

Annual Report for Catella Credit Opportunity

1 January 2019 – 31 December 2019

CEO's message

Climbing a wall of worry

The stock market defied gravity in 2019 and rose by almost 35 percent, which is the highest annual return in 10 years. Climbing a wall of worry is an old saying on Wall Street that describes how a strong stock market can handle or even be spurred on by bad news. This describes 2019 very well.

The end of 2018 struck a dull note as stock exchanges fell steeply right up until Christmas, and the market worried about a slowdown in the global economy on the back of a trade war and rising interest rates. However, thanks to a U-turn by the Federal Reserve in a very final days of 2018, a striking reversal of the trend set the scene for a fantastic year for stock markets.

The knowledge that the Federal Reserve was not going to continue with interest rate hikes and planned instead to begin a new wave of cuts made the market basically immune to bad news. After a total of 9 increases between the end of 2015 and 2018, the Federal Reserve cut interest rates in three steps during 2019 to the current 1.75 percent. The US-China trade war took many turns during the year, creating clear real effects on world trade, and the WTO, for example, downwardly revised its growth forecast for global trade volumes in October to 1.2 percent from 2.6 percent in April. Leading economic indicators in the form of global PMIs indicated declining growth for 6 months, and the fixed income market priced in an upcoming recession when long-term interest rates were traded below the repo rate for a time. Some cyclical companies certainly fell back due to the economic concerns, but the stock market as a whole did very well as investors instead bought defensive companies, companies whose growth was generally considered to be resistant to economic worries, or companies whose business models were generally considered robust. In this context, valuation became almost irrelevant in decision-making. The return on the alternative – the fixed income market – was and is close to zero, so investments that were made attractive by some kind of additional return were like hot cakes on the stock market. The performance between sectors and even individual companies differed widely during the year, as did valuations. This was sometimes very challenging for us since we focus on active management. Traditional valuation principles no longer applied as already expensive companies were allowed to become even more expensive, while cheap companies continued to be ignored by investors. However, this has probably created a number of very interesting investment opportunities for an active investor, with the opportunity to take positions for both ups and downs in individual companies.

Hedge funds have had a tough time over a number of years of strong stock markets and falling interest rates. The asset class has been outcompeted by simpler index tracking products that have generated good returns at a low price. But is it now time for a comeback? The stock market has now priced in a great deal in advance, and many valuations are sky-high compared to the past. On the other side of the coin, undervalued companies that have for long periods in the past proven to be among the best investments have for many consecutive years underperformed the market and are now valued with bigger discounts than in a long time. In recent decades we have experienced some form of crisis in the stock market about every ten years, but it has now been an unusually long time since there was any really big correction.

Could it be time for less hectic performance? Time for market participants to start looking at valuations again?

Time to invest in hedge funds?

Erik Kjellgren
CEO Catella Fondförvaltning AB

Market trends 2019

"The only thing we have to fear is fear itself."

Franklin D Roosevelt

Benjamin Graham and David Dodd published *Security Analysis* in 1934, just after the start of the Great Depression. Their book describes the ideas and methods that form the basis of what we today call value investing. One tenet of value investing is that shares move more than is justified by their long-term value. Graham's view was that in the short term the market is a beauty contest, but in the long term the market reflects real values. The fact that shares are governed in the short term by sentiment in general and fear in particular creates opportunities for active investors to add value when "cheap" shares, i.e. those trading below their long-term value, can be bought, and vice versa. The fact that value as a factor works over time is well documented, and was also noted in 2013 when the Sveriges Riksbank Prize in Economic Sciences, often referred to as the Nobel Prize in Economics, was shared between three award winners for their empirical studies of asset prices.

Looking back on 2019, it was a difficult year for most asset managers with a value-based approach. Many of the cheap stocks became cheaper and the expensive ones became more expensive. This is not a new phenomenon and has occurred earlier in history, but each time it has happened the relationship between cheap and expensive shares has returned to the historical norm in the following years. Our assessment is that the same will happen again this time. A contributing reason for 2019 being difficult was FOMO, or fear of missing out. Rising share prices have led to a self-reinforcing effect, where the fear of missing out on price increases has driven further price increases. Prices in the financial markets may at times deviate greatly from what is economically justified, but in the longer term the principles of Graham and Dodd still apply.

Where do we believe the greatest divergences are to be found?

On an overall level, today's interest rates are too low to be fully justified by the underlying economic fundamentals. The main factor behind the low rates is the action of central banks, and we believe that the likelihood of a large turnaround in 2020 is low. Although we do not anticipate a major change in the behaviour of central banks, there is an asymmetrical range of outcomes for interest rates. They can hardly go down much, but could very well go up to the highest levels we had in 2018, which would mean a hike of almost 1 percentage point. The stock market valuation is on the high side, and American equities are particularly expensive. Given today's low interest rates, current stock prices can be justified, but the high values require that confidence in central banks remains robust and that interest rates will remain at historically low levels for the foreseeable future. The largest deviations are found in the stock market. The last time cheap shares were this cheap relative to the stock exchange was in 2000. Our assessment for 2020 is that there is low likelihood of the most expensive sectors/shares becoming more expensive and the cheapest sectors/shares becoming even cheaper, and that even in the stock market there is an asymmetrical range of outcomes. What could continue to lead to expensive sectors and equities becoming even more expensive is the fear among investors of not owning them. But as Franklin D Roosevelt put it in a completely different context, "The only thing we have to fear is fear itself". We are looking forward to a 2020 that has good prospects of becoming the year of value investors.

Thomas Elofsson

Head of Portfolio management and Fund manager, Catella fondförvaltning AB

Surprisingly strong recovery

After last year's weak performance for higher risk bonds, this year's return on the financial markets exceeded both our own expectations and those of most analysts.

At the beginning of the year, the US Federal Reserve signalled a U-turn in monetary policy, which provided support for equity and credit markets while bond yields fell to record lows in Sweden and Europe. Lower expectations of future growth and inflation opened the window for even more monetary policy stimulus, which was the main reason for this year's strong performance.

