

Annual Report for Catella Hedgefond

**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

## Below-target returns

Catella Hedgefond rose by 2.72 percent in 2019 (with 1.7 percentage points in the first half of the year and one percentage point in the second), primarily as a result of a good return on the credits side of the portfolio.

2019 was another challenging year for absolute return strategies – especially those with an emphasis on value-driven fundamental analysis. In the case of Hedgefond, our conservative valuation approach contributed to us largely missing out on the return generated by multiple expansion in defensive companies with an initial valuation above average. As a result, long equity positions made a strong negative alpha contribution, which was only partially offset by a positive alpha contribution from short positions.

The fund's objective is to have a risk level, measured as standard deviation, of about three percent over time. At year-end, the risk amounted to x.xx percent (measured as standard deviation 21 days on an annual basis). The fund's return has shown continued low volatility in accordance with the targets set. The fund's measured correlation with the stock market has been low on average, though more positive at the beginning of the year and close to zero from spring onwards. The fund's gross exposure has gradually increased over the years and may increase further with the arrival of a new fund manager during the autumn. Given the large valuation differences that have crystallised in the market and a hope for a more volatile environment, we are convinced that 2020 will provide good opportunities for our investment process to generate expected returns in the coming year. The list of investment hypotheses is long.

During the year, the return on the fund was 2.72 percent, which is below the fund's target return. The fund's performance is mainly explained by the return from interest-bearing assets, while equity-related assets had a neutral contribution. The fund's long and short equity positions provided a positive contribution that was offset by a negative contribution from stock futures and forward options. The fund's interest-bearing investments developed positively during the year. Among the investments in the fixed income portfolio, the credits portfolio made the largest contribution to the total return. For most of the year, the fund was long duration in order to balance the risks in the owned credits portfolio. Developments during the year, with falling interest rates and unchanged credit spreads, therefore seemed especially positive for the performance of the fixed income portfolio.

Among the largest contributors in the credits portfolio were holdings in debt collector Lowell, telecom operator Vodafone and call centre company Transcom. Long equity positions contributed slightly positively before currency hedges, while short positions made a negative contribution. Relative to the strong stock market development during the year, the long share book contributed negatively, while the short book performed more favourably.

Of the holdings at year-end 2018, we completely exited all holdings in the oil and gas sector and at company level completely sold off Pandora and NCC. New exposures were added in SEB and Nordea in the banking sector, while the holding in Swedbank was completely divested. In addition, new positions have been taken in Finnish financial group Sampo, real estate company Akelius, insulation manufacturer Rockwool and gym chain SATS, which came to the stock exchange during the autumn.

At company level, the largest positive contributions to the portfolio came from holdings in smaller companies such as Ovzon (a technology and service company in the satellite sector), real estate company Corem and technology group Sdipotech, as well as from larger listed companies such as Skanska and Ericsson. On the negative side were Carlsberg, grocery group Axfood, Finnish mobile operator Elisa, and industrial companies Atlas Copco and Assa Abloy.

All currency exposure in fixed-income investments is hedged, and all equity investments are now also normally hedged, which means the impact on income from currency hedges has been significantly negative.

Mattias Nilsson is new to the management team since August. The team has since consisted of Thomas Elofsson, Martin Jonsson, Mattias Nilsson, Anders Wennberg and Stefan Wigstrand.

## Fund facts

Fund

Fund manager

Fund inception

Opening price

Fund type

Corporate registration number of fund

PPM fund number

Net fund assets (SEKk)

Unit value

No of units

### Yield

Benchmark index, alt. Reference rate

Fund, Yield current year (%)

Benchmark index (alt. Reference rate), yield current year (%)

Fund, Average annual yield past two years (%)

Benchmark (alt. Reference rate), Average annual yield past two years (%)

Fund, Average annual yield past five years (%)

Benchmark index (alt. Reference rate), Average annual yield past five years (%)

Fund, Yield since inception (%)

Benchmark index (alt. Reference rate), Yield since inception (%)

### Risk (24 months)

Duration, 31 December 2018 (years)

Interest-rate risk from 1%-point change in interest rate

Total risk fund (%)

Total risk benchmark (%)

Active risk (%)

Active share (%) 31 December 2018

Catella Hedgefond			
Thomas Elofsson			
Martin Jonsson			
Mattias Nilsson			
Anders Wennberg			
Stefan Wigstrand			
	2004-03-01	2018-01-23	2018-04-12
	100	100	100
	Special fund	See unit class A	See unit class A
	515601-9720	See unit class A	See unit class A
	Catella Hedgefond is not a fund within PPM	N/A	N/A
	6 964 547	32 403	24 535
	175.41	99.56	100.96
	39 703 471	325 458	243 011
	Reference rate: OMRX T-Bill	Reference rate: OMRX T-Bill	Reference rate: OMRX T-Bill
	2.72	3.12	3.19
	-0.54	-0.54	-0.54
	-0.22	N/A	N/A
	N/A	N/A	N/A
	1.5	N/A	N/A
	N/A	N/A	N/A
	96.64	-0.44	0.96
	N/A	N/A	N/A
	-1.91	See unit class A	See unit class A
	1.47	See unit class A	See unit class A
	2.53	N/A	N/A
	N/A	N/A	N/A
	N/A	N/A	N/A
	N/A	N/A	N/A

### Turnover/costs

Rate of turnover (times/year)	2.33	See unit class A	See unit class A
TTC, Transaction costs (SEKm)	25.75	See unit class A	See unit class A
percentage of securities traded	0.06	See unit class A	See unit class A
TER	1.11	0.79	0.72
Management fee	1.00	0.50	0.40
Management fee charged (fixed and variable)	1.00	0.67	0.60
Ongoing charges %*	1.13	0.64	0.54
Maximal förvaltningsavgift i fonder som investeras i (%)	N/A	N/A	N/A
Maximal rörlig avgift av överavkastningen i fonder som investeras i (%)	N/A	N/A	N/A

\*See accounting policies

### Cost of type saving

Lump-sum deposit SEK 10,000			
Management cost (SEK)	101.63	67.24	59.87
Monthly saving SEK 100			
Management cost (SEK)	6,51	4,88	4,44

### Turnover Through associated securities institutions

Percentage of total turnover	0.0	0,00	0,00
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### Turnover of financial instruments managed by Catella Fondförvaltning AB

Percentage of total turnover	0.0	See unit class A	See unit class A
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### Exchange rates

Closing rates at 31 December 2019

DKK	1.4051	See unit class A	See unit class A
EUR	10.4999	See unit class A	See unit class A
GBP	12.3884	See unit class A	See unit class A
NOK	1.0651	See unit class A	See unit class A
USD	9.3540	See unit class A	See unit class A

