

Half-Year Report for Catella Credit Opportunity

I January 2019 – 30 June 2019

CEO's message

Placing a value on time

After spending a few days cleaning up my old childhood home, I was intensely reminded of how things change over time. We really did have a manual typewriter when I grew up. I also reflected on how the era of a standalone caller ID beside the phone was short-lived, and that the once-essential bank passbooks now feel like a memory from a terribly distant age. Bill Gates once said, "We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction."

But placing a value on time is, of course, about much more than just that. We are sometimes reminded very suddenly of the transient nature of life, and the only conclusion I manage to draw is that we have to prioritise our time for things that really matter. It always feels a little more meaningful if we can feel that we have achieved something constructive with our time, whether that might be building something, changing something or experiencing something new. When nothing changes or nothing develops, the time feels lost in my view.

When you read financial theory, you learn that time is money. Compound interest tends to multiply in a fascinating way over long periods of time. Even money saved in a bank passbook increased historically through an extra payment at the end of each year; the interest on the capital. You also learn to make present value calculations in which large initial investments are justified by positive future cash flows discounted to a present value. In every textbook example, the cost of capital was a measure of the investor's required return; the reasonable payback that the investor could accept in order to exchange purchasing power in the present time for purchasing power in the future. Of course, the investor expects the investment to also generate some kind of surplus, especially in comparison with money placed in a bank account or some other risk-free alternative.

Over time, these concepts should somehow coincide. The real economy develops through rising productivity and through innovations that improve the standard of living and increase the efficiency of society. The interest for an investor should, over the same period, not only compensate for inflation but also provide some form of real remuneration.

If we are to believe that these trends remain intact over the long term, today's pricing of fixed income securities feels very unrealistic, given what we believe about inflation and real growth over time. A Swedish 10-year bond yield of around zero and inflation of 2 percent per year means that the market has now priced in over 20 percent weaker purchasing power in ten years' time. What will break first? Will development suddenly halt? Or will inflation turn into biting deflation?

It may be that what looks reasonable in a two-year perspective becomes unreasonable in a ten-year perspective. I think that the market in this case is underestimating the value of time in the longer term.

Time is one of the most valuable things we have. Cherish it, right now.

I wish you a really pleasant summer!

Erik Kjellgren
CEO Catella fondförvaltning AB

Market trends 2019

War and peace

'In war, whichever side may call itself the victor, there are no winners, but all are losers.'
Neville Chamberlain

Before the start of 2019, we saw ahead of us a challenging year for the financial markets. In particular, we were worried about the first half of the year, when our assessment was that growth expectations would continue to be adjusted downwards and that this would, in turn, lead to downward adjustments in corporate profit expectations. We were more constructive about the second part of the year, when we expected that conditions for monetary policy stimulus would be good. Looking back, the US Federal Reserve signalled a swing in monetary policy in the final days of last year, which raised the mood in the global asset markets. The importance of central banks has again proved to be the most crucial parameter for the development of asset markets, even more so than war. The war I refer to is the trade war being waged by US President Trump on multiple fronts. There are alarming historical parallels, with trade wars having been the early sign of sabre rattling, something we have so far thankfully avoided. The reasoning behind the trade war should be considered in the light of next year's presidential election, as a part of Trump's campaign to be re-elected. The key factors for re-election are a strong economy and low unemployment, which suggests that a peace agreement will be signed in good time before voting begins. Peace would be a dream scenario for the market, but only after monetary policy stimulus. The range of potential outcomes is wide, and remember Neville Chamberlain's comment that, 'In war, whichever side may call itself the victor, there are no winners, but all are losers'.