During the year, the fund invested to a large extent in bonds with higher coupons. The holdings of these higher risk bonds, known as high yield, recovered after weak performance last year and account for most of the fund's return during the year. The portfolio is characterised by a large number of bonds issued by companies operating in different types of industry, thereby achieving a high degree of risk diversification, which is necessary in view of the higher credit risk in the segment. Furthermore, the portfolio had a high proportion of cash and cash-like investments with a low risk throughout the period in order to balance the high proportion of high-yield bonds in the fund. During much of the period, the fund also held put options on the stock exchange aimed at stabilising returns in adverse market outcomes, which reduced the fund's return during the year. In addition, the fund has also been periodically exposed to long-term government bonds with the aim of managing interest rate risk and balancing the high-yield portfolio. This made a positive contribution to the year's return. During the year, the fund also took currency positions in order to balance the credit risks in the fund, which also contributed positively to the return on the year.

The fund's return in 2019 was 5.31 percent.

The biggest positive contributors to the return during the period were the holdings in specialty chemical company Perstorp, service company Transcom, health care company Unilabs and security companies Securelink and Verisure. Negative contributions came from bonds in industrial company Tresu and service company Quant as well as the held put options on OMX. During the period, holdings in shipping company Containerships, health care company Unilabs, special chemicals company Perstorp and a number of subordinated bank bonds were divested, and a number of new bonds were added.

The portfolio's holdings of bonds issued in foreign currency are normally hedged back to Swedish kronor.

Fund facts

Fund	Catella Credit Opportunity
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 (SEK)	584 095
Unit value	118.23
No of units	4 940 488
Yield	
Benchmark index, alt. Reference rate	Reference rate: OMRX T-Bill
Fund, Yield current year (%)	5.31
Benchmark index (alt. Reference rate), yield current year (%)	-0.54
Fund, Average annual yield past two years (%)	2.7
Benchmark (alt. Reference rate), Average annual yield past two years (%)	N/A
Fund, Average annual yield past five years (%)	3.35
Benchmark index (alt. Reference rate), Average annual yield past five years (%)	N/A
Fund, Yield since inception (%)	18.23
Benchmark index (alt. Reference rate), Yield since inception (%)	N/A
Risk (24 months)	
Duration, 31 December 2018 (years)	-1.64
Interest-rate risk from 1%-point change in interest rate	1.58
Total risk fund (%)	1.67
Total risk benchmark (%)	N/A
Active risk (%)	N/A
Active share (%) 31 December 2018	N/A

Turnover/costs

Rate of turnover (times/year)	1.74
TTC, Transaction costs (SEKm)	0.28
percentage of securities traded	0.02
TER	2.19
Management fee	0.95
Management fee charged (fixed and variable)	2.15
Ongoing charges %*	0.99
Maximal förvaltningsavgift i fonder som investeras i (%)	N/A

Maximal rörlig avgift av överavkastningen i fonder som investeras i (%)

N/A

*See accounting policies

Cost of type saving

Lump-sum deposit SEK 10,000	
Management cost (SEK)	222.64
Monthly saving SEK 100	
Management cost (SEK)	14.42

Turnover Through associated securities institutions

Percentage of total turnover	0.0
------------------------------	-----

Turnover of financial instruments managed by Catella Fondförvaltning AB

Percentage of total turnover	0.0
------------------------------	-----

Exchange rates

Closing rates at 31 December 2019

DKK	N/A
EUR	10.4999
GBP	12.3884
NOK	1.0651
USD	9.3540

Balance sheet and income statement

BALANCE SHEET, SEKk	31-dec-19	31-dec-18
ASSETS		
Transferable securities (Note 1)	494 474	396 982
Money market instruments (Note 1)	29 995	0
OTC derivatives with positive market value (Note 1)	2 491	3 115
Other derivatives with positive market value (Note 1)	395	840
Total financial instruments with positive market value	527 355	400 937
Bank balances and other cash and cash equivalents	47 903	55 328
Prepaid expenses and accrued income	3 960	4 060
Other assets	5 999	50
TOTAL ASSETS	585 217	460 375
LIABILITIES		
OTC derivatives with negative market value (Note 1)	395	497
Total financial instruments with negative market value	395	497
Accrued expenses and prepaid income	724	387
Other liabilities	3	23
TOTAL LIABILITIES	1 122	907
NET FUND ASSETS Note 2	584 095	459 468
MEMORANDUM ITEMS		
Collateral pledged for OTC derivatives	0	1 148
Collateral pledged for other derivatives	7 591	9 377
INCOME STATEMENT, SEKk	2019	2018
INCOME AND CHANGES IN VALUE		
Change in value of transferable securities	20 782	-6 321
Change in value of money market instruments	15	19
Change in value of OTC derivatives	-9 092	-10 466
Change in value of other derivatives	-2 518	-2 794
Interest income	21 868	25 784
Net foreign exchange gains and losses	4 896	1 502
Other income	39	0
TOTAL INCOME AND CHANGES IN VALUE	35 990	7 724
EXPENSES		
Management costs		
Payments to companies conducting fund operations	10 577	7 299
Payments to depositary	189	212
Other expenses	252	241
TOTAL EXPENSES	11 018	7 752
PROFIT FOR THE YEAR	24 972	-28



Note 2 TO BALANCE SHEET

	31-dec-19	31-dec-18
CHANGE IN NET FUND ASSETS		
NET FUND ASSETS AT BEGINNING OF YEAR	459 468	525 734
Unit sales	233 379	367 928
Unit redemptions	-133 724	-434 166
Profit for the year per income statement	24 972	-28
NET FUND ASSETS AT END OF PERIOD	584 095	459 468

