FONDITA

Annual Review of Responsible Investments 2022

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1. Introduction

Dear reader

Fondita's Annual Responsible Investment Review for 2022 is published. When looking back at 2022 it sure was a multidimensional year when it comes to geopolitics, market moves and sustainability. SFDR-regulation and reporting were topical drivers of ESG workflow throughout the year. Fund prospectuses were updated, annexes added, and a lot of work was put around really clarifying how a sustainable investment is defined and how Article 8 and 9 funds fulfill the requirements. We also refined our own definition of a sustainable investment as the regulators definition still leaves ample room for interpretation.

The war rightfully raised questions regarding country and governance risk and forced discussions in all investment teams around sector exclusions, defense and nuclear to name a few. The shock on Europe's energy system inflated the earnings of fossil fuel producers and sustainable investors (that exclude fossil fuel investments) got a thorn on performance when oil and gas was the best performing sector. We are however here for the long run and the year 2022 will also be remembered as a year when massive incentives were introduced for energy transformation and green initiatives in the form of the US IRA (Inflation Reduction Act) and Europe's REPower EU.

Our aim as investors has not changed. We continue to target value adding long-term returns for our customers while also respecting sustainable development. Our funds ESG ratings developed positively during the year, with Fondita Healthcare and Fondita Global Megatrends both reaching MSCI AAA-ratings (A) as an example.

During 2022 Fondita became a CDP investor signatory, our strategic goals and steps to have net zero funds by 2050 was approved, we also renewed the Nordic Swan Ecolabel certificate for Fondita Sustainable Europe and we had valuable and good discussions in our ESG committee meetings during the year. Not to forget the hundreds of company meetings that our portfolio managers had throughout the year. We are constantly expanding our work in the field of responsible investing and the year 2023 will again bring many interesting new projects that we look forward to.

We firmly believe that responsible companies operating in accordance with sustainable standards will, in the long run, be better investments with a more attractive risk profile for our clients. We continue to see structural and sustainable growth opportunities in both small caps and the thematic themes that Fondita focuses on which are environmental and climate smart solutions, healthcare and technological development. This exposure can be found in all our eight actively managed equity funds.

We thank all our customers for your trust and good co-operation. Enjoy the review and let's keep in touch!

2. Highlights of 2022

Key figures	
Assets under Management	620mEUR
SFDR Fund classifications	Article 8: Global Megtrends, Healthcare, European Micro Cap, European Small Cap, Finland Micro Cap, Nordic Micro Cap, Nordic Small Cap Article 9: Sustainable Europe
Carbon footprint lower then market	64 %
Company meetings	632
Company meetings with soley ESG focus	40

Milestones
Net Zero Asset Managers initiatives milestones set for 2030
CDP Investor signatory
Three funds with increased MSCI rating
Fondita Global Megatrends and Healthcare rated AAA
Fondita Healthcare recieves Lipper award for Best Healthcare fund 3y Nordic, Germany and Europe
Five ESG Committee meetings

Sustainability advocate activities
Lecture at Hanken regarding Responsible Investing in practice
Five master thesis supported with interviews
Two ESG related master thesis collaborations
One ESG expert role in panel discussions

3. Responsible investing at Fondita

Principles for responsible investment

The main goal of our investment operations is to generate the best possible long-term returns for our customers. We aim to do this responsibly and in accordance with the chosen investment strategy.

Our principles for responsible investments are based on the belief that companies that operate responsibly and in accordance with sustainable standards are better investments in the long term, as the risks and opportunities related to environment, social responsibility and good governance (ESG factors) are more extensively explored and understood. Therefore, it is important to integrate ESG-related factors when performing company analysis.

In our investment decisions, as owners and in our daily operations in general, we always strive to act responsibly and in accordance with sustainable development Responsibility is grounded in our employees' values. In our principles for responsible investment, in our sustainability risk assessments and in our operations, we take into account the most common international agreements, norms and standards that guide society and business.

The goal of responsible investing

We want to own shares in companies where sustainability factors are an integral part of the company's strategy and corporate culture. This means the company bears responsibility towards its employees and treats everyone equally, while monitoring, measuring and improving its own environmental footprint. The company's sales come mainly from business, which we believe is sustainable in the long term, and the end product or service is in line with the overall values of sustainable development.

We take our climate responsibility seriously and work to reduce our carbon footprint towards eventual carbon neutrality. As signatories of the Net Zero Asset Manager initiative, we have committed to have carbon neutral portfolios by 2050 at the latest.

