PROCESS DESCRIPTION

Managing principal adverse impacts on sustainable development

Adopted by	Responsible Investment Board
Date	2021-05-31

1. Introduction

Carnegie Fonder's overall objective in the fund management is to create a good long-term risk-adjusted return on the assets under management.

The overall objective of responsible investment and corporate governance is to act in a way that promotes the conditions for long-term sustainable development in the companies in which the funds have invested, in order for the values of the companies to develop in the best possible way in the long term and in the joint interest of the unitholders

Carnegie Fonder therefore believes that our mandate from fund unitholders includes integrating significant sustainability-related risks and opportunities into the investment process and exercising our ownership role in a responsible manner.

2. Policy and process for identifying and prioritising principal adverse impacts

Sustainability aspects can directly or indirectly affect a company's sales and/or costs and thus have a large positive or negative impact on its financial results and value, and consequently also the value growth of the funds.

Therefore, Carnegie Fonder shall, as far as possible, seek to understand how the sustainability aspects that are considered to be most important for the specific portfolio company may affect its future business model, competitiveness and financial position.

These can be, for example, environmental issues such as climate, emissions, resource and energy efficiency, and water and waste management, or social issues such as human rights, working conditions, equality and diversity, the working environment and a responsible supply chain, or good business ethics and the fight against bribery and corruption (anti-corruption).

Carnegie Fonder works with three overall methods for managing and limiting sustainability risks and principal adverse impacts on sustainable development. These are screening in, screening out and advocacy.

3. Screening in

The evaluation for screening in investments is carried out through mainly three methods.

- Sustainability analysis using CF THOR
- Fund manager meetings with company managements
- Investments in bonds linked to ESG investments

The sustainability analysis is integrated into the investment process (within which relevant financial risks are also taken into account) by the fund manager using Carnegie Fonder's internally developed ESG tool, CF THOR. The name is an acronym for the four keywords we consider essential to the analysis:

Tangible – We analyse tangible risks and opportunities

Holistic – We take a more holistic stance and look beyond simply financial aspects or only ESG

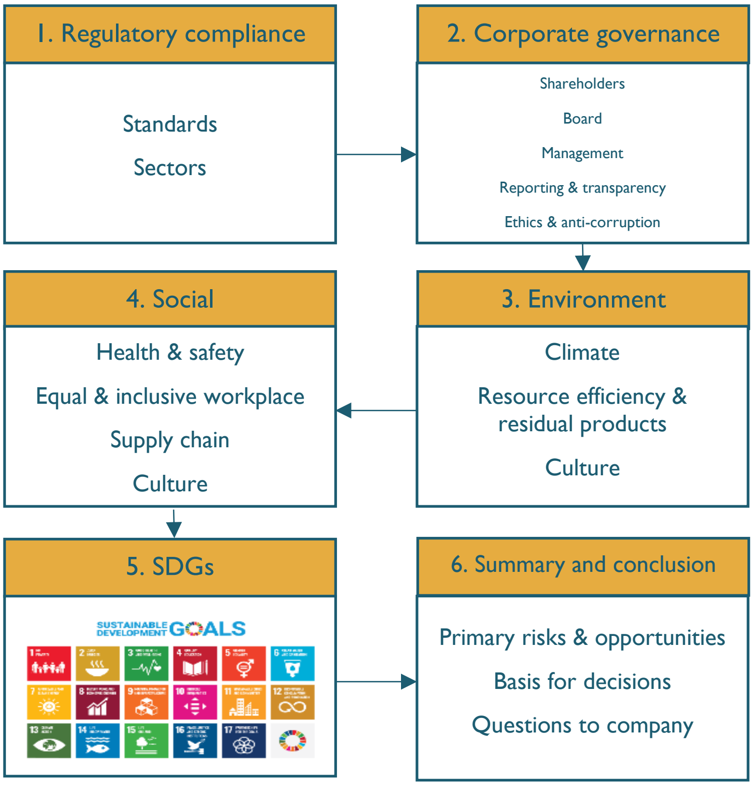
Original – We conduct our own analysis. Always

Realistic – The analysis is based on objective data and reasonable assumptions

CF THOR creates structure in the analysis process and ensures that managers take into account significant sustainability aspects, including that principal adverse impacts for sustainable development are identified and assessed. This means not only identifying risks, but also business opportunities. The tool is based on long-established and accepted sustainability frameworks and initiatives, such as GRI, CDP and the UN's 17 SDGs, and also takes into account future developments in, for example, the EU taxonomy and the Task Force for Climate Related Financial Disclosures (TCFD).

The tool covers over 100 data points related to the environment, social factors and corporate governance, plus around thirty qualitative questions to capture the breadth of factors in sustainability.

In addition to the questions resulting in a basis for decisions on investment, they often raise supplementary questions for the companies and create areas for advocacy dialogues.