Fund's holdings of financial instruments

Note Securities	Quantity	Price	Market value (SEKk)	Fund weight %
<u>Market-listed Equities *</u>				
Real Estate				
Akelius Residential D, EUR	487 988	1.83	9 377	1.61
			9 377	1.61
<i>Total Market-listed Equities</i>			9 377	1.61
<u>Market - Listed Bonds*</u>				
Allgon FRN 220607	6 000 000	104.75	6 285	1.08
Bayport 10.5% 221219, Mauritius, USD	1 000 000	100.38	9 389	1.61
Bayport 11.5% 220614, Mauritius, USD	300 000	106.25	2 982	0.51
Cabonline FRN 221209	10 000 000	100.12	10 012	1.71
Capnor Weasel Bidco FRN 250612, Finland, EUR	1 000 000	100.36	10 538	1.80
DDM FRN 220408, EUR	400 000	102.00	4 284	0.73
Fastighetsbolaget Emilshus FRN 221209	3 000 000	100.88	3 026	0.52
Frontmatic Group 241010, Denmark, EUR	500 000	101.88	5 348	0.92
Garfunkelux 11% 231101, Luxembourg, GBP	600 000	98.95	7 355	1.26
Garfunkelux FRN 230901, Luxembourg	2 500 000	86.50	2 162	0.37
Garfunkelux Holdco 3 220801, Luxembourg, EUR	1 000 000	100.25	10 526	1.80
Genova Property FRN 230930	15 000 000	100.88	15 131	2.59
Georg Jensen FRN 230515, Denmark, EUR	900 000	98.75	9 332	1.60
Golden Heights FRN 220308	8 750 000	101.50	8 881	1.52
Heimstaden FRN 241011	10 000 000	102.83	10 283	1.76
Hoist Finance 8% 230901, EUR	1 500 000	100.00	15 750	2.70
Hoist FRN 210629	7 000 000	101.75	7 122	1.22
Hospitality Invest FRN 221031, Norway, NOK	5 000 000	95.50	5 086	0.87
ICE Scandinavia Holdings FRN 231010, Norway, NOK	7 500 000	100.00	7 988	1.37
Idavang FRN 211211, Denmark, EUR	500 000	100.50	5 276	0.90
Ilija Bataljan Invest	10 000 000	101.12	10 112	1.73
Jefast FRN 210327	5 000 000	98.78	4 939	0.85
Jotul Holdings FRN 220131, USA, NOK	10 500 000	100.00	11 184	1.91
Kommuninvest i Sverige 0.25% 220601	20 000 000	100.28	20 057	3.43
Kommuninvest i Sverige 0.375% 240327	30 000 000	99.94	29 983	5.13
Kommuninvest i Sverige 1% 231113	20 000 000	102.70	20 540	3.52
Kommuninvest i Sverige 1% 241002	20 000 000	102.80	20 559	3.52
Kommuninvest i Sverige 1% 250512	30 000 000	102.79	30 839	5.28
Kvalitena FRN 220512	10 000 000	100.00	10 100	1.73
Logent FRN 241031	5 000 000	100.75	5 037	0.86
M2 Asset Management FRN 220125	8 000 000	103.43	8 274	1.42
Marginalen Bank FRN 290828	6 000 000	100.40	6 024	1.03
Nackahusen Holding FRN 200813	8 640 000	89.00	7 690	1.32
Nyfosa FRN 220522	3 750 000	101.72	3 814	0.65
Qred FRN 220617, EUR	800 000	100.75	8 463	1.45

Quant FRN 230215, EUR	1 500 000	70.00	11 025	1.89
SGL TransGroup Intl. FRN 241104, Denmark, EUR	1 000 000	100.50	10 552	1.81
SHH Bostad FRN 210607	10 000 000	97.00	9 700	1.66
Slättö Fastpartner FRN 230401	10 000 000	100.50	10 050	1.72
Sollentuna FRN 221007	5 000 000	100.00	5 000	0.86
Telia 3.25% 771004 PERP	10 000 000	103.42	10 342	1.77
Telia Company FRN 771004	3 000 000	103.18	3 095	0.53
Transcom 6.5% 230322, EUR	1 000 000	96.34	10 115	1.73
Tresu Investment FRN 220929, Denmark, EUR	400 000	50.00	2 100	0.36
United Camping FRN 230605	5 000 000	100.46	5 023	0.86
Verisure 5.75% 231201, EUR	1 000 000	103.30	10 847	1.86
Vostok New Ventures 5.75% 221004	7 000 000	102.25	7 158	1.23
ÅF Pöyry FRN 200512	10 000 000	100.22	10 022	1.72
			459 400	78.65
<i>Total Market-Listed Bonds</i>			459 400	78.65
<i>Not Listed Bonds**</i>				
Assembling Financing FRN 250515, EUR	500 000	101.12	5 309	0.91
Kjell Midco 11% 230111	9 939 043	99.75	9 914	1.70
Secto Topco FRN 221127, Finland, EUR	1 000 000	99.75	10 474	1.79
			25 697	4.40
<i>Total Not Listed Bonds</i>			25 697	4.40
Total Transferable Securities			494 474	89.79
<i>Exchange Traded Derivatives</i>				
Index option				
OMX 19 S 1300 january	2 000	1.60	320	0.05
			320	0.05
Bond Future				
Swe Gov. Bond Future 10Y mars 20	-52	0.15	0	0.00
Swe Gov. Bond Future 5Y Mars 20	-140	-0.16	0	0.00
Swedbank Bond Future 5Y mars 20	-10	0.56	0	0.00
			0	0.00
<i>Total Exchange traded Derivatives</i>			395	0.07
Exchange traded Derivatives with positive market value			395	0.07
Exchange traded Derivatives with negative market value			0	0.00
<i>OTC-Derivatives</i>				
FX-Forwards				
FXFWD EURSEK 200210 10.449, EUR	-1 500 000	10.50	-84	-0.01
FXFWD EURSEK 200210 10.663, EUR	-13 100 000	10.50	2 082	0.36
FXFWD EURSEK 200210 10.676, EUR	-100 000	10.50	17	0.00