The market is quick to factor in the future, and bond yields have continued to fall in the first half of the year. Based on the appearance of the yield curve, the probability of a recession is significantly higher than in a normal year. That said, the stock market and the credit market are pricing in a slowdown of growth, but hardly a recession. The different asset markets usually trade in reasonable synchronisation, but this is not the case right now, which offers an interesting position for the second half. In very broad terms, there are two possible outcomes: Either there will be significant monetary policy stimulus in the coming months, which would support the stock markets and turn falling bond yields into rising interest rates, or the central banks will judge that the economy can manage well without more stimulus, which would very likely result in falling stock prices and wider credit spreads. Whatever the outcome, we will find out over the summer, and my assessment at the moment is that central banks will accommodate the market by signalling and providing more stimulus. This will then create a continued good environment for equities and credits, and facilitate a pacification of the trade war, which brings to mind the elegant words sometimes attributed to Abraham Lincoln, 'There is nothing good in war. Except its ending'.

I wish you a very good summer!

Thomas Elofsson
Head of Portfolio management and Fund manager, Catella fondförvaltning AB

Surprisingly strong first half

The fund rose by 0.16 percent after fees.

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

The US Federal Reserve signalled a reversal in monetary policy at the end of December, which provided support for equity and credit markets, while bond yields fell to record lows in Sweden and Europe. Lower expectations of future growth and inflation have opened the door for even more monetary policy stimulus, which is the main reason for the strong development in the first half of this year.

During the first half, the fund was heavily invested in bonds with higher coupons. The holdings of these higher-risk, high-yield, bonds have recovered following weak performance last year, and account for most of the return on the fund during the period. The portfolio is characterised by a greater number of bonds issued by companies operating in different types of industries, thereby achieving a high degree of risk diversification, which is necessary in view of the higher credit risk in this segment. Furthermore, the portfolio has had a high proportion of cash and cash-like investments with low risk throughout the period in order to balance the large proportion of high-yield bonds. The fund also held put options in the stock exchange for much of the period, intended to stabilise the return in the event of unfavourable market outcomes. In addition, the fund has been periodically exposed to long-term government bonds with the aim of managing interest rate risk and balancing the high-yield portfolio. The fund's return during the first half of 2019 amounted to 3.04 %

The largest positive contributors to the return during the period were the holdings in Unilabs, Securelink, Hoist Finance, Transcom and Verisure. The negative contributions came mainly from a single bond in Tresu and the held put options on OMX. During the period, the holdings in Containerships, Cabonline, Perstorp and a number of subordinated bank bonds were divested, and several new bonds were added.

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

Fund facts

Fund	Catella Credit Opportunity
Unit class	A
Fund manager	Thomas Elofsson Stefan Wigstrand
Fund inception	2014-11-24
Opening price	100
Fund type	Special fund
Corporate registration number of fund	515602-3482
PPM fund number	Catella Credit Opportunity is not a fund within PPM
Net fund assets (SEKk)	465 771
Unit value	115.68
No of units	4 026 538

Yield

Benchmark index, alt. Reference rate	Reference rate: OMRX T-Bill
Fund, Yield current year (%)	3.04
Benchmark index (alt. Reference rate), yield current year (%)	-0.26
Fund, Average annual yield past two years (%)	2.30
Benchmark (alt. Reference rate), Average annual yield past two years (%)	N/A
Fund, Average annual yield past five years (%)	3,22*
Benchmark index (alt. Reference rate), Average annual yield past five years (%)	N/A
Fund, Yield since inception (%)	15.68
Benchmark index (alt. Reference rate), Yield since inception (%)	3.04

Risk (24 months)

Duration, 31 December 2018 (years)	4,95
Interest-rate risk from 1%-point change in interest rate	-4,92
Total risk fund (%)	1,58
Total risk benchmark (%)	N/A
Active risk (%)	N/A
Active share (%) 31 December 2018	N/A

Turnover/costs

Rate of turnover (times/year)	1.8
TTC, Transaction costs (SEKm)	0.07
percentage of securities traded	0.01
Management fee	0.95
Management fee charged (fixed and variable)*	N/A
Ongoing charges %**	1.00

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

**See Accounting policies on page 12

Turnover through associated securities institutions

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

Percentage of total turnover	0.00
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Exchange rates