All Fondita funds – both our micro and small cap funds as our thematic funds – are actively managed funds based on a bottom-up stock picking strategy. They have a consistent, uniform investment philosophy and follow the same responsible investing approach. Our goal is to be a long-term owner in responsible, high-quality growth companies, and our strong thematic driving forces are environmental and climate smart solutions, health and well-being, and digitalization and technological development.

The principles and methods presented in the next section cover all aspects related to responsible investing. In their daily work, our portfolio managers are responsible for the implementation of the described methods, and for considering how to integrate ESG factors into the analysis of a company.

Our methods for responsible investing

Responsible investing includes several methods at different stages of the investment process in order to integrate ESG factors into portfolio management. For Fondita, these methods are:

Through negative screening we exclude from our investment universe certain sectors that we have identified as unsustainable, either because of their climate impact or their broader societal impact. Companies whose operations violate general norms and standards like the UN Global Compact principles do not belong in our investment funds either.

The purpose of positive screening for our thematic funds is to look for companies whose operations are enhancing sustainability, and which benefit from various sustainable megatrends.

Responsible investment decisions are made by taking ESG factors into account and integrating them into the overall analysis of a company. We use both our own internal company-specific analysis and ESG analyses from partners, as well as ESG tools and databases from MSCI and Bloomberg.

When carrying out our ESG inquiries with micro- and small cap companies, we cover various parameters that affect environmental, social and governance aspects.

Before we make an investment decision, we strive to discuss with the company's management to ensure that our view of the company and its strategy is in line with the management's vision. We are also active owners during the investment period itself, closely monitoring the company's operations and meeting with company representatives annually. During these meetings we discuss issues that affect operational activities and the business environment, and whenever possible, we strive to encourage responsible and sustainable operations, as well as transparency in reporting.

These meetings also give us the opportunity to raise issues that are important to us. During 2022 we focused on two important sustainability issues in our company meetings. They were: 1) the company's strategy for achieving carbon neutrality; and 2) the company's actions for achieving equality and diversity.

Our principles for responsible investing and corporate governance are aimed at achieving a long-term increase in the value of the companies held. Fondita assumes that the companies follow good corporate governance and management principles, for example by following the Swedish Securities Market Association's Code of Corporate Governance. In addition, emphasis is placed on environmental and social responsibility. If it is considered that any of the companies' corporate governance is not adequate, Fondita will try to influence the company and/or its leaders to bring about change. In such cases, cooperation with other shareholders may also occur. Fondita can also determine that it serves our customers best to relinquish a specific holding, rather than for us to try and influence a company's position.

Fondita strives to participate in the general meetings of companies where the interests of our fund unit holders need to be protected. If necessary, Fondita can also vote with the help of a proxy. Fondita is responsible for ensuring that voting rights are applied in accordance with the purpose and strategy of the investment in the company in question. Each fund votes individually at the Annual General Meeting (AGM).

Cooperation and investor initatives

The strength of responsible investing is realized when a broad group of investors together pursue important issues concerning the environment, social responsibility and corporate governance. It is important for us to have an active role, both as owners and as advocates for sustainability in society in general.

This is why Fondita is actively involved in cooperation with other organizations in contributing to sustainable development. Since 2010, we have been committed to the UN's principles for responsible investment in our investment activities, and we report annually to the UN Principles for Responsible Investment (PRI) organization.

As signatories to the UN PRI, we commit to:

1. Integrate ESG issues into our investment processes and our decision-making.
2. Being active owners and including ESG issues as part of our corporate governance.
3. Strive for appropriate reporting on ESG issues from the companies in which we invest.
4. Working to promote acceptance of and implementation of these principles in the investment industry.
5. Promoting responsible investing with other investors.
6. Reporting on our activities and progress regarding the implementation of the principles

Fondita is also a member of Finland's Sustainable Investment Forum (Finsif) and Sweden's Sustainable Investment Forum (Swesif). The purpose of these associations is to promote responsible investment and to act as a platform for networking and knowledge exchange.

Fondita has since 2021 been a signatory of the Net Zero Asset Manager's Initiative. This obliges us to achieve net zero emissions in our funds by 2050.

More information about the Net Zero Asset Management initiative can be found on https://www.netzeroassetmanagers.org/

During 2022 Fondita also signed up to the CDP Climate, Water and Forests Program. By taking part in the work of this global non-profit organisation, we can influence and contribute to an increasing number of companies and cities reporting their environmental impact through the CDP investor initiative.