FXFWD GBPSEK 200210 12.353, Great Britain, GBP	-600 000	12.38	-15	0.00
FXFWD NOKSEK 200210 1.0467, Norway, NOK	-18 000 000	1.06	-296	-0.05
FXFWD USDSEK 200210 9.3645, USA, USD	-300 000	9.34	8	0.00
FXFWD USDSEK 200210 9.5623, USA, USD	-1 700 000	9.34	384	0.07
			2 096	0.36
Total OTC-Derivatives			2 096	0.36
OTC Derivatives with positive market value			2 491	0.43
OTC Derivatives with negative market value			-395	-0.07
<u>Total holdings of financial instruments</u>			526 960	90.22
Other assets and liabilities			57 135	9.78
Total Net Assets			584 095	100.00

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

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

SUMMARY, ISSUERS*	% OF NET FUND ASSETS*
ISSUER	
SEB AB	9.44
Telia Company AB	2.30
Garfunkelux Holdco 3 S.A.	2.17

* 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:

Assemblin Financing FRN 250515
Ice Group Scandinavia Holdings FRN 231010
Bayport Management 10,5% 221219
Capnor Weasel Bidco FRN 250612
United Camping FRN 230605
Cabonline Group Holding FRN 221209
Logent FRN 2411031
Qred FRN 220617
Ilija Batljan FRN 220927
Fastighetsbolaget Emilshus FRN 221209
Frontmatec Group FRN 241010

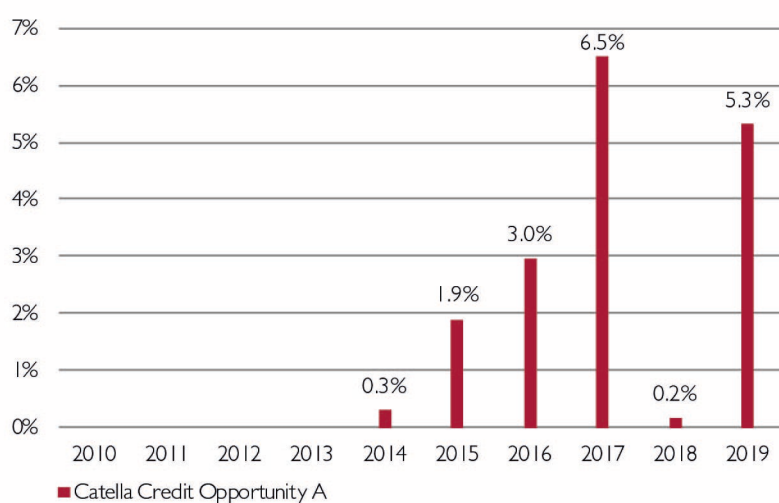
COUNTERPARTIES FINANCIAL DERIVATIVE TRANSACTIONS

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
14 23	0.00	100.29	2 787 648	279 576
15 23	0.00	102.21	6 529 661	667 382
16 23	0.00	105.24	2 563 999	269 831
17 23	0.00	112.09	4 690 426	525 734
18 23	0.00	112.27	4 092 370	459 468
19 23	0.00	118.23	4 940 488	584 095

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.

Highest leverage	Lowest leverage	Average leverage
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.

At 31 Dec, 2019	Highest	Lowest	Average
0.2%	0.36%	0.05%	0.13%

Catella Fonder's shareholder engagement and sustainability reporting 2019

About Catella Fonder's shareholder engagement and sustainability

Our view on sustainability

We believe that innovative solutions to today's global challenges will be some of tomorrow's winners. We can transform this into value creation in our funds. One of the things we seek out as a fund manager is incorrect pricing in the market. By taking greater account of a company's sustainability profile, we turn another stone and improve our ability to identify underestimated structural trends or overestimated cyclical trends. We believe that we enhance the accuracy of our assessments and that it helps us to avoid a number of unwanted risks. In this way, sustainability and value creation go hand in hand at Catella Fonder, and this benefits the holders of units in our funds.

An increased focus on sustainability affects our investments in several ways. We analyse the business opportunities and risks that companies experience in relation to sustainability, which gives us a better understanding of each company's long-term qualities. Based on this analysis, we are able to identify specific sustainability-related investments. We screen in and take up larger positions in sustainability-driven companies, and in our absolute return funds we take short positions in companies with unsustainable characteristics. We completely avoid investments in controversial products and services and in companies that violate international conventions. This work also takes place actively, together with companies, to identify areas where they have room for improvement with regard to their internal risk management and ESG.

We screen in

All companies have varying degrees of exposure to sustainability risks based on their industry, geographical distribution and ownership, which can involve both significant risks and opportunities. We employ the UN Agenda 2030 and the 17 Sustainable Development Goals to identify and map business models that can benefit structurally by offering a solution to one or more of the 17 Agenda 2030 Goals. Of the 17 goals, we have selected eight that we consider to be especially interesting. We have grouped these into four themes where we can identify business models that benefit from governance, rules and development for sustainability and that provide exposure to structural growth. Finally, we examine the extent to which a company's income statement and balance sheet are affected by sustainability.



Our Themes

- **Health and safety** contribute to UN Goal 3 “Good Health and Well-being” and Goal 6 “Clean Water and Sanitation”. Our investments within this theme include companies that offer solutions to global health challenges like obesity and lack of exercise, and sanitation and security solutions for public environments.
- **Energy efficiency** contributes to UN Goal 7 “Affordable and Clean Energy” and Goal 11 “Sustainable Cities and Communities”. The transition to sustainable energy and energy consumption will benefit companies that work with smart energy solutions to reduce consumption, or make it more efficient, in multiple areas, like Nibe (energy efficient heat pumps and systems) and Vestas (production of wind power systems).
- **Sustainable production/consumption** contributes to UN Goal 9 “Industry, Innovation, and Infrastructure” and Goal 12 “Responsible Consumption and Production”. This theme includes investing in companies whose business model benefits from reuse and recycling.
- **Counteracting negative environmental impact** contributes to UN Goal 14 “Life Below Water” and Goal 15 “Life On

Land". An example of an investment within this theme is Tomra, which manufactures and sells recycling and sorting machines to contribute to a reduction in wasted resources and their negative environmental impact.