Closing rates at 30 June 2019

EUR	10.5631
GBP	11.8072
NOK	1.0878
USD	9.2769

Balance sheet

BALANCE SHEET, SEKk	30 June-19	31-Dec-18
ASSETS		
Transferable securities (Note 1)	436 302	396 982
OTC derivatives with positive market value (Note 1)	3 080	3 115
Other derivatives with positive market value (Note 1)	405	840
Total financial instruments with positive market value	439 787	400 937
Bank balances and other cash and cash equivalents	31 546	55 328
Prepaid expenses and accrued income	3 999	4 060
Other assets	16 841	50
TOTAL ASSETS	492 173	460 375
LIABILITIES		
OTC derivatives with negative market value (Note 1)	674	497
Total financial instruments with negative market value	674	497
Accrued expenses and prepaid income	1 038	387
Other liabilities	24 690	23
TOTAL LIABILITIES	26 402	907
NET FUND ASSETS Note 2	465 771	459 468
MEMORANDUM ITEMS		
Collateral pledged for OTC derivatives	0	1 148
Collateral pledged for other derivatives	24 951	9 377

Note 2 TO BALANCE SHEET

CHANGE IN NET FUND ASSETS	30 June -19	31-Dec-18
NET FUND ASSETS AT BEGINNING OF YEAR	459 468	525 734
Unit sales	60 889	367 928
Unit redemptions	-68 355	-434 166
Profit for the year per income statement	13 769	-28
NET FUND ASSETS AT END OF PERIOD	465 771	459 468

Fund's holdings of financial instruments

NOTE SECURITIES	QUANTITY	PRICE	MARKET VALUE (SEKk)	FUND WEIGHT %
MARKET LISTED BONDS*				
Allgon FRN 220607	6 000 000	103.50	6 210	1.33
Bayport 11.5% 220614. Mauritius. USD	500 000	102.95	4 775	1.03
Benchmark Holding FRN 230621. Great Britain. NOK	5 000 000	100.31	5 456	1.17
CentralNic Group FRN 230703. Great Britain. EUR	500 000	100.5	5 308	1.14
DDM FRN 220408. EUR	1 000 000	101.04	10 673	2.29
Dilasso FRN 230807	5 000 000	101.25	5 062	1.09
Garfunkelux FRN 230901. Luxembourg	2 500 000	83.00	2 075	0.45
Garfunkelux Holdco 3 220801. Luxembourg. EUR	1 000 000	91.91	9 708	2.08
Genova Property FRN 210407	8 000 000	100.42	8 034	1.72
Georg Jensen FRN 230515. Denmark. EUR	900 000	99.75	9 483	2.04
Golden Heights FRN 220308	6 250 000	100.38	6 273	1.35
Heimstaden FRN 201207	10 000 000	100.81	10 080	2.16
Heimstaden FRN 241011	5 000 000	102.08	5 104	1.10
Hoist Finance 8% 230901. EUR	1 500 000	97.88	15 508	3.33
Hoist FRN 210629	6 000 000	100.5	6 030	1.29
Hospitality Invest FRN 221031. Norway. NOK	5 000 000	95.97	5 220	1.12
Host Property FRN 191208. Norway	8 000 000	100.5	8 040	1.73
Idavang FRN 211211. Denmark. EUR	500 000	96.33	5 088	1.09
Intrum Justitia FRN 230703	10 000 000	100.39	10 039	2.16
Jefast FRN 210327	5 000 000	99.38	4 969	1.07
Jotul Holdings FRN 220131. USA. NOK	9 000 000	97.75	9 570	2.05
Kommuninvest i Sverige 0.25% 220601	20 000 000	101.07	20 214	4.34
Kommuninvest i Sverige 0.375% 240327	30 000 000	101.41	30 426	6.53
Kommuninvest i Sverige 1% 231113	30 000 000	104.29	31 287	6.72
Kommuninvest i Sverige 1% 241002	20 000 000	104.59	20 918	4.49
Kommuninvest i Sverige 1% 250512	30 000 000	104.64	31 392	6.74
Kvalitena FRN 220512	5 000 000	100.5	5 025	1.08
Nackahusen Holding FRN 200813	12 000 000	96.00	11 520	2.47
Nivika fastigheter FRN 211127	4 000 000	100.34	4 014	0.86
Nyfosa FRN 220522	7 500 000	100.37	7 528	1.62
Qred FRN 220617. EUR	1 000 000	100.5	10 616	2.28
Quant FRN 230215. EUR	500 000	88.50	4 674	1.00
Recipharm 2.75% 211006	5 000 000	98.20	4 910	1.05
SHH Bostad FRN 210607	10 000 000	97.00	9 700	2.08
SL Bidco FRN 230206. The Netherlands. EUR	1 000 000	104.91	11 082	2.38
Slättö Fastpartner FRN 230401	6 000 000	100.25	6 015	1.29
Stillfront Group FRN 240630	5 000 000	100.28	5 014	1.08
Telia 3.25% 771004 PERP	10 000 000	102.52	10 252	2.20
Transcom 6.5% 230322. EUR	1 200 000	94.96	12 037	2.58
Tresu Investment FRN 220929. Denmark. EUR	400 000	45.50	1 922	0.41
Unilab 5.75% 250515. EUR	500 000	102.20	5 398	1.16
Verisure 5.75% 231201. EUR	1 000 000	103.82	10 967	2.35
Volvo Cars FRN 230227	10 000 000	100.73	10 074	2.16
TOTAL MARKET-LISTED BONDS			417 690	89.68
NOT LISTED BONDS**				
Kjell Midco 11% 230111	9 414 146	99.50	9 367	2.01
OPR Vakuuus 8% 220518, Finland, EUR	900 000	97.25	9 245	1.99
TOTAL NOT LISTED BONDS			18 612	4.00
TOTAL TRANSFERABLE SECURITIES			436 302	93.67