RACE TO ZERO

FINSIF

SWESIF
SVERIGES FORUM FÖR HÅLLBARA INVESTERINGAR

Signatory of:
PRI Principles for Responsible Investment

An overview of our responsible investment methods

Negative screening/exclusion *Impact of the sector on sales >5%*	• Fossil fuels • Weapons • Tobacco and cannabis • Alcohol • Commercial gaming operations • Quick loans • Adult entertainment • Uranium
Positive screening/thematic driving forces *Companies whose operations are adapted to sustainable megatrends*	• Environmentally and climate-smart solutions • Health and well-being • Digitization and technological development
Integration of ESG factors *How we take sustainability into account in our own ESG analysis*	• Integration of ESG factors alongside a basic economic analysis • Our ESG analysis takes into account aspects related to the environment, society and governance • Use of ESG analyses by our partners • Use of databases such as MSCI and Bloomberg
Active ownership and influence	• Company meetings • Meetings with our counterparty experts • ESG questionnaire for our holdings • Public discussion on responsible investment • Annual General Meetings and voting
Investor initiatives and frameworks for responsible investment	• PRI (2010) • Finsif & Swesif (2018) • Net Zero Asset Managers Initiative (2021) • CDP (2022)
ESG Committee	• Quarterly meetings • External expert members • Annual reporting to the board
ESG reporting	• Fund-specific ESG reporting • MSCI reporting models • Annual Report for Responsible Investments • UNPRI reporting • Ecolabel reporting • NZAM reporting

4. Our ESG approach for micro and small cap equities

When conducting company specific analysis, we take into account ESG factors throughout the investment process, in line with Fondita's responsible investment principles. ESG factors have an impact on how we define opportunities, perceive risks and how these affect the valuation of the company.

There is a lack of ESG data for small and micro cap companies in ESG databases, which is why we in 2021 decided to set up our own approach covering ESG analysis of our small and micro cap companies. As Fondita has five micro and small cap funds, it is important for us to get a better picture of how our portfolio companies work with ESG and as minority owners it's a good way to engage with the companies.

We are able to retrieve significant amount of data from different databases, when conducting analysis on larger companies. Small caps and especially micro-cap companies are however not that well covered by MSCI and other ESG databases. Our funds Fondita Finland Micro Cap, Fondita European Micro Cap and Fondita Nordic Micro Cap's coverage is around 40 %. For funds to get an official ESG rating by MSCI the coverage must be over 65%. This is why the micro-cap funds don't have an official rating by MSCI. We do however get a rating for the companies that are covered by MSCI. The same goes for Morningstar globes and Sustainalytics scores. The lower the coverage the more it affects the rating, which can make comparison difficult for investors.

During 2022 we took a more active role for evaluating micro and small cap companies ESG risks. Previously, we sent out ESG-questionnaires to our holdings to get a better picture of the company's ESG work and reporting. However, we noticed quite poor response rates and therefore decided for an alternative approach. Fondita developed its own approach for micro and small caps based on ESG aspects we consider most relevant. This information is gathered through meetings with management and/or ESG managers of our portfolio companies. During 2022 we mainly targeted the companies that aren't covered by MSCI, with an aim to cover all portfolio companies in time.

During 2022 we conducted **40 strictly ESG focused meetings with small and micro-cap companies**. The purpose of our meetings with the companies is to encourage transparency and efforts towards their ESG goals. During the last years, we have already noticed that progress has been made. As an example, one holding had a very poor ESG rating in one of the ESG databases, which impacted the ESG rating of our funds negatively. In the discussions it turned out that the main reason was

Our ESG approach for micro and small cap equities

lack of transparency with regards to different company policies. Thanks to this dialogue and better disclosure the company was able to improve their ESG rating. This is one example of the mutual benefits of such dialogues: we can support the companies in their ESG work by engaging with them through dialogue, and at the same time ensure they meet our ESG requirements.

Example of topics covered in the interviews are:

• Does the company contribute to environmental or climate smart solutions, or any other sustainability linked megatrends?
• What kind of ESG policies does the company have?
• Which are the company's top three SDG'S, both operationally and on a product level?
• Is the company taxonomy eligible? If yes, what is the taxonomy alignment?

Environmental topics
• Does the company have carbon reduction targets and when will the company achieve net-zero? If the company doesn't have carbon reduction targets, do they plan on having it in the future, if so, when?
• Does the company have a waste management policy and water reduction plan?
• CO2 emissions compared to last year, has there been an increase or decrease? Reason behind the change
• Yearly water and energy consumption compared to last year, increase or decrease? Reason behind the change
• Share of renewable energy and targets regarding this

Social responsibility related topics
• Does the company have a health and safety policy?
• Has there been any incidents during the year?
• Does the company have a diversity and inclusion policy and what are the targets regarding this?
• The company's measures to prevent human right violations?
• Female representation in the management? Does the company have any targets regarding this?

