SUSTAINABILITY REPORT

COELI GLOBAL AB

Coeli | GLOBAL SELECT

WE SUPPORT UN GLOBAL COMPACT

Signatory of: PRI Principles for Responsible Investment

SWESIF SVERIGES FORUM FÖR HÅLLBARA INVESTERINGAR

Contents

IMPORTANT INFORMATION

Historical returns are no guarantee for future returns. The money invested in funds can both increase and decrease in value, and it is not certain that investors will get back all the invested capital. We recommend that investors read the fund's fact sheet and full information brochure before buying units in the fund.

Background

We only have one planet with limited resources, even though we humans are using the earth's assets as if they were inexhaustible. According to a study by the World Wildlife Fund (WWF), the human population lives today as if we had 1.6 planets to provide all our resources and absorb our emissions. This is clearly unsustainable in the long term. The consequences are becoming ever more apparent and affect us all. The switch to a more sustainable future is something that should be in all our interests, but most of all, it is the responsibility of all of us, too.

The way our society conducts business has changed. Sustainability is no longer just an alternative but a competitive necessity. It is a key driving force in operational efficiency and innovation. The fact is, companies that drive their business in a more sustainable fashion have also proven more profitable and resilient, have a stronger brand, and find it easier to attract capital, labour, and skills since they are also more responsive to their customers, employees, and to society.

WHAT DOES SUSTAINABLE DEVELOPMENT MEAN TO COELI GLOBAL AB?

To consider sustainability and promote a sustainable development that satisfies today's needs, without compromising on the future generations' ability to satisfy their needs, is a matter of course for us at Coeli Global AB.

Those of us who work with asset management have an important task: to support and allocate capital to companies that influence and drive development in the right way and that also have profitable businesses in the long term.

We take sustainability very seriously. This is not something new or forced upon us. It is part of our DNA and one of the most essential components in our analysis process, helping to ensure we have a more accurate picture of a company's future possibilities and risks. We integrate sustainability work fully into our investment process.

This begins with an ESG screening of every investment prospect to ascertain that the companies fulfil our minimum requirements. After that, the asset managers themselves conduct a more in-depth analysis of each individual company. It is the asset managers who agree on and drive the sustainability work throughout the investment process, engaging personally in discussions with the companies on the topic and the road ahead.

To be aware of and understand the impact a company has on its environment, the climate, and society is naturally important, but it is equally important to monitor and understand the ways and the extent to which these three factors can affect the company and its future. A company's operations being affected by climate risks (flooding, storms, rising temperatures) can have a considerable impact on its revenues and profitability.

Sustainability and sustainability development are therefore a natural and essential part of our business, forming the basis for our carefully selected investments, which we continuously evaluate through criteria such as the environment, human rights, equality, and other key sustainability measures.

By investing sustainably, we can create better return possibilities for our unitholders and at lower risk.

RESPONSIBLE OWNERSHIP

We consider and include sustainability at all stages and apply strict processes, so we can also meet our unitholders' high demands for both returns and sustainable development in the portfolio companies.

At Coeli Global AB, we are convinced that we can contribute to increased awareness, allowing us to together work towards a better world and more sustainable societies. We must set a good example ourselves and live as we learn, sharing our unique skills and experience. To consistently be a conscious owner that closely follows, analyses, supports, and influences the sustainability work in the companies we own is thus central to our analysis and investment processes.

We are convinced that when those with differing skills and areas of responsibility meet and communicate, the resulting exchange of competences can often lead to increased understanding, contributing to stronger sustainability development, where our combined efforts and actions will make a difference.

To illustrate how we consider sustainability in our asset management and to substantiate how this affects us in our choice of investments, we have put together this brochure. We believe this will offer a glimpse into our work with sustainable investments and demonstrate the importance that we attach to ESG analysis.

Coeli Global AB - our sustainability work

Since Coeli Global AB launched the Coeli Global Select fund in 2014, we have worked actively with sustainability analysis. ESG (Environment, Social and Governance) has always formed an integral part of our asset management and is also essential to identifying what we call our "Champions" - the world's finest companies.