We Screen out

We draw a clear line at industries and products that create or exacerbate a global challenge. We therefore exclude companies that have sales from the production of tobacco, pornography, alcohol, commercial gambling, weapons, cannabis and fossil fuels. We also exclude companies that have more than 5 percent of their sales from distribution of the above. Furthermore, we exclude all companies that violate international norms and conventions.

International norms and conventions		
UN Global Compact		
Controversial weapons		
Controversial products and services	Production	Distribution
Tobacco	0%	5%
Pornography	0%	5%
Alcohol	0%*	5%
Weapons	0%*	5%
Military contracting	0%*	5%
Cannabis	0%*	5%
Commercial gambling	0%*	5%
Fossil fuels		
Oil, gas and coal	0%*	5%

* 5% for production and distribution for funds of funds

We influence

As a shareholder, we influence the companies we have invested in to move in a more sustainable direction by being active in board recruitment processes, at general meetings and in discussions with company management. We exert influence by collaborating with other shareholder groups. Our actions are always based on an assessment of the prospects for achieving a result and of this ultimately benefitting our unitholders. Our opportunities for influence depend on the type of asset. When we are a large shareholder in Swedish companies, we have well-established forms of influence. For other investments, such as in foreign companies and companies where we are a small or indirect shareholder, the opportunities for influence are more limited. In these cases, collaboration with other investors can be a way to achieve influence.

General description of our voting behaviour and choice of companies to start a dialogue with

Catella Fonder's participation in general meetings is guided by the materiality principle. This means that we participate in general meetings of portfolio companies of material importance to the performance of our funds, and we vote at all meetings when we are a major shareholder (Catella's funds own 5 percent or more of capital and/or votes). Catella Fonder also participates in general meetings at which decisions are made that can be expected to have major impact on the portfolio company's business, even if our stake is small but opportunities exist for shareholder cooperation. Catella Fonder also normally participates in general meetings of companies where we have been involved in nomination committee work and/or are a major shareholder.

Catella Fonder has established the following criteria for initiating a sustainability/ESG dialogue: ESG Score (Sustainalytics), level of controversy, substandard guidelines and processes around the environment, corruption, supply chain security, or other important areas. The engagement includes issues surrounding corporate governance when there have been risks with large option programmes or similar remuneration. Once a quarter, we review the funds' holdings based on our sustainability criteria. At the same time, we review of the dialogues we conducted during the previous period and prioritise new dialogues.

Resources and commitments

Catella Fonder has had a sustainability manager since 2016. We use an external and independent partner, Sustainalytics, for guidance and input on our positions. It is Sustainalytics that makes the assessment of whether a portfolio company is norm-breaking or not, and follows up on current controversies and problems. However, it is the fund manager who is ultimately responsible and who maintains dialogues with the companies on financial, sustainability and ownership issues.

Ongoing work: As an active manager, we maintain ongoing dialogue with a large number of companies on the Nordic stock exchanges. The issues relate to financial matters, ownership dialogues and sustainability. We have a strong belief that sustainability analysis must be integrated with financial analysis in order to create value. This work is ongoing as a natural and integral part of the traditional portfolio manager role, in which we estimate each company's opportunities for future growth and profitability. By adding an assessment of how sustainability strengthens or weakens a company's prospects, we improve our understanding and thereby the accuracy of our forecasts of the company's valuation.

Quarterly: To plan our work and get deeper into the issues, we hold internal sustainability seminars where we supplement our own company analysis with research from Sustainalytics, in order to extend our knowledge and our view of each company's sustainability work.

Half-yearly: Screening by Sustainalytics gives us a list of companies that violate international norms and conventions, as well as companies that are affected by our lines drawn at industry level. We also use their company analysis to find out which companies have raised risks or potential for improvement. Based on this, we are able to identify investment candidates and prioritise future shareholder dialogues.

Shareholder engagement and sustainability at Catella Fonder 2019

Description of sustainability work in 2019

In 2019, Catella's sustainability efforts have been strengthened and developed on a number of points:

- Greater emphasis has been placed on the UN Sustainable Development Goals for actively managed equity-related funds. This work is described above, and we identified several candidates during the year that we bought positions in, or that we shorted for absolute return funds.
- In order to harmonise the exclusion criteria, we now have a common exclusion policy for all directly invested funds. The last fossil-related holding was sold at the end of November 2019.
- The work on ownership issues that began in 2018 has been extended, in terms of both documentation and number. As more dialogues on sustainability have been opened, we have also dug deeper into the issue, which has improved both our understanding of the importance of ESG issues and the understanding of the companies.
- We have adopted a couple of specific positions and updated and expanded our ownership policy. We have also clarified our voting policy and set specific ambitions about which companies we should adopt an active position towards. Please refer to our *Policy on shareholder engagement and sustainability* for more details.
- We have taken an active role as a member of the board of SWESIF, where we will primarily work with seminars and projects with clear company-related themes.
- We have held internal workshops to expand our knowledge and vision on a wider front regarding sustainability, with both internal and external parties.

Description of shareholder engagement in 2019

Catella Fonder's *Policy on shareholder engagement and sustainability* can be found on pages 48-52 of this Annual Report

Number of dialogues

During 2019, 67 dialogues were held with 57 portfolio companies.