EXCHANGES TRADED DERIVATIVES

Index option				
OMX 19 S 1400 July	1 000	0.45	45	0.01
OMX 19 S 1450 August	1 000	3.60	360	0.08
			405	0.09
Bond Future				
Euro-Bund 10Y 190906, Germany, EUR	46	172.74	0	0.00
Swe Gov. Bond Future 5Y Sept 19	49	-0.37	0	0.00
			0	0.00
TOTAL EXCHANGES TRADED DERIVATIVES			405	0.09
Exchanges traded Derivatives with positive market value			405	0.09
Exchanges traded Derivatives with negative market value			0	0.00

OTC-DERIVATIVES

FX Forwards				
FXFWD EURSEK 190808 10.705, Europe, EUR	-900 000	10.57	126	0.03
FXFWD EURSEK 190808 10.786, Europe, EUR	-10 700 000	10.57	2 364	0.51
FXFWD EURSEK 190903 10.649, Europe, EUR	3 000 000	10.57	-244	-0.05
FXFWD EURSEK 190903 10.615, Europe, EUR	3 000 000	10.57	-142	-0.03
FXFWD EURSEK 190903 10.664, Europe, EUR	3 000 000	10.57	-288	-0.06
FXFWD EURSEK 190903 10.706, Europe, EUR	-3 000 000	10.57	415	0.09
FXFWD NOKSEK 190808 1.0877, Norway, NOK	-2 000 000	1.09	3	0.00
FXFWD NOKSEK 190808 1.0902, Norway, NOK	-5 000 000	1.09	21	0.00
FXFWD NOKSEK 190808 1.0962, Norway, NOK	-9 000 000	1.09	91	0.02
FXFWD USDSEK 190808 9.4524, USA, USD	-300 000	9.25	60	0.01
			2 406	0.52
TOTAL OTC-DERIVATIVES			2 406	0.52
OTC Derivatives with positive market value			3 080	0.66
OTC Derivatives with negative market value			-674	-0.14