As active asset managers, Coeli Global Select's raison d'être and goal is to deliver a good, sustainable risk-adjusted return. A well thought out investment philosophy offers not just the opportunity to deliver a competitive return, but it also limits the risk, also from a sustainability perspective.

In the fund, we seek attractively valued companies that act long-term enough that they consider ESG mega-trends such as population growth, urbanisation, and new technologies that streamline and improve business models. The fund's investments thus contribute to reducing the negative effects on society in terms of both people and the environment.

INNOVATIONS, TRENDS, AND NEW TECHNOLOGY IN ACTIVE SUSTAINABLE MANAGEMENT

For the fund's managers, Andreas Brock and Henrik Milton, sustainability factors are crucial to any decision about investing in a company. Their analysis is based on understanding both a company and its industry and how external circumstances and trends affect them, while also reviewing how a company's own operations and actions can have a long-term impact on the outside world.

There are several examples of companies where the asset managers' knowledge, commitment, and collective experience allowed the early identification of high risks that could also affect the valuation of the company. This may include corruption but also other ESG-related risks that could, in turn, mean not only avoiding investing in these companies but also, in some cases, to engaging in discussions with them to raise their awareness of the issues and risks.

Through strict and thorough analysis, the asset managers have also been able to identify many positive ESG opportunities among the companies they have invested in, such as products that help the environment through reduced CO2 emissions and other positive trends, including the growing trend towards e-commerce and towards specific consumer goods owing to people being at home more during the pandemic.

Sustainable investments are very much about new technologies springing from trends and environmental analysis, with a particular focus on minimising negative climate risks and promoting environmental-related improvements.

Therefore, sustainable investments also function as a catalyst that can drive the innovation in a company to adapt and transform their business towards a healthier, more efficient, and more sustainable development.

In the end, sustainability (all aspects of ESG) is about whether we should live, consume, eat, work, travel and live harmoniously without destroying the future for coming generations and using the resources that they will rely on.

At the EU level, the finance industry has been singled out as a particularly important actor in the actual implementation of change and the reallocation of society's capital to companies that promote a sustainable development.

It is within actively managed funds that asset managers have the possibility to integrate and take into account different sustainability factors in their investment decisions, so that unitholders and investors have the greatest opportunity to receive significantly more than just financial returns on their capital.

HOW IS THE FUND AFFECTED BY EU TAXONOMY?

To help investors easily identify and compare environmentally sustainable investments and to offer clarity and impose higher requirements on companies' sustainability work and reporting, the EU has announced its new taxonomy[1]—a common classification system or framework that also has the purpose of facilitating and helping investors to easily identify and compare sustainable investments.

Coeli Global Select classifies itself as a so-called "light green product", according to article 8 of the new EU directive, EU Taxonomy and SFDR (Sustainable Finance Disclosure regulation). This means the fund's asset managers have undertaken, as part of their existing analysis process of selecting companies to invest in, first to conduct a comprehensive sustainability analysis that covers several stages (see page 6).

What the fund may not invest in has been decided in the fund's guidelines[2]. A light green fund is, according to the EU taxonomy, one that has committed to carry out a thorough sustainability analysis in addition to its usual financial analysis and to integrate sustainability risks and environmental impact as part of all investment decisions.

According to the EU directive[3], during 2021, the fund must be able to show how its corporate investments are associated or not associated with the first two objectives of the EU Taxonomy, as designated by the EU: "climate change mitigation" and "climate change adaptation".

More about Coeli Global Select's classification according to the EU's regulation[4].

1. https://www.regeringen.se/regeringens-politik/finansmarknad/taxonomi-ska-gora-det-enklare-att-identifiera-och-jamfora-miljomassigt-hallbara-investeringar/

2. https://coeli.se/wp-content/uploads/2019/08/Coelis-hallbarhetsoversikt_nov20.pdf

3. https://www.fi.se/sv/publicerat/nyheter/2020/nya-regler-om-hallbarhetsrapportering/

4. https://coeli.se/wp-content/uploads/2021/03/Hallbarhetsinformation-Coeli-Global-Select.pdf

How the asset managers at Coeli Global work in an integrated fashion with sustainability in their asset management

- An in-house-developed ESG scoring model assigns a premium or a discount in the asset managers' valuation model
- The asset managers travel extensively. Meetings at the company's locations offer a deeper understanding of the portfolio's Champions
- Active communication with the portfolio companies—every one of our Champions receives an ESG letter from us annually with questions from the asset management team.
- A concentrated portfolio offers the possibility for the asset managers to have deeper ESG discussions with each portfolio company
- ISS is used to support the company analysis - with overall analysis from Coeli's sustainability team
- Company analysis comprises an evaluation of the business model and products, accounts, management, sustainability, and environmental impact, etc. We take a holistic view of the analysis, looking at each and every part.