Governance
• Does the company have an anti-corruption and bribery policy?
• Board structure, is the CEO a board member, how many of the board members are independent, how many women are board members?
• Does the company have a remuneration system linked to ESG performance?
• ESG risk policy and three main ESG risks in the company?
• Has the company been involved in any serious incidents the past 5 years?

5. Why do we invest in renewable energy?

The past 2 years have certainly not been the most lucrative for shareholders in renewable energy related stocks. There are several reasons for this, but the main ones are most likely higher interest rates, more risk-aversity in general amongst investors and somewhat hyped growth expectations in 2020. Also, there has been severe bottlenecks regarding permitting of new renewable energy capacity and the market overall focusing on more urgent issues such as the ongoing war and central banks inflation jitters. The fact is however that the underlying problem of greenhouse gases has certainly not gone anywhere, on the contrary, the latest IPCC report is even more troubling than the previous one. The investments in renewable energy will have to accelerate, no doubt.

The International Energy Agency (IEA) issued a report on the 6th of December 2022 that supports our view that renewable energy is a segment expected to grow even faster than previously anticipated and therefore an industry we want to have exposure to. Below we will try to summarize the most relevant observations and predictions for the next 5 years based on this report.

The executive summary of the report starts with the statement "The first truly global energy crisis, triggered by Russia's invasion of Ukraine, has sparked unprecedented momentum for renewables". According to the report renewable capacity expansion will be much faster than what was expected a year ago. It is now expected that renewable capacity globally grows by 2 400 GW over the next 5 years, which is 85% more than the previous 5 years and 30% more than what was forecasted a year ago. The upward revision in the forecast is driven by China, EU, USA and India, which are all implementing regulatory and market reforms. China's 14th Five-Year Plan, The REPowerEU plan and the US Inflation reduction Act are the main drivers for the revised forecast. The capacity growth in Europe is expected to be somewhat higher due to the invasion of Russia and the resulting European energy crisis.

"Renewables becomes the largest source of global electricity by early 2025, surpassing coal" is forecasted in the report. The share of renewables will reach 38% by 2027, up by 10% from today's levels. Renewables is the only electricity generation source expected to grow during the next 5 years. Global wind capacity is expected double and solar to triple during the forecast period. Especially the offshore wind industry offers interesting opportunities in our view over the coming decade.

All in all, the capacity expansion is accelerating, which of course is positive. On the other hand, even if the IAEs forecasts are realized we would still fall short of the targets set in the REPower EU plan, partly because of sluggish penetration of renewables withing transportation and residential heating/cooling. The same goes for various other climate-related goals and initiatives. It seems these targets can only be reached if we put even stricter policies and regulation in place, which we expect will happen.

The biggest risk to IAE's forecasted growth materializing seems to be the severe bottlenecks within the permitting processes for building the actual wind and solar parks. This is highlighted in the report and is certainly confirmed in discussions we have had with renewables companies. The report states that global renewable capacity can expand by an additional 25% compared with the current forecast, if countries address policy, regulatory, permitting and financing challenges. We do however believe that things are slowly starting move in the right direction in that area as well.

We have two funds that are focused on capturing structural growth within climate- and environmentally smart solutions. The first one is **Fondita Sustainable Europe** which solely invests in European companies with climate-and environmentally smart solutions. Currently the fund has an exposure of approx. 30% towards renewable energy in different shapes and forms, mainly wind power. **Fondita Global Megatrends**, in turn, is a global fund with three different thematic focus areas of which one is environmentally and climate smart solutions, the other two are health & wellbeing and tech/digitalization. Fondita Global Megatrends naturally has some exposure towards renewable energy within the climate- environmentally smart solutions segment. Our exposure within the renewable energy space is mostly towards wind, biofuels, hydro and marginally solar. This entails equipment manufacturers, project developers, operators, energy producers and various sub suppliers. We also have some exposure to renewable energy in our other six funds but to smaller degree.

6. Environmental certificates and the renewal process of the Nordic Swan Ecolable

Fondita Sustainable Europe obtained the Nordic Swan Ecolabel, which is the leading environmental label in the Nordics, as one of the first Finnish equity funds in October 2020. Earlier this year, the Nordic Swan Ecolabel published new, stricter criteria for fund products. Fondita started the renewal process of the Nordic Ecolabel during the fall and on the 25th of November the renewal with the new stricter sustainability requirements was approved.