## Balance sheet and income statement

BALANCE SHEET. SEkk	31-dec-19	31-dec-18
<b>ASSETS</b>		
Transferable securities (Note 1)	8 133 282	9 342 782
Money market instruments (Note 1)	304 806	254 909
OTC derivatives with positive market value (Note 1)	19 200	48 903
Other derivatives with positive market value (Note 1)	3 383	7 400
Fund units (Note 1)	27 695	19 232
<b>Total financial instruments with positive market value</b>	<b>8 488 366</b>	<b>9 673 226</b>
Bank balances and other cash and cash equivalents	148 428	588 850
Prepaid expenses and accrued income	37 119	78 850
Other assets	54 091	21 927
<b>TOTAL ASSETS</b>	<b>8 728 004</b>	<b>10 362 853</b>
<b>LIABILITIES</b>		
OTC derivatives with negative market value (Note 1)	10 639	3 660
Other derivatives with negative market value (Note 1)	1 275	4 500
Other financial instruments with negative market value (Note 1)	1 667 249	949 789
<b>Total financial instruments with negative market value</b>	<b>1 679 163</b>	<b>957 949</b>
Accrued expenses and prepaid income	9 429	10 880
Other liabilities	17 927	48 843
<b>TOTAL LIABILITIES</b>	<b>1 706 519</b>	<b>1 017 672</b>
<b>NET FUND ASSETS Note 2</b>	<b>7 021 485</b>	<b>9 345 181</b>
<b>MEMORANDUM ITEMS</b>		
Collateral pledged net for borrowed/lending financial instruments	1 964 834	790 513
Collateral pledged for OTC derivatives	15 800	13 500
Collateral pledged for other derivatives	126 642	60 629
Lent financial instruments	529 083	465 297
Borrowed financial instruments	1 675 690	959 240
<b>INCOME STATEMENT. SEkk</b>	<b>2019</b>	<b>2 018</b>
<b>INCOME AND CHANGES IN VALUE</b>		
Change in value of transferable securities	273 667	-319 254
Change in value of money market instruments	273	1 542
Change in value of OTC derivatives	-121 166	-102 767
Change in value of other derivatives	-114 304	-21 635
Change in value of fund units	-2 341	4 800
Interest income	209 083	244 281
Dividends	112 342	77 766
Net foreign exchange gains and losses	43 766	2 070
Other financial income	3 884	282
Other income	227	3 350
<b>TOTAL INCOME AND CHANGES IN VALUE</b>	<b>405 431</b>	<b>-109 565</b>



## EXPENSES

Management costs		
Payments to companies conducting fund operations	81 910	128 597
Payments to depositary	5 175	6 550
Interest cost	66	0
Other financial expenses	73 338	38 031
Other expenses	14 944	27 356
Research cost	5 814	6 947
<b>TOTAL EXPENSES</b>	<b>181 247</b>	<b>207 481</b>
<b>PROFIT FOR THE YEAR</b>	<b>224 184</b>	<b>-317 046</b>

## Note 2 TO BALANCE SHEET

<b>CHANGE IN NET FUND ASSETS</b>	<b>31-Dec-19</b>	<b>31-Dec-18</b>
<b>NET FUND ASSETS AT BEGINNING OF YEAR</b>	<b>9 345 181</b>	<b>9 406 545</b>
Unit sales A	1 260 993	3 722 336
Unit sales E	5 339	89 874
Unit sales F	12 438	19 721
Unit redemptions A	-3 821 373	-3 512 063
Unit redemptions E	0	-61 680
Unit redemptions F	-5 277	-2 506
Profit for the year per income statement	224 184	-317 046
<b>NET FUND ASSETS AT END OF PERIOD</b>	<b>7 021 485</b>	<b>9 345 181</b>



## Fund's holdings of financial instruments

Note 1 Securities

Quantity Price Market value Fund weight %  
(SEKk)

### Market-listed Equities\*

#### Materials

Norsk Hydro, Norway, NOK	332 443	32.64	11 557	0.16
Norsk Hydro lent, Norway, NOK	1 292 912	32.64	44 948	0.64
Norske Skog, Norway, NOK	437 500	43.70	20 363	0.29
SSAB B	851 080	30.52	25 975	0.37
Stora Enso R EUR, Finland, EUR	50 000	12.96	6 807	0.10
			109 650	1.56

#### Industrials

A.P. Möller Maersk B, Denmark, DKK	-6 625	9608.00	-89 439	-1.27
A.P. Möller Maersk B borrowed, Denmark, DKK	6 750	9608.00	0	0.00
A.P. Möller Mearsk A, Denmark, DKK	4 243	9030.00	53 835	0.77
A.P. Möller Mearsk A lent, Denmark, DKK	257	9030.00	3 261	0.05
ABB SEK, Switzerland	100 000	225.10	22 510	0.32
Addtech B	-81 967	303.00	-24 836	-0.35
Addtech B borrowed	81 967	303.00	0	0.00
Alfa Laval	-308 960	235.90	-72 884	-1.04
Alfa Laval borrowed	308 960	235.90	0	0.00
Assa Abloy B	-483 470	219.00	-105 880	-1.51
Assa Abloy B borrowed	483 470	219.00	0	0.00
Atlas Copco A	-474 090	373.60	-177 118	-2.52
Atlas Copco A borrowed	474 090	373.60	0	0.00
DSV, Denmark, DKK	-91 040	767.80	-98 217	-1.40
DSV borrowed, Denmark, DKK	90 000	767.80	0	0.00
Epiroc A	-250 000	114.35	-28 588	-0.41
Epiroc A borrowed	250 000	114.35	0	0.00
Kone, Finland, EUR	-57 000	58.28	-34 880	-0.50
Kone borrowed, Finland, EUR	57 000	58.28	0	0.00
Munters group B	635 000	49.06	31 153	0.44
Nibe Industrier B	-358 304	162.40	-58 189	-0.83
Nibe Industrier B borrowed	358 304	162.40	0	0.00
Norwegian Air Shuttle, Norway, NOK	175 000	37.75	7 036	0.1
Norwegian Air Shuttle lent, Norway, NOK	100 000	37.75	4 021	0.06
NRC Group, Norway, NOK	85 371	57.10	5 192	0.07
NRC Group lent, Norway, NOK	121 257	57.10	7 375	0.11
Rockwool INT B, Denmark, DKK	6 151	1578.00	13 638	0.19
Rockwool INT B lent, Denmark, DKK	24 408	1578.00	54 119	0.77
Sandvik	182 995	182.65	33 424	0.48
Sdiptech	798 243	75.00	59 868	0.85
Securitas	412 899	161.45	66 663	0.95
SKF B	-550 000	189.40	-104 168	-1.48
SKF B borrowed	550 000	189.40	0	0.00