Sustainability analysis - step by step

Sustainability factors are crucial to us when investing in a company. The fund's managers are responsible for ESG analysis with support from other areas of the Coeli organisation.

We use independent data provider ISS ESG as a working partner to complement our own analysis in this field. ISS ESG has around 200 ESG analysts globally and generates research on more than 20,000 companies across the globe. ESG is integrated throughout the process of analysis and decision-making on what investments are made. In practical terms, our ESG analysis process includes the following steps.

EXCLUSION

Before we make an investment, we always conduct ESG exclusion screening and analysis, through which we exclude companies with more than 5% of their revenue from the production of fossil fuels, tobacco, alcohol, pornography, weapons, or gambling.

Note: gambling (betting) rather than gaming (computer gaming). We also exclude companies that fail to respect the international agreements and norms on human rights, working conditions, environmental issues, and anti-corruption. We use the analysis tools from independent provider ISS ESG at this stage.

Why the 5% cut-off? This cut-off is often used when fund management firms talk about which investments they will exclude, and it is also in accordance with the Swedish Investment Fund Association's "Guidelines for marketing and information by fund management companies".

Situations could occur such as a global industrial corporation with a small proportion of its business in some countries that sell military defence equipment, for example, or that a by-product from its industrial process can be considered a fossil fuel. Our intention is to not invest in companies involved in the areas stated above, but it can also be challenging to anticipate exactly which of these scenarios could occur, and so we have also decided to use the 5% cut-off.

In addition to using ISS's ESG database for exclusion criteria, Coeli Global AB has also signed the UN's PRI and Global Compact initiatives and is a member of Swesif – Sweden's Sustainable Investment Forum. All of this is to ensure that the companies we invest in meet the highest sustainability requirements and that we actively work to take our own sustainability responsibilities as asset owners.

SELECTION

All else being equal, we prefer to invest in companies that take ESG issues seriously and whose businesses have a positive environmental and social impact. In our experience, such companies are often not just well run but also prove to be investments that offer high returns to our unitholders.

Our own analysis "out in the field" forms part of our work in seeking these companies, This field work can be anything from company visits and participation at capital markets days and trade fairs to sharing and gathering insights from the asset managers' personal networks and monitoring watch lists such as Barron's Top 100 and Sustainability Corporate Knights Global 100 (the world's 100 most sustainable corporations).

Another part is desk-bound work, where we sit and look through company after company highlighted as good ESG performers by other institutions, so as to establish contact with them and then undertake our own analysis.

ESG analysis overview -Light green fund (article 8 in SFDR)

ESG-analysis

Deselection Exclusion	Internal analysis In-house scoring model	Selection Inclusion	Active ownership Influence	Review	Transparent communication
ISS ESG Signatory of: PRI Principles for Responsible Investment WE SUPPORT UN GLOBAL COMPACT SWESIF Sveriges Forum för Hållbara Investeringar Coeli	▪ UN PRI, ▪ How resilient is the business model? ▪ Operations from an ESG perspective? ▪ UN Global Compact? ▪ Sustainability manager? ▪ Transparency/sustainability reporting? ▪ Management and Board? ▪ Equality and diversity? ▪ ESG opportunities? ▪ ESG-risks?	▪ External analysis ▪ Internal analysis ▪ Idea generation from *"Barron's Top 100"* and *"Sustainability Corporate Knights 100 most sustainable corporations"*, for example ▪ Meetings with management /Investor relations	▪ ESG letter to follow up after meetings/discussions ▪ Awareness, draw attention and ask questions ▪ Documentation for meetings based on supporting information gathered from our ESG database WE SUPPORT UN GLOBAL COMPACT 5 JÄMSTÄLLDHET 13 BEKÄMPA KLIMATFÖRÄNDRINGARNA	▪ Follow-up meetings/discussions with management or those responsible (on specific questions) ▪ Documentation based on supporting information from our database	▪ Blog ▪ Podcasts ▪ Website ▪ LinkedIn ▪ Newsletters ▪ Reports ▪ Information from our digital data collection