TOTAL HOLDINGS OF FINANCIAL INSTRUMENTS 439 113 94.28

OTHER ASSETS AND LIABILITIES 26 658 5.72

TOTAL NET ASSETS 465 771 100.00

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

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

SUMMARY, ISSUERS*

ISSUER	% OF NET FUND ASSETS*
SEB AB	7.29
Garfunkelux Holdco 3 S.A.	2.53

* 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:

Bayport 11,5% 220614
 Benchmark Holding FRN 230621
 Qred FRN 220617
 Kvalitena FRN 220512
 Toadman Interactive 12% 220617
 Svea Ekonomi FRN 290620
 Stillfront Group FRN 240630
 CentralNic Group FRN 230703
 Dilasso FRN 230807
 Intrum Justitia FRN 230703

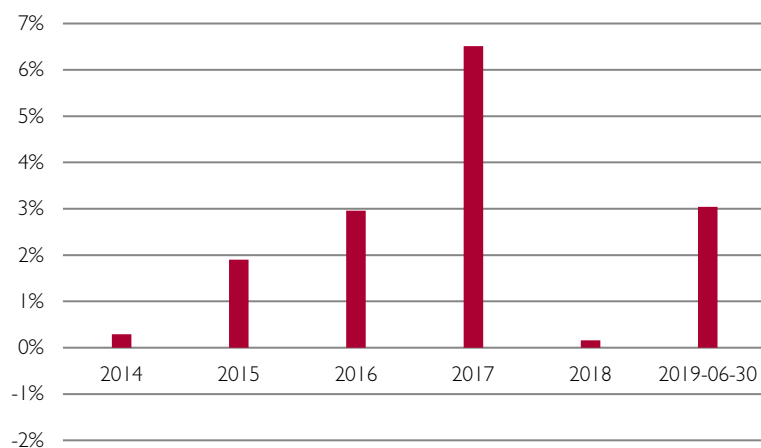
COUNTERPARTIES FINANCIAL DERIVATIVE TRANSACTIONS

COUNTERPARTY	COLLATERAL RECEIVED
SEB	0.00
Danske Bank	0.00

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

Date	Dividend SEK/unit	Unit Value SEK	No of Units	Net fund assets SEKk
141231	0.00	100.29	2 787 648	279 576
151231	0.00	102.21	6 529 661	667 382
161231	0.00	105.24	2 563 999	269 831
171231	0.00	112.09	4 690 426	525 734
181231	0.00	112.27	4 092 370	459 468
190630	0.00	115.68	4 026 538	465 771

YIELD YEARLY



■ Catella Credit Opportunity A

TRADE IN DERIVATIVES

In accordance with its fund rules, the fund may trade in derivatives as part of its investment strategy. During the period the fund has not exercised its right to lend or borrow securities. During the period the fund has not exercised its right to raise margin loans.

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

Highest leverage	Lowest leverage	Average leverage
122.2%	65.09%	95.47%

Risk assessment method for calculating total exposure: Value at Risk

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

At June 30, 2019	Highest	Lowest	Average
0.19%	0.21%	0.08%	0.15%

Accounting policies

Your share of the fund's costs

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

- "Management costs" are your share of the fund's expenses in 2019 for management, accounting, information, marketing, auditing, and fees to the depositary.
- "Other costs" are your share of the fund's expenses for securities trading, such as analysis and brokerage fees.
- "Total costs" are the sum of the two costs above.

You cannot deduct these costs on your tax return.

Accounting policies

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

Fund holdings have been booked in the balance sheet at market value on 28 June, 2019. Market value is the closing price. Various valuation methods are used to determine the market value depending on the financial instrument and the market in which the instrument is traded. The last reported net asset value per unit is used to determine the value of fund units. The last price paid is normally used to determine the value of market-listed instruments and other instruments actively traded on an established market. The last bid and/or ask price is normally used to determine the value of instruments other than those referred to in the preceding sentence. If the management company deems the aforementioned valuation methods to be misleading, value is determined based upon other objective grounds.

"Objective grounds" refers to valuation based upon available information on the last price paid in external transactions in the instrument or an indicative bid price from a market maker, if a market maker has been appointed by the issuer. If such information is unavailable or is deemed unreliable by the management company, market value is determined according to generally accepted valuation models based on information from independent brokers or other external independent sources.