Sweco B	-13 369	361.20	-4 829	-0.07
Traton SE, Germany	214 393	252.80	54 199	0.77
Wallenius Wilhelmsen Logistics, Norway, NOK	2 967 998	21.82	68 978	0.98
Volvo B	641 875	156.90	100 710	1.43
Volvo B lent	29 000	156.90	4 550	0.06
			-208 496	-2.97
<b>Consumer Discretionary</b>				
Bonava B	350 000	99.50	34826	0.50
Boozt	676 388	53.00	35 849	0.51
Boozt lent	312 628	53.00	16 569	0.24
Electrolux B	0	229.90	0	0.00
Electrolux B lent	120 000	229.90	27 588	0.39
Hennes & Mauritz B	95 000	190.48	18 096	0.26
Hennes & Mauritz B lent	80 000	190.48	15 238	0.22
Husqvarna B	-325 000	75.02	-24 382	-0.35
Husqvarna B borrowed	325 000	75.02	0	0.00
JM	-132 957	277.40	-36 882	-0.53
JM borrowed	132 957	277.40	0	0.00
Nobia	231 633	69.80	16 168	0.23
Nobia lent	60 782	69.80	4 243	0.06
Nokian Renkaat, Finland, EUR	33 490	25.63	9 013	0.13
Nokian Renkaat lent, Finland, EUR	54 330	25.63	14 621	0.21
Pandox	0	212.00	0	0.00
Pandox lent	231 667	212.00	49 113	0.70
SATS, Norway, NOK	3 222 461	22.68	77 826	1.11
SATS lent, Norway, NOK	16 663	22.68	402	0.01
Thule	-125 000	216.00	-27 000	-0.38
Thule borrowed	125 000	216.00	0	0.00
			231 288	3.30
<b>Consumer Staples</b>				
Axfood	-367 630	208.40	-76 614	-1.09
Axfood borrowed	367 630	208.40	0	0.00
Dometic Group	-100 000	94.32	-9 432	-0.13
Dometic Group borrowed	100 000	94.32	0	0.00
Essity B	222 512	301.80	67 154	0.96
Essity B lent	65 814	301.80	19 863	0.28
Kesko B, Finland, EUR	-78 561	63.08	-52 034	-0.74
Kesko B borrowed, Finland, EUR	78 561	63.08	0	0.00
Mowi, Norway, NOK	-83 177	228.20	-20 217	-0.29
Mowi borrowed, Norway, NOK	83 177	228.20	0	0.00
SCA B	100 000	95.00	9 500	0.14
William Demant Holding, Denmark, DKK	0	209.80	0	0.00
William Demant Holding lent, Denmark, DKK	100 000	209.80	29 479	0.42
			-32 301	-0.46

## Health Care

Ambea	2 483 350	78.50	194 943	2.78
Ambu B, Denmark, DKK	-300 000	111.70	-47 085	-0.67
Ambu B borrowed, Denmark, DKK	300 000	111.70	0	0.00
Calliditas Therapeutics B	274 099	75.70	20 749	0.30
Getinge B	-109 011	174.00	-18 968	-0.27
Getinge B borrowed	109 011	174.00	0	0.00
Humana	664 092	60.90	40 443	0.58
Humana lent	56 325	60.90	3 430	0.05
Novo Nordisk, Denmark, DKK	47 000	386.65	25 534	0.36
Novo Nordisk lent, Denmark, DKK	23 000	386.65	12 495	0.18
Novozymes B, Denmark, DKK	-95 757	326.00	-43 863	-0.62
Novozymes B borrowed, Denmark, DKK	95 757	326.00	0	0.00
Oncopeptides	26 674	126.90	3 385	0.05
Oncopeptides lent	106 480	126.90	13 512	0.19
Q-Linea	138 067	57.50	7 939	0.11
			212 514	3.03

## Financials

Genova Property Group Pref	210 000	132.00	27 720	0.39
Handelsbanken A	-400 000	100.90	-40 360	-0.57
Handelsbanken A borrowed	400 000	100.90	0	0.00
Hoist Finance	830 849	49.94	41 493	0.59
Latour B	-204 552	152.80	-31 256	-0.45
Latour B borrowed	204 552	152.80	0	0.00
Nordea Bank, Finland	1 301 239	75.64	98 426	1.40
Nordea Bank lent, Finland	1 000 000	75.64	75 640	1.08
Sampo, Finland, EUR	312 082	38.91	127 501	1.82
Sampo lent, Finland, EUR	418	38.91	171	0.00
SEB A	0	88.08	0	0.00
SEB A lent	628 271	88.08	55 338	0.79
Storebrand, Norway, NOK	284 388	69.02	20 906	0.30
Storebrand lent, Norway, NOK	466 221	69.02	34 273	0.49
TopDenmark, Denmark, DKK	9 601	328.40	4 430	0.06
TopDenmark lent, Denmark, DKK	96 849	328.40	44 690	0.64
			458 972	6.54

## Information Technology

Edgeware	905 237	5.60	5 069	0.07
Edgeware lent	9 850	5.60	55	0.00
Evolution Gaming	-67 500	282.00	-19 035	-0.27
Evolution Gaming borrowed	30 000	282.00	0	0.00
Hexagon B	-35 000	525.00	-18 375	-0.26
Hexagon B borrowed	35 000	525.00	0	0.00
			-32 286	-0.46

## Telecommunication Services

Adevinta, Norway, NOK	-304 398	104.00	-33 718	-0.48
Adevinta borrowed, Norway, NOK	301 479	104.00	0	0.00

BT Group, Great Britain, GBP	2 200 000	1.92	52 449	0.75
Elisa, Finland, EUR	-140 700	49.25	-72 759	-1.04
Elisa borrowed, Finland, EUR	140 700	49.25	0	0.00
Embracer Group	-42 877	70.78	-3 035	-0.04
Embracer Group borrowed	42 877	70.78	0	0.00
Millicom Int. Cellular SDB, Luxembourg	171 124	448.60	76 766	1.09
Millicom Int. Cellular SDB lent, Luxembourg	13	448.60	6	0.00
Nordic Entertainment Group B	39 549	302.80	11 975	0.17
Nordic Entertainment Group B lent	85 451	302.80	25 875	0.37
Ovzon	1 434 988	64.80	92 987	1.32
Schibsted A, Norway, NOK	-37 022	265.30	-10 461	-0.15
Schibsted A borrowed, Norway, NOK	41 289	265.30	0	0.00
Schibsted B, Norway, NOK	49 209	251.80	13 197	0.19
Schibsted B lent, Norway, NOK	10 735	251.80	2 879	0.04
Tele 2 B	250 000	135.85	33 962	0.48
Telenor, Norway, NOK	96 739	157.45	16 223	0.23
Telenor lent, Norway, NOK	280 000	157.45	46 956	0.67
Telia Company	-1 957 013	40.25	-78 770	-1.12
Telia Company borrowed	1 957 013	40.25	0	0.00
			174 532	2.49
<b>Real Estate</b>				
Akelius Residential D, EUR	5 909 091	1.83	113 542	1.62
Amasten Fastighets AB	2 200 000	8.50	18 700	0.27
Castellum	-203 948	220.00	-44 869	-0.64
Castellum borrowed	203 948	220.00	0	0.00
Corem Property Group Pref	322 142	392.00	126 280	1.80
Entra Asa, Norway, NOK	11 832	145.00	1 827	0.03
Entra Asa lent, Norway, NOK	967	145.00	149	0.00
Fabege	-100 000	155.70	-15 570	-0.22
Fabege borrowed	100 000	155.70	0	0.00
Fast Partner D	950 000	89.80	85 310	1.22
Fast Partner Pref	1 216 544	123.00	149 635	2.13
Fastighets Balder B	-26 264	433.20	-11 378	-0.16
Fastighets Balder B borrowed	26 264	433.20	0	0.00
Hemfosa Fastigheter Acc Erbj	701 170	121.30	85 052	1.21
K2A Knaust & Andersson Pref	102 003	351.00	35 803	0.51
Klövern	-1 143 702	22.98	-26 282	-0.37
Klövern borrowed	1 143 702	22.98	0	0.00
Kojamo, Finland, EUR	96 079	16.20	16 343	0.23
Kungsleden	-68 879	98.40	-6 778	-0.10
Kungsleden borrowed	68 879	98.40	0	0.00
Sagax D	1 661 500	36.35	60 396	0.86
Samhällsbyggnadsbolaget i Norden B	-2 121 024	22.95	-48 678	-0.69
Samhällsbyggnadsbolaget i Norden B borrowed	2 121 024	22.95	0	0.00
Samhällsbyggnadsbolaget i Norden D	1 253 440	34.80	43 620	0.62
Samhällsbyggnadsbolaget i Norden D lent	917 964	34.80	31 945	0.46