Positions adopted this year

Company	Date	Funds	Position taken	Matter
Note AB EGM	Jan 21, 2019	Catella Småbolagsfond, Catella Sverige Hållbart Beta	For	Decision on incentive scheme 2019/2022 and issue of warrants
DistIT AB EGM	Feb 21, 2019	Catella Småbolagsfond	For	New issue of warrants that may only be subscribed by the CEO
SSAB AB AGM	Apr 8, 2019	Catella Hedgefond, Catella Småbolagsfond, Catella Sverige Aktiv Hållbarhet, Catella Sverige Hållbart Beta	For	Change of board, decision on guidelines for setting salary and other remuneration to CEO and other individuals in the company's management, decision on authorisation for the board to decide on new issue of shares
Note AB AGM	Apr 25, 2019	Catella Småbolagsfond, Catella Sverige Hållbart Beta	For	Establish proposals for remuneration guidelines for senior executives and authorisation for the board to decide on new issue
Ambea AB AGM	May 16, 2019	Catella Hedgefond, Catella Småbolagsfond, Catella Sverige Aktiv Hållbarhet, Catella Sverige Hållbart Beta	For	Changed board, guidelines for remuneration to senior executives, decision on new issue with preferential rights for existing shareholders, decision on long-term incentive scheme for senior executives in the form of warrants, decision on long-term incentive scheme for certain employees in the form of share savings programmes, authorisation for the board to decide on repurchases and transfer of own shares, authorisation for the board to decide on new share issue
Asarina Pharma AB AGM	May 8, 2019	Catella Småbolagsfond	For	Authorisation for the board to decide on new issue of shares, warrants or convertibles
BE Group AB EGM	Sep 18, 2019	Catella Småbolagsfond, Catella Sverige Hållbart Beta	For	Election of new chairman

Catella Fonder has not used the advice or voting recommendations of a voting advisor.

Catella Credit Opportunity

Overall comments on sustainability work

The fund entirely excludes companies operating in coal, weapons, tobacco, alcohol, pornography, fossil fuels and commercial gambling. Environmental, social and corporate governance (ESG) factors are anchored in the investment process. Our sustainability work largely consists of ensuring that investments are not made in the excluded sectors or companies. The fund uses an external sustainability advisor, Sustainalytics, for monitoring and assuring the compliance of companies in these areas. In addition, a number of corporate dialogues have been held on behalf of the fund on issues related to the above. The fund aims to include green bonds if the commercial terms are right. During the year, the fund invested in a green bond issued by Kommuninvest amounting to approximately 5 percent of the fund's assets at year-end.

The fund has screened in

During the year, the fund actively included a green bond issued by Kommuninvest.

The fund has screened out

During the year, the fund did not actively exclude any holding due to sustainability aspects.

Accounting policies

Your share of the fund's costs

In the account statements you received in January 2020 we reported your share of the fund's costs for 2019.

- "Management costs" are your share of the fund's expenses in 2019 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 booked in the balance sheet at market value on 30 December, 2019. 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 booked 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

Information about remuneration paid in 2019 by Catella Fondförvaltning AB. Information will be provided on the website (www.catella.se/fonder) and in the Company's annual report for 2019. 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 took advantage of this opportunity in 2019.

Related-party transactions

Trading with related companies has taken place during the period, as detailed under "Fund facts".

Charges

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

The board of directors of Catella Fondförvaltning AB

Knut Pedersen
Chairman
CEO Catella AB (publ)

Lars H. Bruzelius
Senior partner BSI & Partners

Peter Friberg
LL.M, licensed psychologist, consultant

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

Thomas Raber
MD Alvine Capital Management Ltd

Catella Fonder policy on shareholder engagement and sustainability

Background and Aim

This document presents how Catella Fondförvaltning AB ("Catella Fonder") exercises shareholder influence, including how and in what situations the voting rights linked to investments made within the context of the company's business are to be exercised.

Our mandate to responsibly manage unitholders' money includes daily monitoring of the performance of the funds' investments. When performance does not meet our expectations, the first step is always to initiate dialogue with management. If the portfolio company does not address the issues that have arisen in a satisfactory manner, the responsible manager must balance the opportunities to achieve change through continued dialogue against selling the instrument in question.

The overall goal of shareholder engagement at Catella Fonder is aimed at ensuring that the funds generate the highest returns possible considering the funds' risk level. Consideration of matters related to the environment, social responsibility and governance (ESG factors) is an integrated part of our investment process. Integrating ESG factors enhances the quality of our investment process and is consistent with maximising value for unitholders. In addition to maximising value for unitholders and championing sustainability, Catella Fonder must act to instil and preserve high public trust in the portfolio companies and the financial market.

As a long-term owner, Catella Fonder influences companies in mainly three ways.

1. Engaging in dialogue with representatives of the portfolio company.
2. Voting at general meetings.
3. Nomination committee work where Catella Fonder is a major shareholder, provided that this does not limit Catella Fonder's freedom to act to an unreasonable extent.

Our opportunities to exert shareholder influence are proportional to the size of our ownership and the ownership structure of the portfolio company otherwise. That said, we do not lack the opportunity to act to achieve a result that benefits our unitholders when we are a minor shareholder or have indirect influence via, for example, fixed income investments.

Active ownership

Corporate dialogue

The managers regularly meet with existing and potential Nordic portfolio companies. At these meetings, they engage in dialogue concerning the companies' overall strategy, financial and non-financial performance and capital structure. Dialogue topics include the risks and opportunities associated with the business. The environmental and social impact of the portfolio companies and matters related to corporate governance are also discussed at these meetings.

The managers base these dialogues on internal and external analyses of the companies' overall strategy and their financial and non-financial performance. In dialogues relating to environmental, social and governance topics, the managers are supported, in addition to the internal analysis, by external service providers that examine the relevant portfolio companies based on sustainability aspects. Corporate dialogue is an important part of the investment process and also contributes to new investment ideas.

From a risk perspective, portfolio companies that have heightened risks in the sustainability area are prioritised in these dialogues. Fund managers draw attention to shortcomings in sustainability work and promote improvements in portfolio companies that have received low sustainability scores. Our selected external providers of sustainability data evaluate corporate sustainability programmes and monitor current controversies and problems. The chief sustainability officer should be an expected discussion partner for the managers when they are gathering information about portfolio companies related to sustainability.