ANALYSIS

When we have found an interesting company, we begin our own analysis. Before investing, we undertake the exclusion process outlined above. After that, we scrutinise the company's ESG profile, investigating its ESG reporting, climate initiatives, social impact, and corporate governance, focusing on its internal accounting and shareholder programme. Through this analysis, we make an assessment of how large the company's environmental impact is versus the size of its business. We also evaluate the company's ESG risks and opportunities.

The asset managers quantify the company's ESG profile and include this in the valuation of the company. For companies that we judge as taking ESG seriously, that conduct measurable climate initiatives, and that are well run, we assign a valuation premium compared with comparable companies that fall short on these attributes. We anticipate higher upside in equities with such a premium and so we are more likely not only to invest in them but also to keep them in the portfolio for a long time.

ESG also forms part of our evaluation of a company's business model and our ongoing risk analysis.

INFLUENCE

We influence the companies that we define as Champions through an ESG letter, in which we outline our expectations as a shareholder. For example, we urge them to sign the UN Global Compact—the UN's international principles regarding human rights, working conditions, environmental issues, and anti-corruption directed at companies. In our discussions with companies, we promote no. 5 of the UN's Sustainable Development Goals (Gender Equality) and no. 13 (Climate Action) by encouraging the companies to work actively with these vital issues.

In addition to this letter, ESG issues form a recurrent theme in our meetings with company representatives, regardless of whether we own shares in the company or not. In addition, we vote at any AGMs where we have a holding in the company. In the future, our activity in this field will accelerate rapidly and our aim is to take part in as many as possible.

ESG scoring model - separating the wheat from the chaff

Coeli Global's in-house-developed ESG scoring model is a unique tool for distinguishing which companies might finally end up in the portfolio. It considers both qualitative and quantitative factors and directly incorporates ESG opportunities and risks into company valuations.

Coeli Global has developed its own ESG scoring model to objectively and quantitively evaluate a company's ESG work. The purpose of the model is also to allow objective comparison of companies, regardless of which country they are based in, and to directly include ESG opportunities and risks in a company's valuation.

The model considers factors such as:

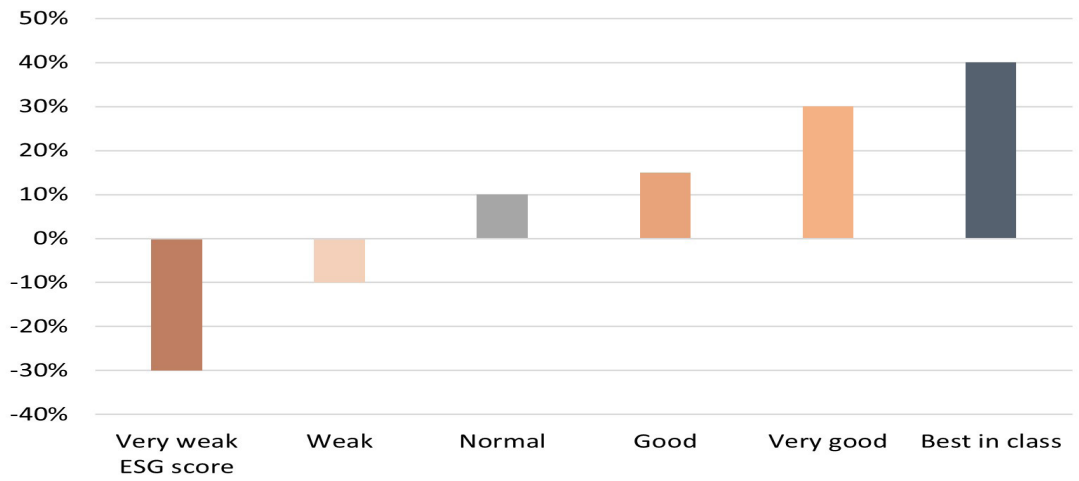
- Has the company signed the UN Global Compact?
- Does the company provide detailed ESG accounting?
- How is the gender balance at both the board and general management levels in the company?
- Do the company's products support the climate change needed in the world?