The new stricter requirements focus mainly on exclusion, inclusion, active ownership, and transparency. In addition, new requirements have been added for critical emission sectors, biodiversity conservation and the inclusion of the EU taxonomy in the fund's sustainability analysis, among others. To be approved, the fund must meet all the new requirements.

For us at Fondita, it was a given to start the renewal process of the Nordic Swan Ecolabel. We work actively with sustainability issues and our aim is to remain at the forefront of this work. The approval of the renewal for our fund Sustainable Europe with the new stricter sustainability requirements is a clear sign of our strong commitment and is a response to the increased interest in sustainable investments among our customers.

Fondita Sustainable Europe is an Article 9 equity fund that invests in European companies with climate and environmentally friendly products or services. In addition to the Nordic Swan Ecolabel, the fund has the Austrian Ecolabel certificate, which the fund also obtained in October 2020.

The Nordic Swan Ecolabel was introduced in 1989 and it is the official environmental label of the Nordic countries. Today, 63 different groups of goods and services can be Nordic Swan Ecolabelled. The first generation of requirements for fund products was launched in 2017 and is in force until March 2023. Earlier this year, new stricter criteria for fund products were published. A Nordic Swan Ecolabelled fund means that the fund meets the Nordic Swan Ecolabel's ethical, environmental and sustainability requirements. The aim of the label is to give customers guidance in finding sustainable funds, but also to influence companies to prioritize more environmental and ethical approaches when running their business.

Environmental certificates are in our view an important stamp of approval that sustainability factors are integrated in the investment process and that certain sustainability related criteria are met. The certificates entail that the fund´s investment process is closely audited and more transparency regarding the fund´s investments. We feel that the certificates play an important role in the fight against greenwashing.

Sustainable Europe is certified with Nordic Swan & EU-Ecolabel (Austria) since 2020.

Fondita Global Megatrends is certified with EU- Ecolabel (Austria) since 2020.

Read more about the Nordic Swan Ecolabel here.

Read more about the Austrian Ecolabel here.

6. Strategic steps to reach carbon neutral portfolios – 2030 milestone set

One of our most important environmentally related sustainability goals is to counteract climate change. Today, our funds' CO2 footprint is already 64% lower than the underlying markets, but our goal is to strive for carbon neutrality. At the end of 2021, Fondita signed the international Net Zero Asset Managers initiative, in accordance with which our equity funds will be carbon neutral by 2050.

The interim targets for 2030 have now been set and approved.

Carbon reduction targets

A minimum of 70 % of our holdings will be managed in line with net zero. We will increase the reported percentage as the carbon data coverage improves. For now, we will set up targets for scope 1 + 2 and in the future, we will also include scope 3 when more reliable data is available.

The baseline for our targets will be year 2019, as recommended by the Net Zero Asset Managers Initiative. Fondita's carbon emissions in absolute terms in 2019 was 753 tCO2e/$M invested and we target a 70 % emission cut by 2030. The total carbon intensity for our funds in 2019 was 863,3 tCO2/$M sales and our target is to cut the carbon intensity by 60% by 2030. We will reevaluate our targets every five years to make sure that progress is made in the right direction.

Climate solution allocation

Fondita has identified three megatrends with structural growth drivers that play an important role for , especially for our thematic funds but also throughout our fund offering we have identified three important megatrends. These are climatechange (focus on climta and environmentally smart solutions), demographic change (focus on health and wellbeeing) and technological development (focus on technology and digitalization). As of 2022 we have 30% of our investments allocated to environmental and climate-smart solutions. Our climate solutions allocation target for 2030 is 60%. Our Article 9 Fondita Sustainable Europe fund invests solely in environmental and climate-smart solutions. The climate solution allocation of this fund already is and will remain at 100%.

Portfolio coverage target

We don't have a baseline for the portfolio coverage target. But as off 2022 approx. 21% (according to our data provider) of our holdings have set up net zero targets and approx. 52% have set up carbon reduction targets (according to our data provider). Our target for 2025 is that 50% of our holdings will have net zero targets and 75% of our holdings will have net zero targets for 2030. In our company meetings one of our main topics is to clarify the company's strategy for net-zero emissions and specify the strategic steps to take in achieving the goal. If the company doesn't have a strategy in place, we will follow up on this within a year so see what kind of progress the company has made.