The responsible fund managers implement, document and follow up the dialogues.

General meetings

Participation

Catella Fonder's participation in general meetings is guided by the materiality principle: we participate in general meetings of portfolio companies of material importance to the performance of our funds. Catella Fonder may also participate in general meetings at which decisions are made that can be expected to have major impact on the portfolio company's business, even if our stake is small but opportunities exist for shareholder cooperation. As well, Catella Fonder normally participates in general meetings of companies where we have been involved in nomination committee work and/or are a major shareholder. 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.

Catella Fonder does not normally use voting advisers. 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. The proxy ensures that votes are cast in accordance with our policy.

When shares in the portfolio company are out on loan, the loan may be recalled over the general meeting and there are no further loans made until after the general meeting.

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 CEO is the company's ownership representative.

Position

Boards of directors of portfolio companies

Our fundamental position is that the boards of directors of portfolio companies are appointed at the mandate of shareholders and that all board issues must be managed from the perspectives of existing shareholders. We also believe that directors should own shares in the company. The boards of directors of portfolio companies should otherwise meet the criteria set forth in the Swedish Corporate Governance Code.

Incentive programmes

It is the responsibility of the boards of directors of portfolio companies to ensure that the incentive structure is optimised from the long-term ownership perspective and that the interests of management coincide with those of shareholders. Participation in incentive programmes should entail a certain degree of financial risk. Accordingly, entirely subsidised programmes are not normally appropriate. Assessment of reasonable programme costs and dilution, if any, is based on the industry otherwise. The boards of directors of portfolio companies should also inform and gain the support of major shareholders for proposed incentive programmes well in advance of general meetings.

Takeover bid situations

The boards of directors of portfolio companies must act from the perspective of existing shareholders throughout the process and ensure that the bidder does not make any commitments to management or the board of directors before the bid has been accepted. The principle of fair treatment should also apply in companies with various share classes where the bid premium should be the same for all share classes.

Nomination committees

When Catella Fonder is among the major shareholders in a company, we should exercise shareholder influence by having representatives on the nomination committees of portfolio companies, provided that the holding is long-term and deemed capable of creating added value for unitholders. Nomination committee tasks include evaluating the current board of directors, nominating candidates for chairman of the board and other directors and proposing fees to directors, the chairman, committee members and committee chairs. The nomination committee also proposes the election of the auditor and auditor's fees.

In participating on nomination committees, Catella Fonder works actively to promote a competent, experienced, multifaceted and gender-equal board of directors. Decisions to make representatives available to the nomination committee or board of directors of a portfolio company are at the discretion of the CEO of Catella Fonder.

Cooperation and taking positions on ownership issues

Catella Fonder should act in concert with other Catella companies or other external shareholders and/or relevant stakeholders on individual matters that are in the interests of unitholders. We are active members of the Swedish Investment Fund Association, where we are a member of the working group for ownership and sustainability. In this context, we pursue matters jointly with other industry representatives related to transparency, regulation and reporting. We are also active members in Swesif, where we primarily participate in projects related to Swesif's activities and training events. Catella Fonder has been represented on the board of directors of Swesif since 23 May 2019.

Catella Fonder has signed the UN Principles of Responsible Investment (PRI). This is the foundation of our sustainability work, in which we integrate sustainability topics in company analysis, act as active owners and promote transparency and scrutiny of the portfolio companies in which we invest.

Managing conflicts of interest and insider information

There are several companies within the Catella Group ("Catella") that invest on their own account or on behalf of clients. Operations within Catella Fonder are clearly segregated from these other group companies and Catella Fonder must exclusively consider unitholders when exercising its voting rights, regardless 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 case as to whether any conflict of interest may arise for the fund or unitholders and, if so, how such conflicts should be managed. That each fund manager is responsible for ensuring that a fund votes in accordance with the fund's investment policy and in the best interests of unitholders ensures that conflicts of interest are managed.

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

Sustainability policy at Catella Fondförvaltning AB (Catella Fonder)

Catella Fonder shall act to promote sustainability in a manner that meets the expectations of our clients. Consideration of matters related to the environment, social responsibility and governance (ESG factors) is an integrated part of our investment process. Integrating ESG factors enhances the quality of our investment process and is consistent with maximising value for unitholders.

Our VIEW on sustainability

We strongly believe that sustainability analysis must be integrated with financial analysis to be value-creating in the truest sense. This work is ongoing as a natural and integrated aspect of the traditional fund manager role, where we estimate the portfolio company's potential for future growth and profitability. By adding an assessment of the extent to which sustainability strengthens or weakens the portfolio company's circumstances, we increase our understanding and thus the reliability of our forecasts. Accordingly, we consider sustainability a source for finding investments. Catella Fonder is also working to bring about greater transparency and increased ESG reporting in the portfolio companies in which we invest.

We believe greater focus on sustainability is contributing to the value performance of the funds by improving our capacity to avoid risks and take advantage of opportunities. All portfolio companies have exposure to sustainability risks in some form and to varying extents. The degree of risk and its potential impact on the financial statements is affected by the portfolio company's sector, where it does business and its ownership structure. We impose higher standards on portfolio companies operating in controversial industries than on portfolio companies with low risk profiles. We use external analysis firms' assessments of the individual portfolio company's sustainability work and include the score/rating as an aspect of our investment process. The score/rating is also the basis for the shareholder dialogues on sustainability that we engage in with portfolio companies.

Positive selection criteria - What we screen in

Generally speaking, we look for portfolio companies that are both inspired by sustainability and can demonstrate attractive financial qualities and a clear profit and return trend that is underestimated by the market. We use the UN 2030 Agenda for Sustainable Development as a basis for identifying business models that can benefit structurally by offering a solution to one or more of the 17 Agenda 2030 Goals. We have identified four themes that we believe are potential sources of structural growth and profitability for portfolio companies exposed to these themes. Last but not least, we study the extent to which the

financial statements of portfolio companies are affected by sustainability. We enhance our understanding of the long-term potential of the business model by integrating sustainability with financial analysis.