Wallenstam B	-153 526	113.20	-17 379	-0.25
Wallenstam B borrowed	153 526	113.20	0	0.00
Wihlborgs Fastigheter	-191 541	172.50	-33 041	-0.47
Wihlborgs Fastigheter borrowed	191 541	172.50	0	0.00
			<b>564 627</b>	<b>8.04</b>

*Total Market-listed Equities*

**1 478 500 21.06**

*Market - Listed Bonds\**

AAK FRN 240322	40 000 000	101.92	40 769	0.58
Allgon FRN 220607	18 000 000	104.75	18 855	0.27
B2 FRN 211004, Norway, EUR	6 450 000	104.18	70 554	1.00
Bayport 10.5% 221219, Mauritius, USD	2 000 000	100.38	18 778	0.27
Bayport 11.5% 220614, Mauritius, USD	2 000 000	106.25	19 877	0.28
Brado FRN 230307	55 000 000	85.96	47 277	0.67
Cabonline FRN 221209	85 000 000	100.12	85 106	1.21
Castellum 0.85% 210906	26 000 000	100.28	26 072	0.37
Castellum FRN 230317	25 000 000	103.33	25 831	0.37
Cidron Humber 9.25% 230614, Jersey	108 000 000	100.00	108 000	1.54
DDM 8% 201211, EUR	1 600 000	102.25	17 178	0.24
DDM FRN 220408, EUR	3 000 000	102.00	32 130	0.46
Fastighets AB Balder FRN 230119	35 000 000	100.75	35 262	0.50
Fastighetsbolaget Emilshus FRN 221209	10 000 000	100.88	10 088	0.14
Four Finance 10.75% 220501, Luxembourg, USD	3 000 000	90.10	25 283	0.36
Frontmatic Group 241010, Denmark, EUR	1 000 000	101.88	10 697	0.15
Garfunkelux 11% 231101, Luxembourg, GBP	3 000 000	98.95	36 773	0.52
Garfunkelux 8.5% 221101, Luxembourg, GBP	2 700 000	99.07	33 139	0.47
Garfunkelux FRN 230901, Luxembourg	40 000 000	86.50	34 600	0.49
Garfunkelux FRN 230901, Luxembourg, EUR	2 000 000	89.28	18 749	0.27
Garfunkelux Holdco 3 220801, Luxembourg, EUR	5 500 000	100.25	57 894	0.82
Genova Property FRN 230930	49 000 000	100.88	49 429	0.70
Georg Jensen FRN 230515, Denmark, EUR	3 000 000	98.75	31 106	0.44
Getinge FRN 210521	124 000 000	100.41	124 507	1.77
Golden Heights FRN 220308	20 000 000	101.50	20 300	0.29
Heimstaden FRN 201207	30 000 000	101.05	30 315	0.43
Heimstaden FRN 241011	30 000 000	102.83	30 850	0.44
Hemfosa FRN 200901	67 000 000	100.89	67 600	0.96
Hoist Finance 8% 230901, EUR	4 000 000	100.00	42 000	0.60
Hoist FRN 210629	16 000 000	101.75	16 280	0.23
Hospitality Invest FRN 221031, Norway, NOK	30 000 000	95.50	30 515	0.43
Huvudstaden 1.31% 230628	50 000 000	101.57	50 786	0.72
Huvudstaden 1.33% 220221	38 000 000	101.49	38 565	0.55
Ice Group FRN 211012, Norway, NOK	40 000 000	100.94	43 003	0.61
ICE Scandinavia Holdings FRN 231010, Norway, NOK	30 000 000	100.00	31 953	0.46
Idavang FRN 211211, Denmark, EUR	4 000 000	100.50	42 210	0.60
Ilija Bataljan Invest	44 000 000	101.12	44 495	0.63

Intrum Justitia FRN 211122	40 000 000	100.22	40 087	0.57
Intrum Justitia FRN 230703	6 200 000	102.56	6 359	0.09
Jefast FRN 210327	25 000 000	98.78	24 694	0.35
Jotul Holdings FRN 220131, USA, NOK	29 250 000	100.00	31 154	0.44
Kommuninvest i Sverige 0.25% 220601	250 000 000	100.28	250 711	3.57
Kommuninvest i Sverige 0.375% 240327	210 000 000	99.94	209 878	2.99
Kommuninvest i Sverige 0.75% 23022	200 000 000	101.69	203 371	2.90
Kommuninvest i Sverige 1% 231113	308 000 000	102.70	316 307	4.50
Kommuninvest i Sverige 1% 241002	270 000 000	102.80	277 546	3.95
Kommuninvest i Sverige 1.0% 261112	10 000 000	102.31	10 231	0.15
Kungsleden FRN 210928	26 000 000	101.17	26 305	0.37
Kvalitena FRN 220512	46 000 000	101.00	46 460	0.66
Lebara FRN 220907-D, The Netherlands, EUR	2 668 120	109.00	30 536	0.43
Logent FRN 241031	25 000 000	100.75	25 186	0.36
M2 Asset FRN 200706	70 000 000	101.12	70 788	1.01
M2 Asset FRN 221219	50 000 000	100.17	50 084	0.71
M2 Asset Management FRN 220125	42 000 000	103.43	43 441	0.62
Magnolia FRN 221003	4 000 000	95.00	3 800	0.05
Marginalen Bank FRN 281030	2 000 000	100.60	2 012	0.03
Marginalen Bank FRN 290828	6 000 000	100.40	6 024	0.09
Nackahusen Holding FRN 200813	36 000 000	89.00	32 040	0.46
Nibe FRN 200528	44 000 000	100.37	44 165	0.63
Nordax FRN 220607	20 000 000	100.59	20 119	0.29
Nordic Entertainment Group FRN 220523	46 000 000	100.53	46 242	0.66
Norlandia FRN 211220, Norway	75 000 000	83.50	62 625	0.89
Nyfosa FRN 220522	20 000 000	101.72	20 343	0.29
Qred FRN 220617, EUR	1 000 000	100.75	10 579	0.15
Quant FRN 230215, EUR	7 000 000	70.00	51 450	0.73
Recipharm 2.75% 211006	31 000 000	103.83	32 186	0.46
Sagax 2% 240117, EUR	3 000 000	104.40	32 887	0.47
Sagax 2.25% 250313, EUR	4 800 000	105.33	53 083	0.76
Sammhällsbyggnadsbolaget 0.8% 210614	25 000 000	99.90	24 975	0.36
Sampo FRN 220523, Finland	73 000 000	100.70	73 512	1.05
SBAB FRN 240620	50 000 000	100.72	50 359	0.72
SBAB FRN 240905	36 000 000	102.51	36 904	0.53
SGL TransGroup Intl. FRN 241104, Denmark, EUR	4 000 000	100.5	42 210	0.60
SHH Bostad FRN 210607	20 000 000	97.00	19 400	0.28
Sirius International FRN 470922, Bermuda	46 000 000	99.75	45 885	0.65
SL Bidco FRN 230206, The Netherlands, EUR	3 500 000	103.15	37 907	0.54
Slättö Fastpartner FRN 230401	25 000 000	100.50	25 125	0.36
Sollentuna FRN 221007	20 000 000	100.00	20 000	0.28
Storebrand FRN 480327, Norway	28 000 000	99.99	27 998	0.40
Strömma Tursim & Sjöfart FRN 210521	27 000 000	100.75	27 202	0.39
Svea Ekonomi FRN 290620	17 500 000	100.75	17 631	0.25
Svensk FastighetsFinansiering 0.53% 200907	50 000 000	99.82	49 909	0.71
Svensk FastighetsFinansiering FRN 210927	28 000 000	99.91	27 976	0.40