SUPPORTING THE ASSET MANAGEMENT PROCESS AND QUANTIFYING THE ESG PROFILES

The model provides the asset managers with a structured method to evaluate a company's ESG profile and create briefing material that can be used in discussions with a company's management and other representatives. The model's quantitative results are applied directly to the valuation and have a significant effect on the asset managers' investment decisions since the model can generate a valuation premium or discount of typically around 20%, or, in exceptional cases, even as high as 30-50%.

The asset managers' ambition is to create 15% annual return over time while also beating the benchmark index. This work goes hand in hand with the view that those companies taking ESG seriously are better run than others, and this creates both higher return possibilities for unitholders and minimises investment risks. The ESG model allows these views to be integrated, becoming one and the same. As active investors, it is our job to find incorrectly priced companies. Experience tells us that the stock market is

Chart 1. The impact of Coeli Global's ESG model on valuation



often relatively skilled at setting the price of a company, and many shares trade within 20% of the value that one can objectively estimate the company should be valued at under normal circumstances.

A company judged by the ESG model to be doing particularly good work can receive a valuation premium of 30% or more—a level that is considerably higher than the 20% upside potential that typically makes an investment in a share look attractive.

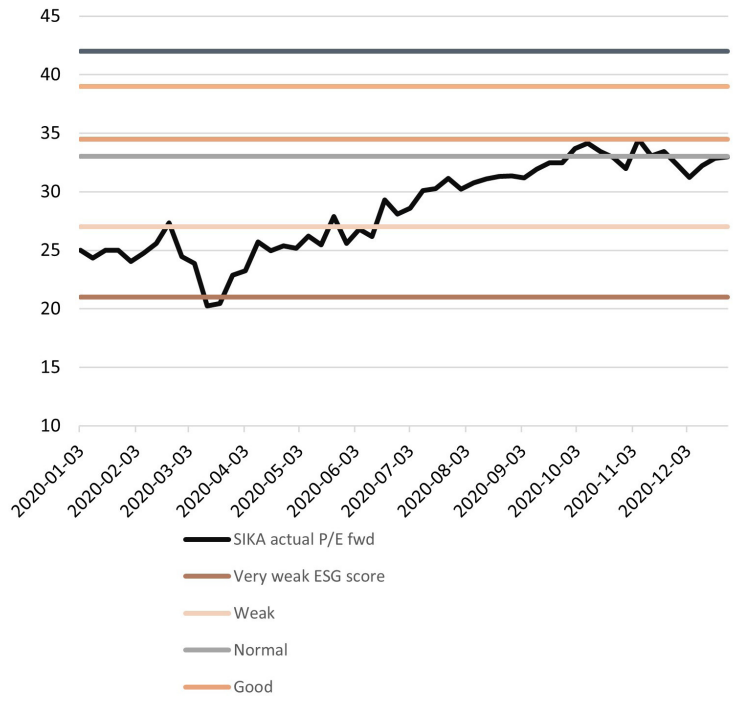
That ESG factors can have such an impact on valuation means that asset managers are much more likely to invest in companies with a good ESG profile and also to own such shares at a greater weight in the fund and for longer. On the other hand, the model can also assign an ESG discount of -30% or more, making it near impossible in practice to own a company with a low focus on the environment, gender equality and/or corporate governance.

Take SIKA as an example. The model awards SIKA a very high ESG premium of 30%, thanks to the company's extensive focus on ESG across all areas (see page 12).

On purely financial measures such as revenue growth, industry structure, return on equity, the asset managers' view back at the time of initial investment in 2016 was that the SIKA share would head towards a valuation of around 30x future annual profits. After applying the ESG scoring model to SIKA and having extensive discussions with company representatives about SIKA's ESG work, the valuation multiples rise, leading the asset managers to instead anticipate that SIKA will trade at 39x (30x*130%= 39x).

This meant that the asset managers did not sell SIKA in 2020 when the share reached the valuation level of 30x but held onto it during the year. Had the model instead given a particularly bad ESG value (ie,
-30%), the asset managers could not have owned the share at a valuation of over 20x.

