St. Petri Capital's approach to shorting and long-short-reporting from a Responsible Investment perspective.

Shorting has real world impact and concerns both regulators and investors. A key focus for St. Petri Capital is to accommodate these concerns by providing the relevant transparency for investors on the portfolio's ESG exposure and -risks and -opportunities.

In the following the rationale behind St. Petri Capital's use of shorting, and our approach to long-short reporting will be explained, and how it connects to our responsible investment policy. Responsible investment has two key goals, and that is to protect against undesired ESG risks, and creating positive impact. St. Petri Capital intends to use shorting to support and integrate these goals in our investment process.

Use of short selling and ESG incorporation.

The main objectives for St. Petri Capital's hedge fund are to use short selling as a tool to conserve capital, and secondly drive returns primarily through pin-point selection of mispriced companies. These objectives have to be aligned with our fiduciary duty, to act as a responsible investor.

St. Petri Capital has several different ways to apply short selling to obtain its objectives, depending on purpose, market opportunities and our corporate analysis'.

Systemic risk management.

Passive short selling (index) is used to hedge against systemic financial risks such as inflation, asset bubbles, credit risk etc.

Expressing an investment view.

Active short-selling is used when a company is perceived as mispriced because of failure to adequately incorporate financial, systemic or ESG -risks into its governance structures or business strategy. Depending on the company, this form for short selling can indirectly protect against ESG risk or create a positive impact, even though it's not the main reason for the short position.

Shorting companies sanctioned by normative, thematic or product -based screenings.

Shorting companies that are not aligned with St. Petri Capital's ESG positions, and not included on St. Petri Capital's exclusion list for long investments, presents an alternative opportunity to incorporate and benefit from such ESG risks. An opportunity otherwise excluded.

From a responsible investment perspective, shorting companies in violation of international norms or St. Petri Capital's ESG positions are aligned with the objective to create a positive impact. Shorting companies lacking normative or ESG -performance may increase their cost of capital. If such shorting is combined with publicly disclosing the short position, and maybe even a more activist approach, it will further increase the pressure on a company to improve its ESG performance.

Hedging ESG risks

Hedging against systemic, idiosyncratic or portfolio - ESG risks is well aligned with the responsible investment goal to protect against capital erosion caused by undesired ESG factors.

Such systemic, portfolio and idiosyncratic ESG risks can be mitigated through shorting:

- Systemic ESG risks are perceived as ESG risks connected to systemic changes e.g., hedging against evolving global ESG regulation that will impose costs on all global companies (carbon pricing, tax).
- Hedging against idiosyncratic risks e.g., ESG regulation targeting a specific sector or region, or climate change risks such as storms or droughts affecting certain regions and companies.

- Portfolio ESG risk is connected to portfolio tilts e.g., a portfolio tilt to companies that are crucial for the green transition, but whose production emits vast amounts of GHG.

Stewardship and shorting

St. Petri Capital has decided that engagement for our short positions will be carried out on a systemic level, through collaborative engagement, via SEB. Short selling is based on share lending, in contrast to long positions that are based on ownership. When shares are lent, there is no transfer of owner or voting rights to St. Petri Capital, as the stocks are sold as part of the transaction. Consequently, the same company engagement options are not available for short positions. The often-limited holding period for short positions, and St. Petri Capital's small size further underpins the rationale behind this engagement approach. By using a collaborative engagement approach, we seek real world impact on systemic sustainability issues through the engagement with companies in violation of international norms and standards.

Long-short ESG reporting

A key priority for St. Petri Capitals is to provide the relevant transparency for investors and regulators on our hedge fund's ESG exposure, and the ESG risk and opportunities that an investment in the fund entails. As mentioned in our responsible investment policy we look at ESG from a double materiality perspective. In the following St. Petri Capital's approach to long-short ESG reporting will be outlined. The aim is to make clear (how,) when (and why) reports are aggregated, or made separately for the long and short leg.

Exposure

Exposure to the ESG sensitive products and activities that the fund invests in will be reported separately for the long and short leg based on a gross calculation. This approach displays the broad impact of the investments in the market, and which products and activities that are financed by the fund, and which are shorted.

ESG-risk-score and Principal Adverse Impact

For both the ESG-risk-score and Principal Adverse Impact (PAI), analysis and reporting will be done solely for the portfolio's long leg. The calculations will be long-only reweight.
The aim of St. Petri Capital's work with both ESG-risk-scores and principal adverse impact indicators, is to understand and mitigate a potential adverse impact that the fund's investments could have on the environment or society. For the ESG-risk-score the aim is also to understand the interrelationship between ESG risk factors and their impact on a company's financial performance.
As shareholders in the companies in the hedge fund's long leg, St. Petri Capital has the possibility, through different types of engagement, to influence companies with poor ESG performance. Companies with lagging ESG risk metrics and/or principal adverse impact are analyzed, and engagement may be initiated to motivate the companies to change behavior. The same options are not available when St. Petri Capital holds short positions, as shorting is based on stock lending and not corporate ownership.
As mentioned above, St. Petri Capital's short positions may affect companies ESG behavior by raising their cost of capital. The empirical evidence for such an argument is not significant, unless it's done as part of a collective or activist approach, which is not an integrated part St. Petri Capital's investment process. Therefore St. Petri Capital will not perform ESG-risk-score and PAI analysis and reporting for the hedge fund's short-leg, as the real-world effect of such work and the shorting position itself is insignificant.

ESG-impact-scores

ESG-impact-scores will also be reported for the long leg only based on a long only reweight calculation. The purpose of the ESG-impact-score is firstly to provide transparency on the positive and negative

impacts that the investments, owned by St. Petri Capital, has on the environment and society. Secondly to act as an indicator and assurance that the funds continuously will improve its positive impact in the future.
The focus will be on the long leg, as the fund does not own its short positions, and therefore the possibilities to influence shorted companies with poor ESG performance are limited. As mentioned above St. Petri Capital supports collective engagement on poor ESG performance through our collaboration with SEB.

Carbon footprint
Understanding a portfolio's carbon footprint impact and the risks associated with it is important for most investors. For St. Petri Capital carbon foot printing serves a dual purpose. The first is to display the quantity of harmful emissions funded, and the second is to give an idea of the exposure to, and the potential impact of transitions risk on the portfolio's financial performance. However, it's important to remember that Carbon foot printing is retrospective in nature and does not take into consideration companies transition path.
To report on the first part, emissions funded, the long leg is used, and calculated as long only reweight. With the long-only-reweight approach, emissions reporting captures the portfolio's emissions over which there is direct ownership and engagement rights.
To report on the second part, net carbon exposure is used. Here the WACI is calculated separately for the short and long leg, and then multiplied by the size of the long and short leg respectively, to arrive at the net carbon exposure. An important note is that the WACI does not normally include scope 3.

The EU Taxonomy
The EU Taxonomy is a classification framework to determine to what degree a company's activities can be defined as sustainable (the company's sustainability impact). The EU Taxonomy is part of the EU Sustainable Finance Actions Plan, which has as its core objectives to reorient capital flows to sustainable investment, and to foster transparency around this process to ensure its successful implementation. The reporting must reflect the share of companies in the hedge fund with activities fulfilling the EU Taxonomy's criterions for sustainable activities, as well as the range of these activities. To meet the transparency objective the reporting will focus solely on the hedge fund's long leg as a long only reweight calculation.