football World Cup will always bring back 1994, when we sat up at night, crossing our fingers that the impossible was finally going to happen. Summer and the holidays also give us a bit of time for much-needed reflection about our lives. After all, the financial markets are a bit like life itself, full of dreams, challenges, hopes and disappointments. In the best case, joy and good fortune.

Like always, the year was tinged with various anxieties. Geopolitical events related to the US and North Korea, constant concerns about the freedom of world trade and a bit of renewed worry about the state of the Italian banks. Worry about rising short-term rates in an attempt to normalise the abnormal was sometimes displaced by worry that the economy will sag before that happens.

Immersed in this melting pot of impressions, our managers seek to make decisions on a daily basis to optimally perform their mission, to manage our clients' money, your money, as wisely as possible. First and foremost, it is about preserving capital. Not exposing themselves to unnecessary risks. To the greatest possible extent, diversifying themselves away from isolated events that could put the whole at risk, yet still daring to take the risks required outperform the norm. This is a constant balancing act that takes both wisdom and courage, along with the constant knowledge that, in the short term, randomness can cast a pall over both the outcomes of and confidence in the investment decisions. Capital and wealth have been managed throughout the history of modern humankind. As far back as Biblical times, strategies about "gathering into barns" were discussed, when it was foreseen that good years could be followed by leaner years. In those days, capital was expressed as the things most essential to life, like grain or other necessities. The concept is now, and has been for a long time, expressed in more neutral measurements of value, such as the domestic currency or gold.

Sometimes, it is good for us to rewind a little and think about the actual purpose of what we are doing. Caught up in the chase for short-term gains and quarterly capitalism. Our purpose is to preserve capital and take purchasing power forward into the future. To manage forces that can destroy the value of the investment and to seek to achieve real return while we are at it. After a long period of powerfully stimulated financial markets, stock market upturns seem as safe as houses and the preservation of capital is almost never brought to mind. The sole aim was to obtain the greatest possible exposure to the upside. In real estate, equities or credits. We have stopped talking about inflation. Purchasing power is taken for granted, or inflation remains so low that it hardly needs to be part of the equation.

As I write this, a storm suddenly rushes in from the sea to scatter the peace of summer. Sunbathing tourists flee in panic and open umbrellas quickly fall victim to the thunderstorm's implacable gusts. Just as the favourites going in, expected to win the football World Cup, do not always live up to expectations, nor can we trust that everything will turn out as we planned. A sudden financial storm hits and the hunt for returns becomes less important. All at once, holding on to what you have feels like a very attractive alternative.

We at Catella Fonder try to always keep this in mind when we invest our clients' capital. In some situations, avarice in the market can become too great and returns are chased without regard to financial security. That is not how we want things to be. Our mission is to manage. To ensure that the preservation of capital is always central and that the risks taken are carefully considered and balanced based on the mandates we have. It is then that we can create the peace of mind that we want you, our clients, to feel when you entrust us with your money. Even if the financial markets should be hit by a storm.

We thank you for your trust.

*Erik Kjellgren*  
CO Catella fondförvaltning AB

## Market Outlook H1 2018 – Mark Twain and the future

When we summed up 2017, the verdict was that it was an unusually stable year, economically and market-wise. The first half of 2018 has brought more movement in the market and, in pace with less expansive monetary policy, the risks of a backlash in the world economy and the finance market are rising. For the market, the single-most important question is when will the next recession arrive.

Economic cycles have always existed and it is a safe bet this will also be the case in the future. Explanations of economic cycles are myriad and the truth is that every cycle is different. As writer – and market speculator - Mark Twain put it: "History doesn't repeat itself, but it often rhymes."

The starting position is different today, in the wake of the deepest recession since the Great Depression of the 1930s. In addition, monetary policy has never before been as expansive as in recent years. One consequence of pursuing overly expansive monetary policy, for a long time, is that debt ultimately becomes unsustainably high. Lower costs of financing encourage governments, companies and – especially – individuals to borrow for both investments and consumption. The likelihood of a financial crisis rises swiftly if returns on the investments and/or increases in disposable income are too low and borrowers cannot repay their debts.

It is worth remembering that history rhymes. Of the last 15 global recessions, 13 were preceded by austere monetary policy. Today, nine years after the last economic cycle bottomed out, only the US Federal Reserve has tightened its monetary policy. Even though most pundits believe this will change in the second half of 2018, we still believe a recession is several years away.

Key factors that could change our assessment are inflation, where slightly higher inflation is to be desired, but not so high that central banks are forced to institute tougher austerity measures and a recession becomes more likely. A full-scale trade war will reduce world trade, leaving a smaller pie to share. This will impact more export-dependent countries, and Sweden is one of the most export-dependent in the world. Even though we are many years into a recovery, the US is pursuing an expansive fiscal policy, which is cause for concern. Doubts about the capacity of the US government to repay its loans will have unimagined consequences for interest rates and exchange rates alike.

When assessing the financial market, it is only natural to focus on the risks and what can go wrong. Nevertheless, it is important to remember that the most likely outcome is that growth will continue, unemployment will fall and corporate profits will rise. Although there are a few dark clouds in the sky, our judgement is that the economic climate and the investment climate are a safe distance away from a cold and bitter winter. But then again, as Mark Twain is reputed to have said, "Climate is what we expect, weather is what we get."