IPCC Special Report on global warming

We have used the IPCC special report on global warming of 1.5°C as a basis for deriving and setting our targets. The target of a 70% reduction by 2030 of our carbon emissions, corresponds to an annual reduction of approximately 10,4%. The carbon intensity target of a 60% reduction by 2030 corresponds to an annual reduction of approximately 8% which is thus considered applicable for the global reduction requirement as specified by the IPCC special report.

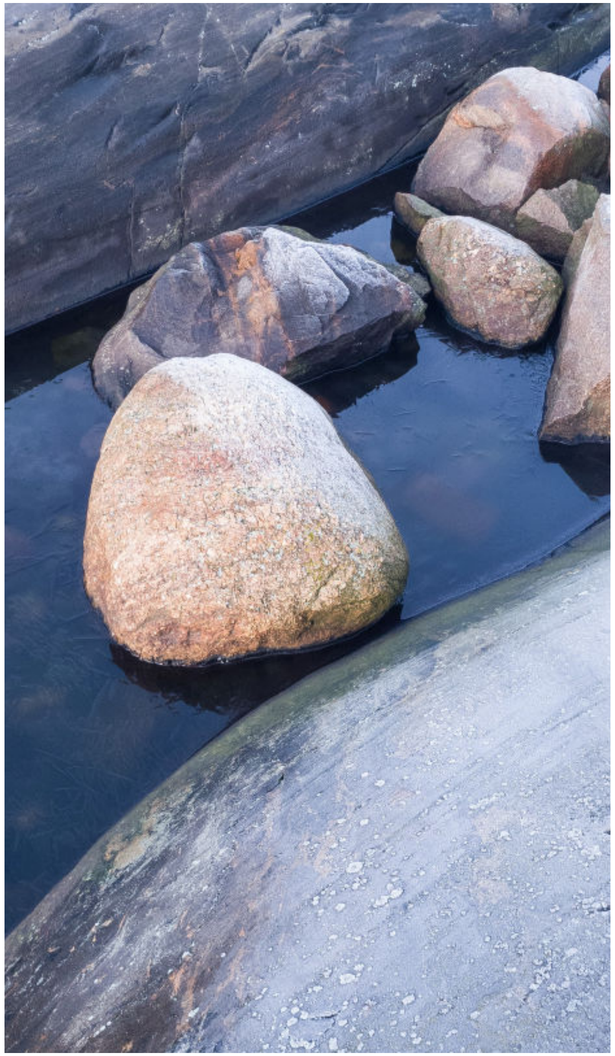
Our funds already have a carbon footprint that is far below that of the underlying market. This is partly due to our investment philosophy, which excludes fossil-fuel producers and avoids capital-intensive sectors, instead preferring companies with environmentally- and climate-smart solutions. Other megatrends that play a major role in our funds are health and well-being, as well as digitalization and technological development.

The economic, social and environmental consequences of climate change are increasing all the time. Science-based evidence suggests that simply slowing down current developments will not be enough. To actually reverse the trend requires significant political will and change, especially with regards to the more efficient use of natural resources. Asset managers are responsible for the management of large investment assets. Their actions will thus be crucial in the global fight to reach the target of net-zero emissions by 2050 or earlier.

Fondita wants to play its part in the change. Although net-zero emissions for all investment assets is a goal that requires work, we believe that the will to stop climate change is so strong for the companies we own that the goal can be achieved together. By joining this investor initiative, we believe that together with others in the asset-management industry we can contribute to achieving net-zero emissions. In our impact discussions for 2022, one of our main themes is to clarify what the company's strategy for net-zero emissions looks like, and to specify the strategic steps that must be taken in order to achieve the goal.

