
CATELLA FONDER'S GUIDELINES FOR WORKING WITH SUSTAINABILITY AND OWNERSHIP

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I SUSTAINABILITY AT CATELLA FONDFÖRVALTNING AB (CATELLA FONDER)

Sustainability factors are business-critical and may present both opportunities and risks in the light of higher global awareness of external challenges and clients' greater insight into the matter. Catella Fonder signed the UN Principles for Responsible Investment (PRI) in September 2009 as one aspect of its aim to be a responsible investor and owner. The ten PRI are the foundation of Catella Fonder's sustainability programme and we believe greater focus on sustainability contributes to fund value growth by taking into account both the risks and opportunities for portfolio companies. This position, based on both our own values and the preferences of our clients, has resulted in the integration of environmental, social and governance (ESG) aspects in our management operations.

Our Ownership Policy covers all equity funds managed by Catella Fonder, including Catella Hedgefond, and their Nordic equity holdings.

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 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 company's sector, where it does business and its ownership structure. We impose higher standards on companies operating in controversial industries than on companies with low risk profiles. We use external analysis firms' assessments of the individual 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 the companies.

We believe there is a connection between a sustainable business model and sustained company growth and profitability, and this is the basis of our approach to sustainability. Accordingly, we consider sustainability a source for finding investments. For the absolute return funds, we also examine the risks in a company's operations to find potential investments that we can sell short. We do not buy shares in companies doing business in controversial sectors. Refer to the "Controversial sectors" section for more information about limits and rationales

2 POSITIVE SELECTION CRITERIA - WHAT WE SCREEN IN

Generally speaking, we look for companies that are both driven 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 companies exposed to these themes. Last but not least, we study the extent to which company financial statements are affected by sustainability. We enhance our understanding of the long-term potential of the business model by integrating sustainability with financial analysis.

In addition to our own assessment of sustainability as a driver of WHAT a company does, we use ESG research from Sustainalytics* as a basis for evaluating HOW companies, regardless of whether they have sustainability profiles, are dealing with their ESG challenges.

3 NEGATIVE SELECTION CRITERIA - WHAT WE SCREEN OUT

We draw a clear line at companies that produce goods and services associated with harmful impacts on human health and the environment or that are addictive. With regard to absolute return products, however, we may take short positions in these 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.

3.1 CONTROVERSIAL PRODUCTS: TOBACCO, ALCOHOL, GAMBLING, PORNOGRAPHY, WEAPONS AND COAL

We exclude companies that produce tobacco, alcohol, gambling, pornography, weapons and coal, as these products are associated with harmful impacts on human health, are strongly addictive, or are associated with serious environmental impacts. The exclusion does not apply to service and distribution companies, as we believe these activities can be pursued in a responsible manner. Our focus is on the production of 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.

3.2 CONTROVERSIAL SECTORS: FOSSIL FUELS

The world is dependent on fossil fuels for heating and transportation. Alternative energy sources are on the rise, but there is still some way to go before people can manage without fossil fuels. In our view, however, the direct environmental aspects of oil production conflict with our fundamental attitude towards sustainability, and we have therefore chosen to apply negative screening to fossil fuels for our equity and fixed-income funds. (The differences between the funds are shown on the table below.)

We divide the oil sector into three categories:

- Production and extraction
- Oil and gas service
- Pipelines and refineries

Based on this categorisation, we have chosen to exclude investments in companies whose operations are dedicated to production and extraction, as well as companies involved in pipelines and refineries. This applies only to the extraction of the raw material and production of the final product. However, because we see potential for sustainable value drivers in companies that develop efficient extraction technologies, we selectively keep the door open to investments in oil service companies that possess the technological expertise.

We have chosen to exclude coal, the most environmentally harmful fossil fuel, from our alternative investment funds. 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.

3.3 NORM SCREENING

The funds exclude companies that breach the 10 principles and 42 conventions of the UN Global Compact (see appendix). Sustainalytics performs the assessment of whether the company is violating norms. Read more about the UN Global Compact at www.unglobalcompact.org/what-is-gc/mission/principles.