Svensk Hypotekspension fund 1.5% 240122	38 000 000	100.02	38 008	0.54
Telenor FRN 240319, Norway	75 000 000	100.92	75 688	1.08
Telia 3.25% 771004 PERP	31 000 000	103.42	32 061	0.46
Telia Company FRN 771004	19 000 000	103.18	19 604	0.28
Transcom 6.5% 230322, EUR	7 400 000	96.34	74 852	1.07
United Camping FRN 230605	20 000 000	100.46	20 092	0.29
Wallenius Wilhelmsen Logistics FRN 221012, Norway, NOK	80 000 000	100.25	85 421	1.22
Walnut Bidco 6.75% 240801, Switzerland, EUR	3 100 000	107.12	34 866	0.50
Walnut Bidco 9.125% 240801, Switzerland, USD	1 500 000	106.05	14 879	0.21
Vattenfall 3.125% 220319	35 000 000	103.24	36 133	0.51
Velliv FRN 280608, Denmark	100 000 000	100.14	100 145	1.43
Veoneer 4% 240601, USD	3 000 000	102.70	28 821	0.41
Verisure 5.75% 231201, EUR	7 550 000	103.30	81 891	1.17
Wihlborgs FRN 201228	30 000 000	100.55	30 164	0.43
Vostok New Ventures 5.75% 221004	10 000 000	102.25	10 225	0.15
ÅF Pöyry FRN 200512	68 000 000	100.22	68 153	0.97
ÅF Pöyry FRN 230620	44 000 000	99.15	43 628	0.62
			4 869 143	69.34
<b><i>Total Market-Listed Bonds</i></b>			<b>4 869 143</b>	<b>69.34</b>
<b><i>Not Listed Bonds**</i></b>				
Assembling Financing FRN 250515, EUR	1 500 000	101.12	15 927	0.23
Kjell Midco 11% 230111	14 142 826	99.75	14 107	0.20
Laeringsverkstedet FRN 220601, Norway, NOK	31 000 000	99.50	32 853	0.47
Lebara FRN 221217, The Netherlands, EUR	345 905	100.50	3 650	0.05
Secto Topco FRN 221127, Finland, EUR	2 000 000	99.75	20 947	0.30
Wallenius Wihelmsen Logistics 6% 221231, Norway, USD	3 274 500	100.90	30 906	0.44
			118 390	1.69
<b><i>Total Not Listed Bonds</i></b>			<b>118 390</b>	<b>1.69</b>
<b>Total Transferable Securities</b>			<b>6 466 033</b>	<b>92.09</b>
<b>Transferable Securities with positive market value</b>			<b>8 133 282</b>	<b>115.84</b>
<b>Transferable Securities with negative market value</b>			<b>-1 667 249</b>	<b>-23.74</b>
<b><i>Commercial Paper *</i></b>				
Ambea FC 200117	85 000 000	99.98	84 986	1.21
Arjo FC 200217	45 000 000	99.93	44 967	0.64
HM FC 200407	70 000 000	99.91	69 939	1.00
HM FC 200526	80 000 000	99.90	79 918	1.14
Wallenstam FC 200131	25 000 000	99.98	24 996	0.36
			304 806	4.34
<b><i>Total Commercial Paper</i></b>			<b>304 806</b>	<b>4.34</b>

**Exchange traded Fund Units**

Baltic Horizon Fund, Estland, EUR	754 546	1.35	10 680	0.15
			10 680	0.15

**Total Exchange traded Fund Units**

**10 680 0.15**

**Other Fund Units**

Catella Nordic Long/Short Equity IC H (EUR), Luxembourg, EUR	212 665,4060	7.62	17 015	0.24
			17 015	0.24

**total Other Fund Units**

**17 015 0.24**

**Total Fund Units**

**27 695 0.39**

**Exchange Traded Derivatives**

**Equity option**

Nordea 20 K 77.50 mars, Finland	-5 000	2.55	-1 275	-0.02
			-1 275	-0.02

**Index option**

OMX 20 S I 680 January	500	3.00	150	0.00
OMX 20 S I 740 January	250	11.50	288	0.00
OMX 20 S I 740 June	125	77.13	964	0.01
OMX 20 S I 770 February	250	38.25	956	0.01
OMX 20 S I 770 January	500	20.50	1 025	0.01
			3 383	0.05

**Index Future**

OMX Future 2001 I 7	-2 721	1768.25	0	0.00
			0	0.00

**Bond Future**

Swe Gov. Bond Future 10Y March 20	-432	0.15	0	0.00
Swe Gov. Bond Future 5Y March 20	-1 460	-0.16	0	0.00
Swedbank Bond Future 5Y March 20	-210	0.56	0	0.00
			0	0.00

**Total Exchange traded Derivatives**

**2108 0.03**

**Exchange traded Derivatives with positive market value**

**3383 0.05**

**Exchange traded Derivatives with negative market value**

**-1275 -0.02**

**OTC-Derivatives**

**FX-Forwards**

FXFWD DKKSEK 2002 I 7 1.3978, Denmark, DKK	-25 000 000	1.41	-202	0.00
FXFWD DKKSEK 2002 I 7 1.4295, Denmark, DKK	64 000 000	1.41	-1 507	-0.02
FXFWD EURSEK 2002 I 0 10.444, EUR	3 800 000	10.50	229	0.00
FXFWD EURSEK 2002 I 0 10.473, EUR	-1 500 000	10.50	-47	0.00
FXFWD EURSEK 2002 I 0 10.550, EUR	-1 500 000	10.50	68	0.00