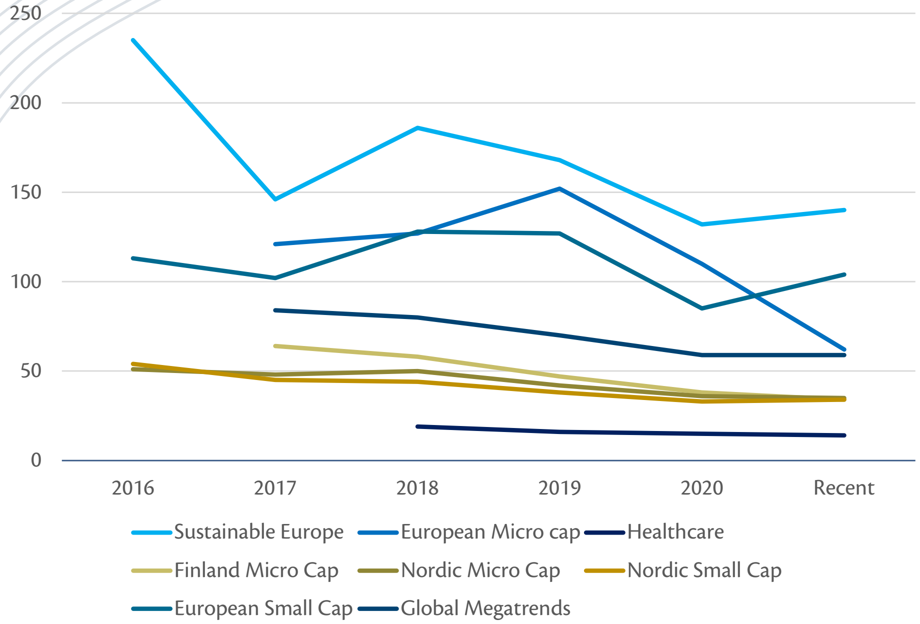
The Net Zero Asset Managers initiative was launched in December 2020. The initiative aims to encourage asset managers to set a net-zero emissions target by 2050, and to invest accordingly to achieve the Paris Climate Agreement's target of a maximum temperature increase of 1.5 °C. By the end of 2021, a total of 220 asset managers with USD 57 trillion in assets under management had committed to the initiative, which was founded by six organizations involved in responsible investment: Asia Investor Group on Climate Change (AIGCC), CDP, Ceres, Investor Group on Climate Change (IGCC), Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI).

For more information: www.netzeroassetmanagers.org

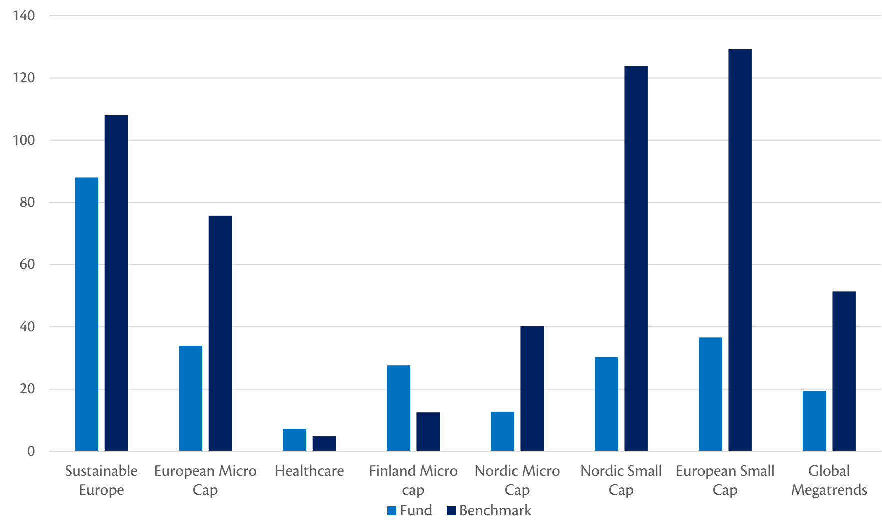


9. Carbon Intensity and footprint of our funds

This table shows the evolution of the Carbon Intensity (tCO2/M$ sales) of the Fund's current holdings. Carbon Intensity takes into account Scope 1 and Scope 2 emissions with data MSCI.



This table illustrates the funds Carbon Emissions (tCO2/M$ invested) compared to a relevant benchmark. The Carbon emissions takes into account Scope 1 and Scope 2 emissions from MSCI.



Benchmarks:

Global Megatrends vs MSCI World
Finland Micro Cap vs MSCI Finland Micro
European Micro Cap vs MSCI Europe Micro
Healthcare vs MSCI World Healthcare
Nordic Micro Cap vs MSCI Nordic Micro
Nordic Small Cap vs MSCI Nordic Small
Sustainable Europe vs MSCI Europe
European Small Cap vs MSCI Europe Small

9. Active Ownership and Engagement

Stock selection plays an important role in our active investment philosophy. All our funds are high conviction, concentrated funds with approximately 30-40 holdings per fund.

Active ownership for us is best reflected through company meetings. As active and long-term owners, it's natural for us to have a good dialogue with our portfolio companies. We strive to encourage our portfolio companies to pursue responsible and sustainable operations and transparency in reporting. Factors related to the environment, society and good governance practices have a major impact on how we define opportunities and see risks. They can also affect the company's valuation.

As part of our strategy for responsible investments, we integrate ESG analysis in the overall fundamental analysis of a company. Both using MSCI data and by conducting own analysis. Especially for smaller companies own analysis is crucial for the overall assessment. More of small cap ESG analysis on page 9.