4 SHAREHOLDER ENGAGEMENT - HOW WE MAKE A DIFFERENCE

As shareholders, we can exert influence and encourage companies in a more sustainable direction by being active in board recruitment processes, at general meetings and in dialogue with company management teams, either independently or in coordination with other shareholder groups. Our 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, opportunities 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 matters. To ensure consensus among all the funds with regard to key topics, Catella Fonder has appointed an ownership representative who, in consultation with fund managers, decides how the fund shall vote at general meetings.

4.1 OUR SHAREHOLDER ENGAGEMENT CAN BE DESCRIBED BASED ON THREE ASPECTS

4.1.1 ONGOING EFFORTS:

We engage in ongoing dialogue with a large number of companies traded on Nordic stock exchanges. The topics include financial matters, shareholder dialogues and sustainability. We strongly believe that the sustainability analysis must be integrated with the 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 company's potential for future growth and profitability. By adding an assessment of the extent to which sustainability strengthens or weakens the company's circumstances, we increase our understanding and thus the reliability of our forecasts.

4.1.2 QUARTERLY:

To delve deeper into the issues, we hold quarterly internal sustainability seminars at which we compare our company analysis to that of an external service provider (Sustainalytics) to deepen our expertise. Sustainalytics evaluates corporate sustainability programmes and monitors current controversies and problems. We also use Sustainalytics's research to discover which companies are at higher risk (low scores in relevant areas) or have potential to improve their sustainability reporting. Based on that information, we can identify investment candidates and prioritise future shareholder engagement.

4.1.3 BIANNUALLY:

All holdings in the funds and their relevant benchmarks are screened twice a year to ensure compliance with our limits and restrictions. The screening gives us a list of companies that are violating international norms and conventions, as well as companies affected by our established limits at the fund level.

4.2 KEY SHAREHOLDER ENGAGEMENT TOPICS:

4.2.1 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 in the Swedish Corporate Governance Code. In participating in nominating committees, Catella Fonder works actively to achieve balance as regards representation and gender equality. Refer also to Catella Fonder's Ownership Policy for more information about the Company's principles for exercising shareholder influence on boards of directors and nominating committees.

4.2.2 INCENTIVE PROGRAMMES:

It is the responsibility of the boards of directors of portfolio companies to ensure that incentive structures are optimised from the long-term ownership perspective and that the interests of company 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.

4.2.3 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.

4.2.4 SUSTAINABILITY:

We prioritise the companies with which we will engage in shareholder dialogue concerning sustainability topics based on a couple of parameters.

- The company's performance in Catella Fonder's E, S and G focus areas, where we focus on environmental policy, sustainable supply chains and efforts to prevent bribery and corruption.
- We use Sustainalytic's research and examine the following parameters:
 - Total ESG score - which provides an assessment of the company's internal ESG work overall. We assess the company's work, which we want to be on par with - or preferably above - its peer group. In this context, we pay particular attention to companies whose ESG scores are below 60.
 - Level of controversy - which provides a degree of the company's documented involvement in controversial ESG issues. We pay particular attention to companies at level 3 or above.

5 HOW SUSTAINABILITY IS IMPLEMENTED IN THE FUNDS

	 Catella Sverige Aktiv Hållbarhet Catella Småbolagsfond Catella Avkastningsfond Catella Corporate Bond Flex Catella Sverige Hållbart Beta	 Catella Hedgefond Catella Nordic Long Short Equity Catella Credit Opportunity	 Catella Balanserad ICA Fonderna
ESG included in company evaluation	✓**	✓	
Excludes controversial companies*	✓	✓	
Excludes production of fossil fuels	✓		
Companies with PRI	✓	✓	✓
Permitted to short-sell controversial companies		✓	

*Tobacco, alcohol, commercial gambling operations, pornography, coal and weapons
 **Does not apply to Catella Sverige Hållbart Beta for which no company-specific analysis is performed because the fund replicates an index.

Adopted by the CEO 6 December 2018