

## ESG Standpoints

St. Petri Capital has applied certain ESG views and standpoints which we expect companies to adhere to. These views are divided between norm and regulation-based, and thematic and product-based. Together they constitute St. Petri Capital's ESG standpoints. These ESG standpoints represent potential risk both to an investment and/or its surroundings if violated.

Human rights are a fundamental prerequisite for a well-functioning and acceptable investment. While ultimately the responsibility of governments, it is well known that companies play an important role in securing human rights. Companies underestimating this responsibility do not act in the long-term interest of investors as they may jeopardize sustainable development, and their own capacity to operate effectively.

We therefore expect companies to adhere to fundamental human rights as prescribed by international regulations, and to actively prevent and handle human rights issues within their operation and supply chain.

Human rights issues are understood as, but not limited to:

- Human rights abuses
- Modern slavery and child labour
- Occupational safety and health
- The rights of indigenous people
- Displacement of local communities
- Freedom of association and collective bargaining
- International humanitarian law

Conflict areas pose a risk for a company's operation due to lack of security, unstable political conditions, and weak state institutions. Companies may also have operations or products and services which severely contribute to conflicts.

St. Petri Capital expects all companies to assess and eventually report if their operations or products contribute or impact conflicts, as well as human rights violations, and to what extent it has a material impact on the company, its stakeholders, and surroundings.

Controversial weapons are part of the products which St. Petri Capital does not invest in, due to their indiscriminate effect on populations. St. Petri Capital can choose to invest in companies involved in the maintenance of nuclear weapons.

St. Petri Capital does not invest in companies that are involved in the development or production of:

- Cluster munition
- Anti-personnel mines and landmines
- Nuclear-, chemical- and biological- weapons
- Non-detectable fragments, incendiary and blinding weapons
- depleted uranium munitions

Conventional weapons<sup>1</sup> - International law recognizes the right of states to defend themselves and the responsibility of states to protect their citizens, and so does St. Petri Capital.

In a time of continuing political tension between nations and increasing polarization between the leading military forces on a global scale, we believe that it is fundamentally essential that the European Union and its member states can defend themselves against potential threats and participate in peacekeeping missions where needed. As such, St Petri Capital believes that allocation of capital towards European defense companies, companies that produce and/or develop conventional military hardware and/or software or other related products, should not be excluded from our investments.

Investing in the defense sector is complex and challenging, and St. Petri Capital recognizes the concerns it raises among investors. The variety of weapons being produced today is disputed from a moral and ethical point of view. Risks relate to the various types of weapons as well as their potential use for internal repression, acts of terrorism and serious violations of international humanitarian law or other purposes which cannot be considered consistent with normal or legitimate national security and defense. In addition, there is risk for corruption and bribes.

Recognizing these issues involving the production and use of arms, both individual states and the international community have sought to regulate the area through a multitude of laws, treaties, and conventions.

St. Petri Capital expects the companies involved in the defense industry to be compliant with national law (including export licenses in relevant jurisdictions), national policies established by the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, international humanitarian law, treaties, and conventions, but also to follow the UN Global Compact and the UN Guiding Principles on Business and Human Rights.

St. Petri Capital acknowledges that the defense sector is in a process of improving transparency and implementing high ESG standards, and therefore we look at the future developments. For St. Petri Capital it is essential that we in the coming years see an improvement in business ethics especially around exports to oppressive regimes, bribery, and corruption etc. St. Petri Capital will not invest in companies that continue to export products used by oppressive regimes to cause destabilization, insecurity and violation of fundamental humanitarian laws and human rights.

Soft commodities traded at stable prices are essential for the survival of many families in vulnerable areas. Speculations in food commodities have resulted in volatile and record high prices to the disadvantage for vulnerable communities

Tobacco is not a product that St. Petri Capital invests in due to its social cost and damaging effects on human health. Tobacco use has many potential negative side effects which can cause chronic diseases such as cardiovascular diseases, cancer, and lung diseases. The treatment and other consequences of tobacco related diseases has an enormous economic cost to society. Tobacco is also often sourced from countries with low ESG standards which heightens the risk for very poor working conditions and environmental hazards.

Alcohol - evidence shows that alcohol is the most widespread and damaging drug to humans, and one of the costliest to society. The harmful use of alcohol is both a health problem, a social

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<sup>1</sup> A company is viewed as operating within the arms and defence industry when a significant proportion (>5%) of the total turnover of the company is derived from arms and defence products. Irrespective of the proportion to turnover (definition by SEB).

problem and often also a economic problem to addicts and their families, but these same problems are also reflected on a macro level in the general society. Growing international concern about the misuse of alcohol has resulted in more regulative initiatives emerging to reduce harmful intake of alcohol among populations. St. Petri Capital only invests in alcohol producing and distribution companies that have established policies and practices to promote responsible marketing, sale, and consumption of alcohol. We prefer companies who have clear and trackable objectives in place. These objectives can be through marketing, packaging, and product factors, which can be tracked and quantified. These targets include but are not limited to responsible consumption in marketing campaigns and on product packing, offering of low or zero alcohol beverages and educational sessions on responsible drinking. We acknowledge that many companies are in a process to develop the right objectives and targets, and therefore our focus is on the path. A path that starts with acknowledgement of responsibility, implementation of policies to clear objectives and KPIs on responsible marketing, sale, and consumption of alcohol.

Gambling is an activity which can cause addiction and imply major social problems to the addicts, their families and social network. The problem mainly concerns adults, but it is imperative also to focus on how children are exposed to prevent future addiction. St. Petri Capital will only invest in gambling companies operating in regulated markets, and that have policies and practices in place, to address the personal and societal problems that can arise from gambling.