Negative interest rates have been booked as negative interest income in each fund.

Taxation of unit holders

The Fund is a separate taxable entity, but is not subject to tax on the income of the assets included in the fund. Instead it is the unit holders that are taxed using a standard income (see below).

Taxation of capital gains

Natural persons who are fully taxable in Sweden must report capital gains and capital losses on the divestment of units in the fund as income from capital at a tax rate of 30 percent. Divestment includes sales and redemptions. The same rules apply to estates provided the deceased was fully taxable in Sweden.

Capital gains and capital losses are calculated as the difference between the sale price (less any fees) and the tax basis amount. The tax basis amount is the purchase price paid for the divested fund units. The tax basis is normally calculated according to the average cost method.

Standard taxation

Individuals who are fully taxable in Sweden and who own units in the fund must report a standardised income of 0.4 percent of the value of their fund holdings at the beginning of the year. The standardised income must be reported as income from capital at a tax rate of 30 percent, which results in an effective tax levy on the fund value of $(0.4 \times 0.3 =) 0.12$ percent per year. The same rules apply to estates provided the deceased was fully taxable in Sweden.

Miscellaneous

If the fund is linked to an investment savings account, endowment, IPS or premium pension, special tax rules apply. Special tax rules also apply to legal persons and foreign unitholders.

Statements for tax returns

The management company provides information to the Tax Agency concerning gains or losses upon sale or redemption of units in the fund, standardised income and, if applicable, dividends. Information is provided concerning natural persons and estates taxable in Sweden.

Swedish Code of Conduct for fund management companies

Catella Fondförvaltning AB (the Company) is a member of the Swedish Investment Fund Association. Through its “Swedish Code of Conduct for fund management companies”, the Association summarises the overall principles that apply when conducting fund management activities in Sweden. The Code is designed to promote sound fund activities and thereby to safeguard public confidence in the industry. The Company complies with the Code, with one exception. Valuations of securities at the end of months other than June and December take place at the closing price if these are available at the time the NAV is calculated for that day.

All fund managers, executive management, employees in Risk, Middle Office and Sales, as well as the heads of Compliance and Business Support at the Company are licensed by SwedSec.

The Company has also ensured that half of the board of directors is composed of independent directors.

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

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

Information about remuneration

Information about remuneration paid in 2019 by Catella Fondförvaltning AB. Information will be provided on the website (www.catella.se/fonder) and in the Company’s annual report for 2019. Unitholders who wish to have Catella Fondförvaltning AB’s annual report sent to them are requested to contact us on +46 8 614 25 00.

Issue guarantees

Within the framework of the fund rules and the Swedish Investment Funds Act (2004:46), the fund has the option to guarantee securities issues. Catella Credit Opportunity took advantage of this opportunity in 2019.

Related-party transactions

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

Charges

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

The board of directors of Catella Fondförvaltning AB

Knut Pedersen
Chairman
CEO Catella AB (publ)

Lars H. Bruzelius
Senior partner BSI & Partners

Peter Friberg
LL.M, licensed psychologist, consultant

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

Thomas Raber
MD Alvine Capital Management Ltd

Ownership policy

1. Introduction

Chapter 15, Section 9 of Swedish Financial Supervisory Authority (Finansinspektionen) Regulations regarding investment funds and Article 37 of the EU Commission Delegated Regulation, require the board of directors of a fund management company and an alternative investment fund manager to adopt internal rules specifying the strategies the company shall apply to determine when and how voting rights linked to the financial instruments included in each fund are to be exercised.