Chart 2. The impact of Coeli Global's ESG model on valuation—example: SIKA AG



Company visits and active advocacy work

To provide an accurate picture of the companies we invest in—and the sustainability work they do—we find it particularly important to have physical meetings with the companies and their representatives. We consider these meetings an essential part of our active advocacy work to convince the companies to improve their sustainability work further.

Since the fund's establishment, the managers of Coeli Global Select have carried out more than 650 direct company interactions (see chart below). Most of these have been physical company visits. In a typical year, we conduct over 100 interactions with different companies around the globe. During the pandemic, we have replaced physical visits with digital meetings.

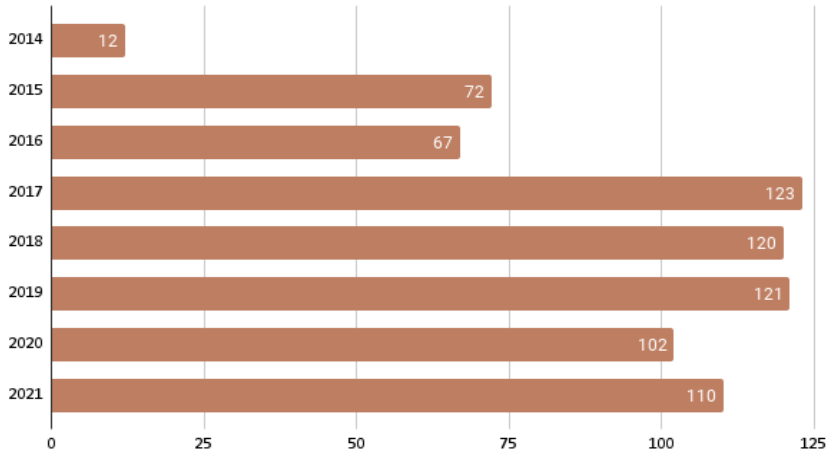
We view physical meetings as extremely important in providing a fair picture of a company. By meeting company representatives, we have the opportunity to ask questions related to sustainability. This is especially valuable when we have addressed deficiencies in this work and communicated these by letter to the company.

ANALYSIS TRIPS

The fund's asset managers take regular major analysis trips to have the opportunity to form an opinion of companies' work on-site. These trips also provide an opportunity to verify that companies we consider interesting from our company analysis actually show that same positive picture in reality at physical meetings.

Most of the trips are to the US and Europe, where the majority of the fund's holdings are based. But the asset managers have also carried out more extensive trips to Brazil and India. We then make detailed trip summaries to collate our impressions of the company and its markets and to follow up on them.

Chart 3. The number of direct company interactions per year since Coeli Global Select was established*



*2021 represents the number of direct interactions carried out until 20 October 2021.




Photos from company visits. Top left: Atlas Copco's CFO Hans Ola Meyer. Top right: Tata Communications (India), owner of the world's largest fibre network. Bottom left: Retail chain Magazine Luiza's CFO (Brazil). Bottom right: Capital Markets Day at SIKA AG (Switzerland).

ACTIVE ADVOCACY WORK

Coeli Global Select is a relatively small fund in a global context, but we believe the companies we invest in take our ESG feedback seriously. We are often given access to those at the top echelons of the organisation and can have ongoing discussions with the companies about how they are strengthening their work in this area.

One example of impactful dialogue was when the fund took a discussion with US financial services firm Fiserv in June 2020.

The asset managers set out a requirement in their ESG letter for the company to introduce science-based targets in its climate change work to show more clearly the results of its sustainability work and to link them to the Paris Agreement climate goals.

In addition, we urged the company to introduce "inclusion policies" in its recruitment process. In terms of corporate governance, we suggested that the roles of CEO and chair of the board should be separate and that an internal accounting function should be established, reporting directly to the board of directors. This is because the company had many geographically dispersed reporting units.

Other examples of active advocacy are our discussions with ASML, Kotak, HCA, Martin Marietta, and TSMC.

The asset managers have, for example, urged the companies to appoint a person responsible for ESG and to support and comply with the UN Global Compact's principles/guidelines, take scientifically proven initiatives to fight global climate warming, respect and not interfere in employees' union affiliations, and to have an internal accounting function that reports directly to the board of directors.