Cannabis - whether recreational use of cannabis should be legalized is subjected to much discussion, on government level, around the world. Evidence is unclear about the potential harmfulness of cannabis to the human brain, in cases of misuse. Until further clarifications are provided in the matter, or the widespread international prohibition against recreational use of cannabis is lifted, St. Petri Capital will abstain from investing in the companies that produce cannabis for recreational use.

Pornography is a business where people expose themselves out of the ordinary. It can be difficult for people to assess the long-term psychological consequences of participation in pornography that is distributed globally. Pornography may also enhance the risk of people being exploited against their will or exposed to trafficking. Due to the potential risk to people involved in pornography St. Petri Capital does not invest in companies involved in the production, distribution, or promotion of pornography.

Climate change is the most urgent issue to handle among the current ESG risks. Climate change already significantly affects the lives of millions of people around the world as well as the global economy, businesses, and supply chains. The effects of climate change are therefore material to St. Petri Capital's current and future investments. Both understood as direct physical company impacts, and as transitions risk e.g., political regulation or changing consumption patterns.

St. Petri Capital have certain expectations of how the companies we invest in handles both the risks and opportunities associated with climate change:

- We prefer each company to have a clear, transparent, and proven climate governance policy on how the company integrates climate risk and opportunities in their daily operations, business strategies, risk management and investment decisions.

- We prefer each company to disclose on how they assess the future material impact of climate change, related to transitions risk and physical company impact, will affect their future business strategy and profitability.
- We prefer each company to be transparent on their standpoints and strategy towards climate change regulation, and their interactions with policy makers and regulators.
- We prefer each company which is exposed to climate change to report in accordance with the TCFD recommendations, and to continuously work to reduce greenhouse gas emissions across their entire value chain, to align with the Paris agreements recommendations.

Coal producing companies are excluded from St. Petri Capital's portfolio as investments, with a revenue threshold of 10% on thermal coal production and a 30% revenue threshold on total coal (including metallurgical coal - The threshold on metallurgical coal is higher as there are currently no widely available alternatives. We expect it to be adjusted downwards as applicable coal-free technologies appear). St. Petri Capital does not invest in companies with plans to expand coal production facilities.

Arctic drilling, shale oil/gas and oil Sand producing companies are excluded from St. Petri Capital's portfolio, as long investments with a revenue threshold of 10 % for oil sands and 5 % for arctic drilling. Arctic drilling and extractions of oil from oil sands is very carbon intensive and potentially poses a significant risk to the environment and is therefore not aligned with St. Petri Capital's ESG views.

Biodiversity is declining at an accelerating speed, and the process will continue if we do not change the way we interact with nature in a drastic way, resulting in loss of ecological habitats, plants, animals etc. Loss of biodiversity will have severe consequences for the human race as it will affect our food supply, medicine development and have a huge impact on the global economy. St. Petri Capital expects the companies we invest in, and that are exposed to biodiversity risks, to be transparent about, and have a clear strategy on, how they handle the risks and opportunities connected to biodiversity.

Deforestation is one of the main drivers of biodiversity loss, and especially deforestation in connection to establishment of new agricultural production. Forests play a crucial role in biodiversity protection, climate change mitigation and in supporting the daily lives of humans around the world. So, the losses, in connection with deforestation, to humans, businesses and society is much greater than the gains.

St. Petri Capital expects the companies we invest in, and that are involved in commercialization of forest related products, to have clear and transparent business strategies and governance structures; that clearly articulates management and board responsibilities in connection to fighting deforestation risks, and to ensure traceability of forest related products. St. Petri Capital expects the relevant companies to explicitly commit to eliminating deforestation, and all risks posed to valuable ecosystems from their business operations and supply chain.

Water scarcity threatens the health and development of communities around the world, and may therefore also affect the stability and opportunities of the companies that St. Petri Capital may invest in. By 2021 nearly two thirds of the global population is already subjected to water stress. The way we historically have conducted business, and the related effects on climate change are

putting extreme pressure on existing and future water resources, both groundwater and renewable surface water.

St. Petri Capital expects the companies we invest in, and that uses water as an indispensable resource in their operations, to have a clear and transparent strategy for how they handle the risks associated with their water usages. Both for the company and the surrounding environment.

Good governance is a fundamental value we seek to live by at St. Petri Capital. Our aim is to generate shareholder value and long-term returns with responsibility. Therefore, we incorporate different kinds of risk assessments, including ESG risks, in our investment process and in our daily operations.

St. Petri Capital expects the same from our investee companies. We expect them to establish strong transparent corporate governance structures to work for the long-term interest of shareholders. This includes clear and transparent responsibilities delegated between board and senior management. We expect that the board of directors will monitor how effective senior management implements and maintain governance structures to handle traditional risks, ESG risks and protect shareholder interest and long-term profitability.

Corruption is not compatible with St. Petri Capital's fundamental values, and it is also undermining long term profitability as well as a sustainable society.

St. Petri Capital expects our investee companies to abstain from corruption, and to support responsible transactions and the development of relevant structures that promotes such transactions along the entire supply chain.

Tax is a fundamental element in the construction of a sustainable world through the redistribution of resources. Tax avoidance is also creating unequal conditions for companies and poses a risk to the long-term viability of a company.

St. Petri Capital expects our investee companies to have a clear and transparent tax policy, and that this policy is a fundamental part of the company's current and future business strategy. We also expect the companies to have the adequate governance structures in place to ensure that tax is paid where the economic value is generated.

Diversity plays an important part in the development of a more sustainable world, and it ensures that different opinions and views are shared, which has shown to contribute positively to long term company profitability.

St. Petri Capital expects all companies to work for the development of a diversified workforce across age, gender, race, experience and other relevant factors and competencies. This includes all corporate levels including senior management and board members.