The purpose of this document is to present how Catella Fondförvaltning AB ("Catella Fonder") exercises its shareholder influence, including how and in what situations the voting rights linked to investments made within the context of the company's business shall be exercised. The fundamental precept in all situations is that Catella Fonder shall act solely in the joint interests of fund unit holders and that voting rights shall be exercised to the exclusive benefit of each fund. The objective is that the funds should generate the highest possible return given the fund's risk level. The ownership role is exercised so as to maximise the long term value of portfolio companies and thus fund units. Fund assets are not included in the balance sheet of Catella Fonder and unitholders may at any time withdraw their money from the funds. It is therefore essential that Catella Fonder is able to sell the funds' shares as necessary and without delay.

2. Policy for exercising shareholder influence

Catella Fonder invests on behalf of the funds, primarily in equities, bonds and other debt instruments and derivative instruments. The development of portfolio companies in which Catella Fonder invests is continuously monitored and if a company's development gives reason for discontent, Catella Fonder may elect to express this discontent by selling its holding, engaging in dialogue with management or exercising influence through the rights conferred by the funds' ownership.

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

2.1 Attendance at general meetings

Catella Fonder shall normally attend general meetings of the portfolio companies in which the funds are major shareholders as well as the general meetings of other portfolio companies at which key issues are raised, and shall exercise its voting rights at these meetings. Catella Fonder considers itself a "major shareholder" if the funds own 5 percent or more of equity and/or voting rights in a portfolio company. Depending upon the ownership structure in other respects and existing opportunities for owner cooperation, Catella Fonder may also actively intervene in other portfolio companies.

2.2 Participation in nominating committees, etc.

If it is possible in Catella Fonder's judgement to create added value for unitholders, Catella Fonder may exercise shareholder influence by having representatives on the nominating committees of portfolio companies. In exceptional cases, Catella Fonder may also appoint representatives to the boards of directors of portfolio companies. In participating in nominating committees, Catella Fonder works actively to achieve balance as regards representation and gender equality. Decisions to nominate representatives to the nominating committee or board of directors of a portfolio company are at the discretion of the CEO of Catella Fonder.

2.3 Sustainability in corporate governance of portfolio companies

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

be natural for the portfolio managers to approach sustainability managers when gathering information about ethics at portfolio companies. The responsible fund managers implement, document and follow up the dialogues.

2.4 Exercising voting rights and monitoring corporate actions

2.4.1 *Management of conflicts of interest within the Catella Group*

There are several companies within the Catella group ("Catella") that invest on their own behalf or on behalf of clients. Operations within Catella Fonder are clearly separated from these other operations, and Catella Fonder shall therefore in exercising its voting rights consider only the best interests of unitholders, irrespective of any interests Catella may otherwise have in the portfolio company concerned. When Catella Fonder exercises its voting rights, an assessment is made in every instance as to whether any conflict of interest may arise for the fund or unitholders and, if so, how such conflicts should be managed. The responsibility of the fund manager for ensuring that each fund votes at general meetings in accordance with the investment policy ensures that conflicts of interest are managed.

2.4.2 *Exercising voting rights*

When Catella Fonder exercises its voting rights, it does so in accordance with the investment objectives and policy of each fund as set forth in the fund rules for each respective fund.

2.4.3 *Internal accountability*

The fund manager is ultimately responsible for monitoring corporate actions and for ensuring that the fund votes at general meetings in accordance with the investment objectives and policy. However, Catella Fonder applies the fundamental precept that all funds must be in consensus concerning important matters affecting the portfolio company's operations. To this end, Catella Fonder has appointed an ownership representative who, in consultation with fund managers, decides how the fund shall vote at general meetings. The ownership representative, who is currently the CEO of Catella Fonder, in turn reports to the Board of Directors of Catella Fonder.

2.4.4 *Coordinated action with other external owners*

Coordinated action between Catella Fonder and another Catella company or, for that matter, an external owner, may be taken concerning specific matters. Catella Fonder may, if deemed appropriate, issue a proxy to a third party to represent Catella Fonder at a general meeting. Such a proxy shall be preceded by the same preparatory work as if Catella Fonder itself, through an employee, were to be represented at the meeting.

2.4.5 *Reporting of positions*

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

3. Principles for sustainability and responsible investment

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

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

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

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

3.2 Monitoring and documentation

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

4. Management of insider information in shareholder engagement

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

Please direct any questions concerning Catella Fonder's ownership policy to the company's CEO.