The fund's managers have also had ongoing discussions with portfolio companies SIKA, Vonovia, and WDP to discuss in particular their opinion that more equality is needed in the companies' management groups.

How the portfolio companies work with sustainability

The 25-35 companies in Coeli Global Select's portfolio all work actively to maintain the highest possible sustainability standards. This is an important piece of the puzzle in creating and maintaining competitive advantages and attracting both capital and competence in the longer term, we argue. Below, we provide a selection of our portfolio companies and their sustainability work.

SIKA AG

Leading specialist chemicals company SIKA maintains high ESG standards and signed the UN Global Compact in 2009. It has six focus areas: sustainable solutions, climate performance, community engagement, energy, waste/water, and occupational safety. SIKA is proactive and innovative and produces a detailed annual sustainability report.

"More value - less impact" is the key to SIKA's ESG work. Cement production, which is essential for concrete, accounts for 6-8% of the world's CO2 emissions. SIKA aims to minimise the environmental effect, primarily through innovation and a focus on the circular economy.

It wants to minimise its environmental impact in three areas: 1) by reducing CO2 emissions; 2) by increasing the use of electricity from renewable energy resources; and 3) by recycling used materials. A few years ago, it switched to reusing more materials and focusing on sustainable raw material procurement.

It has lowered its CO2 emissions thanks to modern compressors and has begun the recycling of concrete into its constituent parts via an innovative process it calls "reCO-2ver". In April, SIKA launched a new product for concrete production with LC3 technology that will reduce CO2 emissions further.

Innovation and continuous improvements are centre-stage for SIKA. The company has a good independent internal auditor. The CEO and the chair of the board are separate roles. We have pointed out the high levels of compensation to the board, although these are on a par with other high-ranking Swiss companies. We have also called to attention its low proportion of women in management roles - less than 25%.

ADOBE

Adobe works progressively with sustainability. This applies to environmental and social aspects and to its corporate governance.

The company is gradually working towards higher use of renewable energy. For example, it was one of the first in Bangalore to use solar energy. Its carbon footprint is low, and it aims to build partnerships with customers and suppliers to further reduce its overall impact.

The company's products have a clear sustainability profile: they help customers and users stop using paper and switch to digital processes. Its products not only reduce the environmental impact but also increase efficiency.

Adobe considers sustainability a priority area and has stated an intention to sign the UN Global Compact during 2021.

L'ORÉAL

L'Oréal has a long history of driving positive sustainable development; its commitment to this is strong. Among other actions, L'Oréal has, for the seventh year in a row, been confirmed as a UN Global Compact LEAD company1 thanks to its ongoing commitment to the ten principles of responsible business and for placing the UN's goals for sustainable development (SDG) at the core of its growth strategy.

L'Oréal has developed from basing its business on science (founder Eugène Schueller was a chemist) to now green science that can drive a sustainable development.

It has, for example, undertaken several successful projects and commitments to society and societal improvements, and these were among the reasons it chose to take its sustainability work a step further by integrating sustainability across the organisation's various departments and processes.

In its sustainability work, L'Oréal considers the entire value chain, from the procurement of ingredients, manufacture, and packaging, to delivery, distribution, and sales.

Today, its sustainability work, commitment, and active influence form a natural part of L'Oréal's entire business model.

As one of the largest players in its field, L'Oréal ensures it takes greater responsibility since, as an influential player, it actually has greater opportunities to take part and influence and thus contribute to making a difference for both society and the environment.

The company has high sustainability goals; it considers this to be the right way to do profitable business in the future. To follow and measure this work, it established its first proper sustainability programme in 2013 to kick-start its transition to sustainable development in earnest.

L'Oréal works with 16 of the 17 goals

Through its sustainability programme, its solid commitment to ethical issues, its promotion of diversity and inclusion, and its philanthropic activities (carried out with the support of the L'Oréal Foundation and its brands), L'Oréal contributes to 16 of the 17 sustainable development goals established by the United Nations in 2015.

See here for more on the company's goals and commitments: https://www.youtube.com/watch?v=Dq_fFzUqwSY

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