All portfolio holdings are analysed using CF THOR ahead of new investments and then on an ongoing basis. The process is illustrated in the image below.

Fund manager meetings are a key component of Carnegie Fonder's company analysis, and these meetings are also important for understanding a company's sustainability work.

Data is often available in company sustainability reports, for example, but meetings provide an opportunity to better understand a company's future ambitions and actions.

Carnegie Fonder is a major investor in Nordic corporate bonds. One easy-to-use method for these investments is to positively screen **bonds** that are directly **linked to** a company's investments in **sustainability**. The most common are so-called green bonds, which help to finance a company's investments to make the business more sustainable from an environmental perspective.

4. Screening out

Carnegie Fonder excludes investments in companies whose operations are judged to be harmful to the environment or society.

Carnegie Fonder therefore does not invest in companies that have been proven in a serious or systematic way to violate international conventions and norms concerning labour law, human rights, the environment and corruption, and that have not been judged to show sufficient willingness to change to address the problems. Standards that are given special consideration are the UN Global Compact and the OECD Guidelines for Multinational Enterprises.

This includes companies that have either been identified as non-compliant in the Sustainalytics Global Standards Screening, or companies that have otherwise been brought to the attention of Carnegie Fonder. A systematic review of all portfolio companies is carried out twice a year.

In addition to complying with international conventions as described above, additional sustainability aspects must also be taken into account in the fund management. To comply with SFDR, managers must state how certain types of investments are excluded. Carnegie Fonder has therefore set minimum requirements.

Sustainalytics Global Standards Screening also identifies companies with operations (more than 5% of revenue) in selected sectors. Precise definitions of each excluded sector and the procedures followed in the event that companies are shown to violate the screened international norms can be found in the document entitled *Industry definitions*, available on Carnegie Fonder's website. Fund-specific information can be found in the fund's prospectus.

5. Advocacy

Carnegie Fonder influences the companies in the funds through active shareholder engagement. A set of policies for shareholder engagement and voting has therefore been adopted. These policies apply to Carnegie Fonder's shareholder engagement in companies that have issued shares admitted to trading on a regulated market in Sweden or the equivalent abroad, and are applied to both share and bond holdings or other promissory notes. Carnegie Fonder's shareholder engagement is solely aimed at preserving or increasing the return on fund investments.

Shareholders, the board of directors and company management have different roles and it is important that there is a balance between these roles. Shareholder engagement is the influence of shareholders on, and their control of, the work performed by a company's board and management. Carnegie Fonder's shareholder engagement takes place mainly on three levels: dialogues with representatives of the portfolio companies; voting at general meetings; and our work on nomination committees.

Carnegie Fonder is not part of any fixed ownership grouping, but collaboration with other owners on certain issues can occur if it improves the opportunities for active and effective shareholder engagement.

In order not to restrict the freedom of Carnegie Fonder to trade in securities in listed companies, officials of Carnegie Fonder may not be directors of listed companies.

6. Indicators of principal adverse impacts according to the Final Report on Draft Regulatory Technical Standards, published February 2, 2021

Access to sustainability-related data and the lack of uniform requirements for what is to be reported for the companies that our funds invest in is a problem that we believe affects all players in the financial market. Where data is available, Carnegie Fonder currently takes into account up to eleven of the fourteen mandatory indicators for companies proposed by the European Supervisory Authorities (ESA) in the report now awaiting approval by the European Commission.

Environmental indicators

- Emissions Scope 1, 2, 3
- Carbon footprint (CO2/enterprise value)
- GHG intensity
- Exposure to fossil fuels
- Share of non-renewable energy
- Energy intensity for companies in "high impact climate sectors"
- Activities negatively affecting biodiversity-sensitive areas
- Emissions to water
- Hazardous waste ratio

Social indicators

- Share of investments in violation of international standards (e.g. UNGC)
- Share of investments without policies to monitor compliance with international standards
- Unadjusted gender pay gap
- Board gender diversity
- Exposure to controversial weapons

Applicable to sovereigns and surpranationals

- GHG intensity
- Subject to "social violations"

The data points that are not taken into account at present are due to the lack of structured data from the sources we have access to.

With regard to the indicator “Share of investments without policies to monitor compliance with international standards”, specifically, we do not believe that it is fully clear how this should be defined.

Our analysis verifies whether the company has signed the UN Global Compact, but we have not seen any answer as to whether the lack of this means that the company lacks processes to check that it complies with international standards since such considerations can also be handled by the company under other policies.

At present, the specific factors for sovereigns and supranationals are not analysed as the only state invested in is Sweden, and the benefit of a separate tool for this is thus severely limited. On the other hand, analysis takes place for individual issues of government securities, taking into account, for example, any green frameworks.