

COP 2018 – Carnegie Fonder

1. Statement by our CEO

Asset management has been our business at Carnegie Fonder since 1988 and we have always been active managers. We take pride in doing our own research, taking independent decisions and paying no attention to how companies are weighted in an index or how other investors behave.

We have refined our philosophy over the years. Starting with active management, we have carved out what we call focused value management – the very essence of what we stand for. Focused refers to investing in no more companies than we can keep track of, and only in those we most fervently believe in. Value management means that we are highly selective. We buy only companies that are financially stable, have good dividend potential and a sustainable business model.

Value companies, as we call our holdings, know that compliance with international conventions on human rights, the environment, labour law and corporate governance is the only option. Not only because it is the right thing to do, but also because an ambitious approach to sustainability also makes them more competitive as the world gets hotter and customers become increasingly aware.

Good companies work hard to help make the world a better place. Carnegie Fonder shall be a good company by investing in good companies. At present, we manage 16 funds with a total of 343 holdings. That is 343 companies that are already good – but like Carnegie Fonder and every other company, they can always get even better. Therefore, we support the Global Compact and are committed to the initiative and its principles.

This is an ongoing process of improvement and we are convinced that our tradition of in-house research and focus on value companies is fertile ground for growing our contribution to a more sustainable world.

Hans Hedström, CEO Carnegie Fonder July 2018

2. *Integration of the principles*

As active managers, we do our best to identify and avoid companies that behave improperly. In addition to maintaining close and regular dialogue with our holdings, we engage an external consultant – GES Investment Services – to review our portfolio in terms of sustainability, even before we invest ("pre-screening"). Special consideration is given to the UN Global Compact and the OECD Guidelines for Multinational Enterprises.

Carnegie Fonder is an active manager that takes a stand on corporate governance issues, including sustainability. We therefore have a special council for responsible investment, comprising the CEO, the compliance officer, the head of corporate communications and the head of sales. The council regularly discusses sustainability issues, quality assures that the fund managers take into account sustainability issues when making investments and ensures that Carnegie Fonder's personnel receive training in these matters.

If we receive information that a holding does not live up to our requirements, the council takes action in consultation with the relevant fund manager. We have a number of possible courses of action:

- The manager seeks additional information and discusses the holding with the council.
- The manager contacts the company with regard to our issues.
- Carnegie Fonder's CEO makes more formal contact with the holding's CEO or chairman.
- We contact other shareholders for joint ownership dialogue.
- If the response is not satisfactory, and the company does not show willingness to change, we can choose to divest the holding.

This type of process can take some time, depending on the nature of the issue, the size of our holding and where the company is based geographically. Each case is unique and is evaluated individually.

2.1. *Engagement activities*

All our portfolios are norm based screened on a regular basis. Of 343 holdings (as of December 31, 2017) three holdings – BHP Billiton of Carnegie Afrikafond, Norilsk Nickel of Carnegie EM Corporate Bond and Mundra Ports of Carnegie Indienfond – had confirmed breaches of international conventions. As active managers, we conduct a dialogue with these holdings and require them to improve.

2.1.1. *Engagement case 1: Norilsk Nickel*

Holding of the fund Carnegie EM Corporate Bond

The reported practices can be associated to violations of the UN Global Compact Principles 1, 2, 7, 8 and 9 on human rights and environment.

Russian Norilsk Nickel, the world's largest nickel producer, is responsible for massive discharges of heavy metals and sulfur dioxide in the city of Norilsk and its surroundings. Extraction and production has continued uninterrupted for 80 years with a largely obsolete technology.

In September 2016 there was a problem with a purifying pond that overflowed and gave the surrounding waters a reddish color. It happened while Norilsk Nickel was in the final stages of a modernization of the plant at the current dam. We met representatives of the company and were assured that actions have been taken to avoid similar incidents.

A couple of weeks after the incident Norilsk Nickel announced that the modernization of the plant was completed. This is part of the company's long-term environmental work: Norilsk Nickel Company has allocated about 40 billion for its environmental projects by 2020.

Another step in the right direction regarding Norilsk Nickel's environmental commitment is that the company in November 2016 joined the Global Compact.

2.1.2. Engagement case 2: Mundra Port/Adani Ports

Holding of the fund Carnegie Indienfond

The reported practices can be associated to a violation of the UN Global Compact Principles 1 on human rights and 7 on environment.