FXFWD EURSEK 200210 10.663, EUR	-79 000 000	10.50	12 557	0.18
FXFWD EURSEK 200210 10.672, EUR	-8 200 000	10.50	1 374	0.02
FXFWD EURSEK 200217 10.673, EUR	-8 100 000	10.51	1 354	0.02
FXFWD GBPSEK 200210 12.352, Great Britain, GBP	-5 400 000	12.38	-146	0.00
FXFWD GBPSEK 200217 12.450, Great Britain, GBP	-4 100 000	12.38	297	0.00
FXFWD NOKSEK 200210 1.0457, Norway, NOK	-237 000 000	1.06	-4 121	-0.06
FXFWD NOKSEK 200217 1.0339, Norway, NOK	-25 000 000	1.06	-723	-0.01
FXFWD NOKSEK 200217 1.0348, Norway, NOK	-20 000 000	1.06	-560	-0.01
FXFWD NOKSEK 200217 1.0509, Norway, NOK	-280 000 000	1.06	-3 333	-0.05
FXFWD NOKSEK 200217 1.0553, Norway, NOK	17 000 000	1.06	127	0.00
FXFWD USDSEK 200210 9.3616, USA, USD	-1 800 000	9.34	45	0.00
FXFWD USDSEK 200210 9.5616, USA, USD	-14 000 000	9.34	3 149	0.04
			8 561	0.12
<i>Total OTC-Derivatives</i>			8 561	0.12
OTC Derivatives with positive market value			19 200	0.27
OTC Derivatives with negative market value			-10 639	-0.15
<b><u>Total holdings of financial instruments</u></b>			<b>6 809 203</b>	<b>96.98</b>
Other assets and liabilities			212 282	3.02
<b>Total Net Assets</b>			<b>7 021 485</b>	<b>100.00</b>

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

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

#### SUMMARY. ISSUERS\*

ISSUER	% of net fund assets*
SEB AB	3.10
Ambea AB	3.99
Fastpartner AB	3.35
Sampo OYJ	2.86
Nordea Bank AB	2.46
Hennes & Mauritz AB	2.39
Hemfosa Fastigheter AB	2.17
Sagax AB	2.08
Garfunkel Holdco 3 S.A	2.06
Telenor ASA	1.98
Walenius Wilhelmsen Logistics ASA	1.66
Getinge AB	1.50
Nordic Entertainment Group AB	1.20
Hoist Finance AB	1.19
Svensk Fastighetsfinansiering AB	1.11
Genova Property AB	1.10
Samhällsbyggnadsbolaget i Norden AB	0.74
DDM Debt AB	0.70

Vieo BV	0.49
Fastighets AB Balder	0.34
Kungsleden AB	0.28
Wallenstam AB	0.11
Castellum AB	0.10
Schibsted ASA	0.08
OMXS30	0.05
Nibe Industrier AB	-0.20
Telia Company AB	-0.39
A.P. Möller Maersk A/S	-0.46

\* 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
M2 Asset Management FRN 221219
Svensk Hypotekspension fund 1,5% 240122
United Camping FRN 230605
Cabonline Group Holding FRN 221209
Logent FRN 2411031
Veoneer 4% 240601
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
Nordea	0.00
Danske Bank	0.00

#### AGGREGATE INFORMATION, BORROWED SECURITIES

	31 Dec -19
<b>Market value</b>	
Market value of borrowed securities. SEKk	1 675 690
Market value of borrowed securities. % of fund assets	23.87
Defind as asset excluding liquid assets	24.40

#### Maturity profile for borrowed securities. distributed among the following maturity ranges

< one day	0
1-7 days	0
7 days-1 month	0
1-3 months	0
3 months-1 year	0
> 1 year	0
Indefinite maturity SEKk	1 675 690

**Counterparty in connection with securities borrowing**

SEB. Sweden

**Pledges**

The fund pledges cash, fixed-income securities and shares as collateral

Cash SEKk	3 300
Fixed-income securities SEKk	0
Shares SEKk	1 270 130
Total pledged collateral SEKk	1 273 430

As Catella Hedgefond both lends and borrows securities against the same counterparty, collateral is pledged for the net volume of lent and borrowed securities, by contractual agreement.

**Settlement**

Settlement and clearing are bilateral

**Custody**

Custody of collateral pledged by the fund is segregated from the fund's assets

**Costs of securities borrowing**

SEKk	9 139
Percent	0.13

**AGGREGATE INFORMATION, LENDING SECURITIES**

31 Dec -19

**Market value**

Market value of lent securities, SEKk	529 083
Market value of lent securities, % of fund assets	7.53
Market value of lent securities, % of fund assets defined as asset excluding liquid assets	7.70

**Maturity profile of lent securities divided into following ranges**

< one day	0
1-7 days	0
7 days-1 month	0
1-3 months	0
3 months- 1 year	0
> 1 year	0
Indefinite maturity	529 083

**Counterparty in connection with securities lending**

SEB. Sweden

**Settlement**

Settlement and clearing are bilateral

**Income of securities lending**

SEKk	1 631
Percent	0.02

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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
<b>Unit class</b>				
<b>A</b>				
101231	0.86	140.57	32 831 919	4 615 325
111231	0.79	137.12	24 878 484	3 411 382
121231	4.78	139.93	25 259 078	3 534 419
131231	0.00	150.43	29 125 169	4 381 358
141231	0.00	162.80	49 674 014	8 086 791
151231	0.00	170.50	90 871 337	15 493 178
161231	0.00	168.36	50 507 033	8 503 330
171231	0.00	176.17	53 393 692	9 406 545
181231	0.00	170.76	54 473 951	9 302 220
191231	0.00	175.41	39 703 471	6 964 547
<b>Unit class</b>				
<b>E</b>				
181231	0.00	96.55	271 464	26 209
191231	0.00	99.56	325 458	32 403
<b>Unit class</b>				
<b>F</b>				
181231	0.00	97.84	171 228	16 752
191231	0.00	100.96	243 011	24 535

#### 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 exercised its right to lend securities as well as exercised its right to 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.

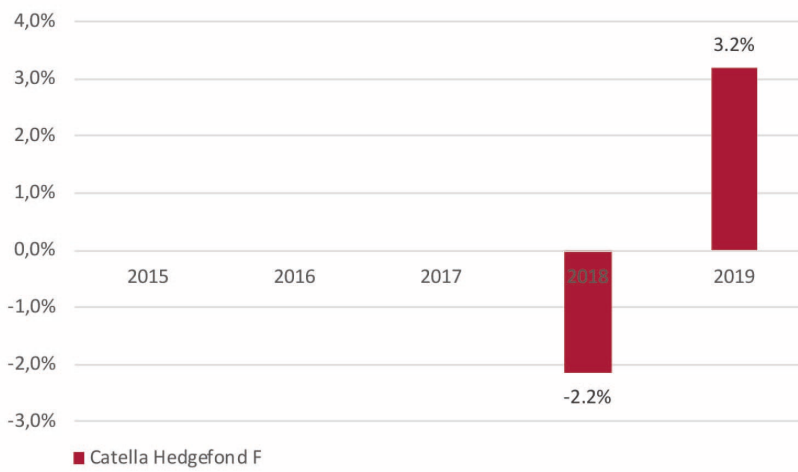
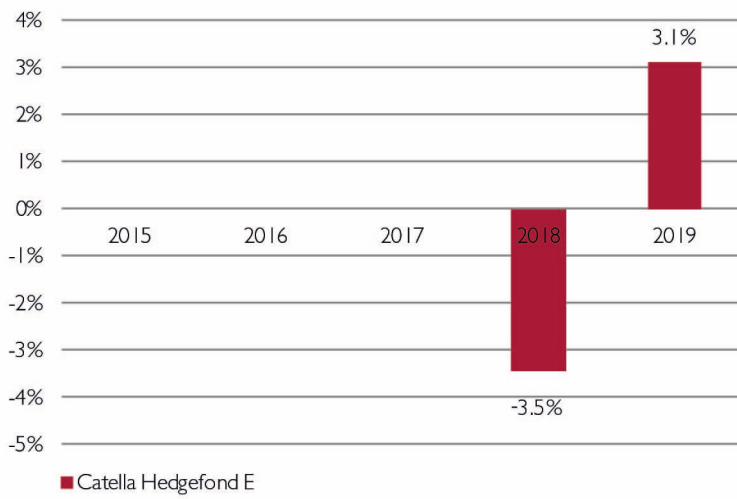
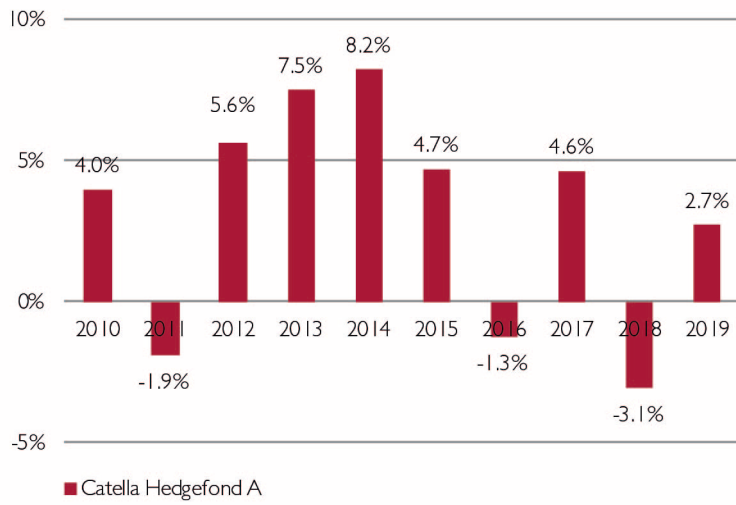
Highest leverage	Lowest leverage	Average leverage
84.06%	16.71%	35.28%