Negative selection criteria - What we screen out

For the Company's funds, except for fund of funds, we draw a clear line at portfolio companies that produce goods and services associated with harmful effects on human health and the environment or that are addictive. With regard to absolute return products, however, we may take short positions in these portfolio companies if we believe the market has not fully priced in the risks. This is consistent with our view that sustainable business creates value and competitive advantage over time.

International norms and conventions		
UN global Compact		
Controversial weapons		
Controversial products and services		
	Production	Distribution
Tobacco	0%	5%
Adult entertainment	0%	5%
Alcohol	0%*	5%
Weapon	0%*	5%
Military contracting	0%*	5%
Cannabis	0%*	5%
Gambling	0%*	5%
Fossil fuels		
Oil, Gas and Coal	0%*	5%

*5% for Catella's funds-of-funds

Controversial products

For the Company's funds, except for fund of funds, we completely avoid portfolio companies that produce tobacco, alcohol, gambling, pornography, weapons, coal and oil, as these products are associated with harmful effects on human health, are strongly addictive, or are associated with serious environmental impacts. We also exclude portfolio companies that distribute the controversial product or service. We have chosen not to consider third-party ownership because a financial investment is not categorised as production or distribution of the controversial product or service.

Norm screening

The Company's funds, except for fund of funds, we exclude portfolio companies that breach the 10 principles and 42 conventions of the UN Global Compact. Sustainalytics performs the assessment of whether the portfolio company is violating norms. Read more about the UN Global Compact at www.unglobalcompact.org/what-is-gc/mission/principles.

For unlisted fixed income holdings, we sent letters to the management of portfolio companies to make them aware of our ambitions and focus on these matters, encourage them to sign the UN Global Compact and inform them of our exclusion policy.

Exceptions

In the mixed funds in which we invest in external funds, we have set a requirement that the fund management company must have signed the PRI. We are working persistently to raise the level of sustainability and responsible investment in our mixed funds.

We apply the same exclusion strategy to our tracker fund as to the equity funds, but do not work with screening in portfolio companies because the fund must track its benchmark index to the greatest possible extent. Here, we have chosen to exclude coal, which is the most environmentally harmful fossil fuel. As regards the rest of the energy sector, we have adopted a restrictive but not exclusionary approach, where we strongly consider the sector's inherent ESG risks.

Reporting, monitoring and escalating

Reporting

We report our shareholder engagement and work with sustainability in each fund's prospectus and in this policy, where we explain methods, deliberations and positions. The work is reported annually at the fund level in conjunction with the funds' annual reports. In these reports, we report the number of dialogues with portfolio companies and explain the exclusions and inclusions made based on reasons of sustainability. We also report the impact our work has had on returns and portfolio company ratings or changes to which we believe we have contributed. In addition, the reports cover our positions on specific and material ownership issues, our participation on nomination committees, the general meetings at which we have voted, how we voted and our reasons.

We will also put greater emphasis on climate reporting in accordance with TCFD and our carbon footprint per fund where this is relevant.

Escalation

If a portfolio company with which we have initiated a dialogue does not show evidence of change or willingness to change, we escalate our engagement. We can do this in several ways. Pressure can be brought to bear more effectively in collaboration with other shareholders or other stakeholders of the portfolio company. We may also choose to use the general meeting as a forum for escalating our opinions. As a last resort, we will sell the holding when and if the portfolio company's stance leads to higher risk for negative financial impact. The escalation method is chosen following assessment of the individual case, while safeguarding the best interests of unitholders. If the portfolio company is found in breach of international norms and conventions, we sell the holding as quickly as possible, while safeguarding the best interests of unitholders.

Monitoring

The Risk Function at Catella Fonder is responsible for monitoring compliance with this policy in the context of fund management. The Compliance Function ensures that documentation of Catella Fonder's work with sustainability and ownership is assured and monitored.

Regulations that govern this policy

According to the Investment Funds Act, the Alternative Investment Fund Managers Act and Art. 37 of the EU Commission Delegated Regulation, the board of directors of a fund management company shall establish a policy on shareholder engagement concerning the assets of the funds it manages that are admitted to trading on a regulated market and were issued by undertakings in the EEA. Fund management companies and alternative investment fund managers must, according to Finansinspektion's regulations (FFFS 2013:9 and 2013:10) establish internal rules stating the strategies for deciding when and how voting rights linked to the financial instruments included in each fund should be used.

Adopted by the Board of Directors 4 December 2019

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 necessarily 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 percent, for example, therefore means that the fund should not lose more than one percent in a day (with 95 percent 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 December 2019, 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 2019 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	13	1	14	39
Remuneration:	Amount (SEK)	Amount (SEK)	Amount (SEK)	Amount (SEK)	Amount (SEK)	Amount (SEK)	Amount (SEK)
Total remuneration paid	4 539 644	11 780 248	4 347 688	23 395 272	4 833 843	6 744 666	55 641 361
Total fixed pay disbursed in 2019	2 237 644	7 682 248	4 347 688	15 323 272	3 061 843	3 000 666	35 653 361
Total variable pay disbursed in 2018 and preceding years	2 302 000	4 098 000	0	8 072 000	1 772 000	3 744 000	21 277 843

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, 11 February 2020

Knut Pedersen
Chairman

Erik Kjellgren
CEO

Lars H. Bruzelius

Peter Friberg

Helena Nordman Knutsson Thomas Raber

Our auditor's report was submitted 11 February 2020.

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 2019 apart from sustainability information on pages 7-10 and 14-18 ("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 2019 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 7-10 and 14-18.

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" 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 7-10 and 14-18 and because it has been prepared in accordance with 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, 11 February 2020
PricewaterhouseCoopers AB

Daniel Algotsson
Auditor in charge
Authorised Public Accountant

Hanna Wesslén
Authorised Public Accountant