Mundra Port and Special Economic Zone is owned by Adani Group, one of India's most trusted and fastest-growing conglomerates. Mundra Port is in Gujarat, one of India's most industrialised, investor-friendly and commercially successful states.

The port is strategically located on the western coast of India, close to the northern and central parts of the country, including Rajasthan, Haryana, Delhi, Punjab, Jammu and Kashmir, Uttarakhand, Himachal Pradesh, Madhya Pradesh and Uttar Pradesh, which account for about two-thirds of India's cargo handling. The port has excellent connections via railways, road networks and airports. Mundra Port has grown rapidly since it opened commercially in 2001.

In April 2013, the Indian Ministry of Environment and Forests issued a report suggesting that the port and power plant project had led to massive negative environmental impact, including the destruction of 75 hectares of mangroves at Bocha Island, and had damaged the fishing industry. The report also claimed that companies had not taken sufficient precautions when the port was built and therefore caused damage to watercourses near the port.

In September 2013, the company was fined the equivalent of USD 30.6 million for the breaches. Gujarat's High Court also ruled in October 2015 that Apsez and Adani Power should restore the mangroves in the Mundra area. There was then a public hearing for the project on 29 July 2013, with representatives from four affected villages and local areas. At the end of the hearing the villagers received responses to their questions.

Since the fund invested in the company, we have had contact with management on a number of occasions. We met them in June 2017 to reassure ourselves that the company has taken action over the alleged environmental impact. We have also been in touch with the company recently to ensure that our information is correct. Adani Ports' assessment of the situation and account of the action taken can be found below.

When the matter came before the Gujarat High Court in April 2015 the company won its case with respect to the environmental impact of the port construction. The Supreme Court of India chose to reject this ruling on appeal. Other lawsuits were also rejected by the local court.

No review has conclusively proven that the port construction was in violation of local regulations. With regard to the extent of mangrove trees in the area, two things have been identified on further investigation. Firstly, the mangroves are used by the residents of the fishing villages for local needs. Secondly, the extent of mangroves in the area has increased from 1,894 hectares to 2,847 hectares, according to Dr Claude Alvares' Committee. The company has not been required to pay any fines.

An agreement was reached to form a restoration fund for conservation of the environment. The company has undertaken to set aside 2 percent of its revenues to finance the fund. It has also voluntarily initiated a programme for replanting mangrove trees in the area. This began in 2015 with

the planting of an area of 100 hectares near Mundra. In total, the Adani Group has now planted 2,800 hectares of mangroves along the coast of Gujarat state.

2.1.3. Engagement case 3: BHP Billiton

Holding of the fund Carnegie Afrikafond

The reported practices can be associated with a violation of the UN Global Compact Principle 1 addressing safe and healthy working conditions, Principle 2 on human rights and Principles 7, 8 and 9 on environment.

BHP Billiton is a British-Australian mining company with extensive operations in several countries. In 2015 a dam burst in Brazil, adjacent to an iron ore mine that BHP is responsible for with the company Vale. A dirt road killed a total of 19 people. Neither we nor GES see anything that is systematically wrong in BHP Billiton's procedures and processes that underlie the tragic accident.

Our conviction is that the company's actions after the accident meet our expectations of accountability. Among other things, BHP Billiton appointed an expert panel to investigate the accident, the investigation is public and the industry organization ICMM – International Council on Mining and Metals – has taken part of it.

3. *SDGs*

3.1. *SDG 1, 4 and 5*

Carnegie Fonder supports Social Initiative, a best in class organization that uses forward-thinking approaches to solve pressing social challenges.

Social Initiative is an independent and non-profit advisor helping companies and individuals with the ambition to make a difference in the world. The goal is to help exposed people to help themselves.

Since inception in 2002 Social Initiative has developed successful sponsorship projects for more than 30 companies and individuals, who together have invested more than SEK 90 million in 28 projects around the world. All projects are thoroughly evaluated, and 26 of the projects have reached or surpassed their goals.

During 2015 alone, Social Initiative and its sponsors contributed to better circumstances for 32 000 individuals in India, Kenya, Uganda, Tanzania and Sweden.

3.2. *SDG 13*

CDP is an international non-profit that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Carnegie Fonder supports CDP since 2017.

Also, we report the carbon footprint of our equity funds, so unit holders may compare them to other funds. Fund managers use the measurement as a tool in ongoing discussions with the holdings.