**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 December 31 2019	Highest	Lowest	Average
0.21%	0.28%	0.15%	0.21%

## YIELD YEARLY



# 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.

<b>International norms and conventions</b>		
UN Global Compact		
Controversial weapons		
<b>Controversial products and services</b>	<b>Production</b>	<b>Distribution</b>
Tobacco	0%	5%
Pornography	0%	5%
Alcohol	0%*	5%
Weapons	0%*	5%
Military contracting	0%*	5%
Cannabis	0%*	5%
Commercial gambling	0%*	5%
<b>Fossil fuels</b>		
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 Hedgefond

### *Overall comments on sustainability work*

The fund's sustainability efforts were further extended during the year. The fund already had an exclusion policy in place, but since November 2019 it has employed the same policy as Catella's other directly invested funds after the exclusion criteria were extended to fossil fuels, transport and distribution of fossil fuels, and oil services. However, the fund is able to short securities issued by companies in these sectors with the exception of tobacco. The fund employs a structure along Catella Fonder's four selected themes of Health and Safety, Energy Efficiency, Sustainable Production/Consumption and Counteracting Negative Environmental Impact. The fund screens in sustainable companies with a business model that offers a solution to a global challenge. Sustainability is an integral part of our fund management process.

### *The fund has screened in*

The fund chooses equity investments based on our fundamental view of the performance and valuation of companies. The fund has perceptions of how profit forecasts, valuation multiples and other factors that are important to the share will develop. Each company's business model is an important factor in this work, and the fund actively seeks to include companies that are perceived as sustainable and exclude or short unsustainable companies. We do this on the basis of thematic work based on the UN Sustainable Development Goals.

Health and Safety is a theme that we believe strongly in and where we have a number of investments. Obesity is a global and

growing problem. The fund owns two shares that address this in slightly different ways – SATS and Novo Nordisk. Physical exercise is recognised as a good method for combating ill health, and SATS offers gyms in big Nordic cities at a reasonable cost. Novo Nordisk manufactures and sells insulin and diabetes drugs that extend and improve the lives of the people affected by this growing disease.

Society faces a major challenge with the need to care for elderly or sick people. Care companies make a great contribution to society by helping municipalities to care for residents. In this sector, the fund owns or has owned shares in Ambea, Attento and Humana.

Essity is a holding owned by the fund throughout the year. Essity's business areas of Incontinence Products, Baby Care, Feminine Care and Medical Solutions, and its industrial products under the Tork brand, all contribute to improved sanitation for people around the world, which is hugely important in, for example, developing countries. Essity also works actively to reduce the use of materials. However, one environmental challenge with Essity is the large element of plastic in the products, which is something we have discussed with the management.

The need for security and safety solutions has increased, given the trends we currently see in society. On this theme we have screened in Securitas, which helps to create everyday security for citizens. Autoliv accounts for a different kind of safety. Autoliv manufactures airbags, seat belts and active safety solutions to prevent accidents.

On the theme of Health and Safety, we have shorted companies with products that lead to ill health. One example is Evolution Gaming, which is a supplier to the commercial gambling industry. Gambling can create misery for any individual who ends up addicted. The geographical areas where some of Evolution Gaming's customers are active make the company particularly exposed to ESG risks that could also have financial consequences as regulations are toughened up for this business. Another example of a company we have shorted is brewery Carlsberg.

In all, the fund's long and short positions on the Health and Safety theme contributed positively by about 0.2 percentage points to the total outcome, positively from long positions and partly offset by losses mainly due to short positions that rose.

We have had a couple of investments on the Counteracting Negative Environmental Impact theme. We believe that rail is a more environmentally friendly way to travel and transport goods. Firstly, it reduces CO<sub>2</sub> emissions compared to the use of cars, planes and trucks, and reduces the emission of particles and thus helps to keep the air cleaner. And secondly, there are fewer accidents with rail travel. The fund has an investment in Norwegian rail company NRC, which builds railways.

On the same theme we have been invested in forest companies SCA, Holmen and Stora. Forest was upwardly revalued during the year as demand for this real asset increased due to wood fibre being a replacement material for plastics and because of the power of forest to sequester carbon dioxide. The buyers are industrials, financial institutions and companies in sectors that need to reduce their carbon footprint. All in all, transactions and upward revaluations of this asset on company balance sheets were reflected in share price trends during the year.

One company that spans several sustainability themes and which we have very strong faith in is infrastructure group Sdiptech. The company aims to create sustainable, efficient and safe communities and has a number of operations with a clear sustainability profile within water, sanitation, energy efficiency, air and climate control, and safety.

The fund has held a short position in salmon farmer Mowi, whose poor management of ESG risks is leading to a negative environmental impact. Mowi's handling of its fish is questionable as they are crowded into a small area, and the treatment for salmon lice is physically stressful. In addition, a large amount of pollution is released into the water and, marine biology can be adversely impacted by escaped fish mating with wild stocks. Another reason for concern is that Mowi and a number of other Norwegian salmon growers have been accused of illicit price cooperation, which could have financial consequences in the form of fines or lower prices in the future if the cooperation ends.

In total, the fund's active long holdings and short positions on the theme of Counteracting Negative Environmental Impact have positively contributed around 0.5 percentage points to the total return during the year.

Within the theme of Sustainable Production, we have screened in several positions. Storebrand is very advanced in integrating sustainability into its asset management, which is within the theme of sustainable production. Munters offers products that clean the air by removing particles, especially indoor air. This is extremely important for sensitive production, such as in electronics, and a positive side effect is that it also provides a better working environment for workers. The fund has also owned shares in Hexagon, whose solutions and products help customers increase their efficiency, reduce waste, cut the consumption of energy and materials, and improve product performance. This benefits the profitability of both Hexagon and its customers, while contributing to the transition towards a more sustainable production sector.