This ownership policy has been prepared in accordance with the "Guidelines for investment fund managers as shareholders" issued by the Swedish Investment Fund Association.

Risk

Total risk

The traditional way to measure the price volatility of a fund, or the risk of losing money, is to measure how much the fund's returns have varied. If a fund has a high total risk (for example, an equity fund), the returns have varied more than for a fund with low total risk (for example, a fixed income fund with short term to maturity on interest-bearing assets). However, risk and return are linked, and a higher risk may yield a higher return. The value of total risk indicates the range within which the annual return should end up (with 68 percent probability), therefore, for a fund with an average return of 5 percent and a total risk of 2 percent, this indicates that the fund's annual return should be between 3 percent and 7 percent (5 percent \pm 2 percentage points).

In this respect, Catella follows the recommendation of the Swedish Investment Fund Association to use 24 monthly values in this measurement. Another name for total risk is "standard deviation" calculated on an annual basis, or volatility. The total risk in a fund gives an indication of the historical risk level of the fund, but is not an infallible forecasting tool. A fund category or fund that has previously had low total risk may actually be risky and lead to price losses if, for example, the stock market is on the verge of decline due to, for example, an economic downturn. Naturally, the opposite is also true.

Active risk

Another type of risk is that the fund will outperform or underperform the assets on the market in which it invests. Investors buying an equity fund, composed of Swedish equities for example, will probably want to check how much risk the fund has taken in its investments compared to its benchmark index. Active risk, which is also called "tracking error", is one measure of this. This measurement indicates how closely the fund tracks its benchmark index. High active risk indicates that the fund deviates significantly from its index. Unlike correlation, active risk is dependent not only on the direction of return, but also its magnitude. Thus, a fund with a small proportion of equities and the remainder in bonds may still have a correlation of 1 against the stock exchange, but also high active risk against the stock exchange. Active risk is calculated as the standard deviation of the relative returns compared to the benchmark index. Catella also uses monthly values (24 months) in the calculation of active risk.

Duration

Duration is the most common measure of interest-rate risk, and indicates the average term to maturity of the fund's fixed-income securities. The higher the duration, the more sensitive the fund is to changes in interest rates. Duration is normally expressed in years. The fund duration is presented for all Catella funds that have holdings in fixed-income securities. The measure of duration used in the annual report is "effective duration", which takes into account the period of fixed interest and optionality for, for example, FRNs and callable bonds.

Interest-rate risk at a 1 percentage point change in interest rates

The interest-rate risk for a 1 percentage point change in interest rates shows how much the fund's value would decrease (or increase) if the interest rate were to rise by 1 percentage point across the entire yield curve; that is, the interest rate rises by 1 percentage point on all maturities. This measure is presented for all Catella funds that have holdings in interest-bearing securities.

Active share

Active share is another measure of how "closely" the fund's investments follow their benchmark, but unlike active risk, active share does not take into account whether the holdings are similar. This means that if one share in the fund's holdings is switched for another share that has similar performance, active risk is not necessarily affected, but active share is affected. Active share indicates, as a percentage, the proportion of the fund that deviates from its benchmark. This indicator ranges from zero to one hundred percent, with zero percent active share indicating that the fund has exactly the same holdings and allocation of holdings as the benchmark. One hundred percent active share means that none of the fund's holdings are included in the index. Active share is calculated as the sum of the differences between the shares' weightings in the fund portfolio and in the benchmark index, divided by two.

Value at risk (VaR)

Value at risk is a way to measure and express risk, other than total risk. In contrast to the reported total risk, which is backward-looking and calculates how the return on the fund has actually varied, value at risk is forward-looking and attempts to calculate how much money the fund could lose in one day. Catella uses the Monte Carlo simulation with a 1-day horizon and 95 % confidence. A VaR of 1 percent, for example, therefore means that the fund should not lose more than one percent in a day (with 95 percent probability).