SSAB has deservedly gained attention for its determined investment together with Vattenfall and LKAB in carbon dioxide-free

steel, dubbed HYBRIT. This solution reduces iron oxide to pure iron sponge using hydrogen instead of carbon, which is then converted to steel in an arc furnace. By using renewable electricity to drive both the hydrogen production and the steel production, the final product will be emissions-free. We became aware of this early on and it was central to our investment in a sector with an otherwise high carbon footprint.

In total, the above positions have contributed 0.5 percentage points to the fund's total return.

On the theme of Energy Efficiency, we have an investment in Rockwool, which is a leading producer of stone wool that contributes to lower environmental impact in a number of ways. As an insulation material, it contributes to significantly better energy efficiency in buildings. For example, insulation with stone wool gives 40 percent greater CO<sub>2</sub> emission reduction per invested krona compared to alternative approaches such as heat pumps or conversion to renewable energy types. Stone wool is a circular natural material compared to oil-based alternatives. It contributes to a better indoor environment and more fire-resistant buildings. Rockwool also refines stone wool into greenhouse solutions that contribute to more efficient food production and radically lower water consumption.

In total, the above positions in Energy Efficiency have contributed 0.2 percentage points to the fund's total return.

In total, sustainable shares that were screened in positively contributed 1.36 percentage points to the fund's total return, with long positions contributing 1.8 percentage points and short positions 0.5 percentage points.

#### *The fund has screened out*

The fund had previously chosen to exclude investments in coal power, tobacco, alcohol, pornography, gambling and weapons, and to entirely refrain from investments in companies that violate the UN Global Compact. Investments in fossil fuels were also excluded during the autumn. The fund has therefore sold its holdings in, among others, Flex LNG, Torm, Drilling Company of 1972, Frontline, Euronav and BW LPG.

As the fund is an absolute return fund and has no benchmark index, it is difficult to measure how the return was affected by the fund's avoidance of investments in these sectors. In the Nordic countries, tobacco and breweries have performed better than the stock exchange, while weapons and gambling industry stocks have underperformed. On the other hand, we are able to short shares in these sectors and some examples of this have been commented on above.

#### *The AIF manager has influenced*

The fund has had 56 documented meetings or conference calls with companies where an important part of the meeting was dialogue on ESG issues. At these meetings, the environment has been discussed 43 times, social issues have been raised at 16 meetings, and views on ownership issues/management/documentation have been raised 15 times.

We feel that we have been successful in some of our company dialogues. Shipping company Flex LNG, which ships natural gas, had a low ESG Score with Sustainalytics because they did not have all the documentation in place. We have pointed out this to the management on several occasions, and in connection with the interim report for the third quarter of 2019, the company stated that it is launching a major project to implement SASB ESG reporting. We have never doubted that Flex LNG has high standards on safety and environmental issues, but now the documentation is also coming into place. However, during the autumn we decided to stop investing in the transport of fossil fuels, which meant that the shares in Flex LNG were sold in November.

Another example is Ambea, where we see that the company benefits from thematic sustainability factors and has a relatively low inherent sustainability risk. However, not all infrastructure and documentation are in place, as we pointed out to management in 2018, and since then our external supplier Sustainalytics has improved the rating. The AIF manager also sits on Ambea's nomination committee.

In some companies, we have held a dialogue with the management about the size of option agreements, including Boozt where we held these discussions in both 2018 and 2019. The discussions resulted in us approving the proposal because the exercise price was significantly above the stock price, and before the options could provide any value to the management the shareholders would have received at least a 10 percent annual return. We have had 4 meetings with Boozt during the year and also discussed the efficiency of its distribution and returns. There is potential for improvements here that would benefit both the company's margins and the environment. The company has started to address customers returning too much clothing in order to reduce both costs and the ecological footprint.

It is not always that our company dialogues are a success. In recent years, we have divested companies that have had a low ESG score and where we either did not receive a good response or failed to establish a discussion with the company. One

such example, which was sold last year, is MPC Container Ships where we failed to get good answers from the company on ESG. That share has fallen by more than 60 percent since we sold it.

The AIF manager is a member of 1 nomination committee, sat on behalf of the fund on 2 nomination committees during 2019 and has attended 2 general meetings.

Influence is more limited for the fund's investments in interest-bearing securities, such as government bonds, mortgage bonds and corporate bonds. Influencing does take place since the fund actively invests in bonds with earmarked investment purposes, such as green bonds. During the year, the fund increased its share in green bonds from 0.9 percent of fund assets to 4.5 percent at the end of the year. In addition, the fund relies on exclusion in accordance with the ESG principles established as above.

# 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 2018 for management, accounting, information, marketing, auditing, and fees to the depositary.
- "Other costs" are your share of the fund's expenses for securities trading, such as analysis and brokerage fees.
- "Total costs" are the sum of the two costs above.

You cannot deduct these costs on your tax return.

## Accounting policies

Investment funds apply the Swedish Investment Funds Act (SFS 2004:46) and Finansinspektionen's regulations FFFS 2013:9 governing investment funds. Special funds apply the Alternative Investment Fund managers Act (2013:561) and Finansinspektionen's regulations (FFFS 2013:10) governing managers of alternative investment funds. All funds apply the applicable recommendations of the Swedish Investment Fund Association for reporting and the ESMA guidelines.

Fund holdings have been 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](http://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) and the Alternative Investment Fund Managers Act (2013:561), the fund have the option to guarantee securities issues. Catella Hedgefond 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.

<b>International norms and conventions</b>		
UN global Compact		
Controversial weapons		
<b>Controversial products and services</b>		
	<b>Production</b>	<b>Distribution</b>
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](http://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 %, for example, therefore means that the fund should not lose more than one percent in a day (with 95 % probability).

# Remuneration

Remuneration policy for Catella Fondförvaltning AB

## “The decision process”

The board of directors of Catella Fondförvaltning AB (the Company) adopted an updated remuneration policy in 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 Hedgefond, corporate registration number 515601-9720

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 Hedgefond, a special fund, corporate registration number 515601-9720

## Report on the Financial Statements

### *Opinion*

In our capacity as auditors of Catella Fondförvaltning AB, corporate registration number 556533-6210, we have audited the financial statements of Catella Hedgefond, a special fund, for 2019 apart from sustainability information on pages 11-17 and 21-25 ("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 Hedgefond, a special fund, as of 31 December 2017 and its financial performance for the year in accordance with the Alternative Investment Fund Managers Act and Finansinspektionen's regulations regarding alternative investment funds. Our opinions does not include the sustainability information on pages 11-17 and 21-25.

### *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 for the Audit of the Financial Statements*

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 11-17 and 21-25 and because it has been prepared in accordance the Alternative Investment Fund Managers Act of Sweden.

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

Sustainability information has been provided in the annual report.

Stockholm. 11 February 2020

PricewaterhouseCoopers AB

*Daniel Algotsson*

*Auditor in charge*

*Authorised Public Accountant*

*Hanna Wesslén*

*Authorised Public Accountant*