In 2022, we focused specifically on two sustainability topics in our company meetings with the aim to increase awareness on the importance to company management. We specified one environmental and one social responsibility topic. We asked about carbon neutrality targets and roadmaps and strategies for improving equality and diversity.

Company meetings in 2022

After the pandemic years of virtual meetings, we saw a clear move back to physical meetings again. However, virtual and hybrid meetings also continued during the year, which we see as time efficient for short updates. Fondita's portfolio managers participated in a total of 632 company meetings in 2022.

In these meetings we discussed current issues that affect the company's business, both from an operational point of view and in relation to the business environment. We discussed the company's strategy, goals, and the conditions for implementing the strategy successfully, as well as looked at the company's competitors and competitive advantages, market position and pricing power. ESG aspects played an increasingly prominent role in the meetings, which is very positive. The focus was on companies' environmental impact, social responsibility and good governance.

The discussions are often framed around the UN's sustainability goals and the companies' own corporate responsibility and sustainability strategy.

10. Fondita strengthens its engagment efforts by becoming an investor signatory to the CDP Climate, Water and Forest program

In 2022 Fondita signed up for the CDP Climate, Water and Forests Program. By taking part in the work of this global non-profit organization, we can influence and contribute to an increasing number of companies and cities reporting their environmental impact through the CDP investor initiative.

In 2022, nearly 22,000 organizations published their environmental information through CDP, a 38% increase on the previous year. There is strength in investor initiatives, and we are pleased that Fondita can also play a part in helping to achieve increasingly transparent reporting. By reporting and measuring environmental impacts, more and more companies are becoming aware of their own environmental footprint and can improve it.

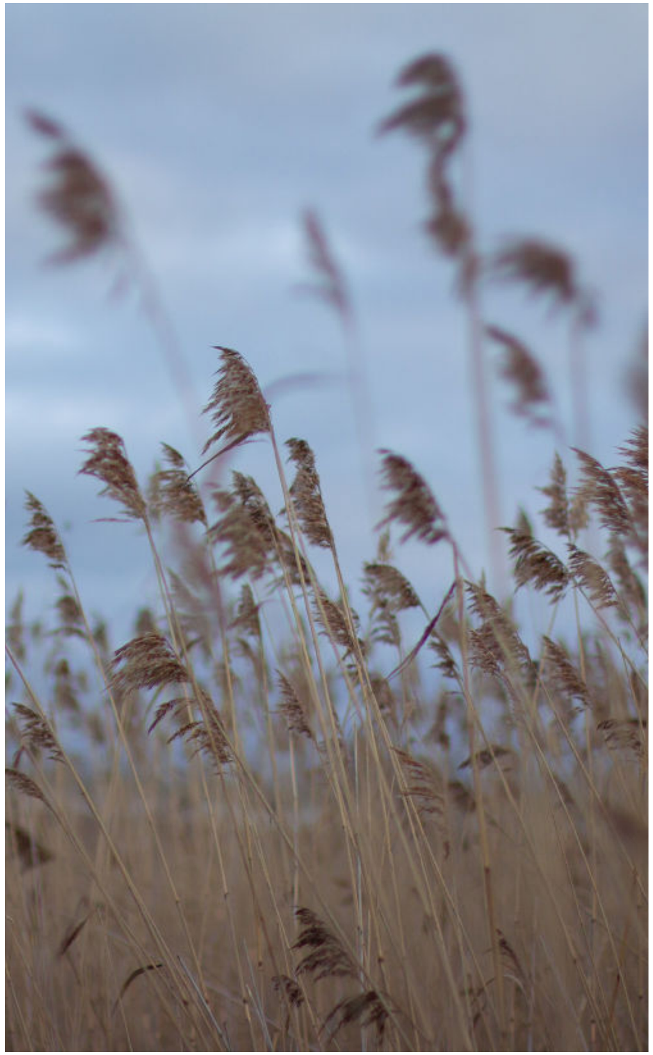
Fondita's principles for responsible investment include positive screening (favouring certain themes), negative screening (excluding certain sectors), integrating ESG risks and opportunities into the investment process and acting as an active owner.

As an owner, activity for us is specifically reflected through company meetings. If the situation requires it, we may also vote at general meetings or influence via investor initiatives together with other investors.

As active, long-term owners, it is natural for us to have a good dialogue with our portfolio companies. We encourage responsible and sustainable operations and transparency in reporting. Factors related to the environment, social responsibility and good governance have a major impact on how we define opportunities, perceive risks and how these affect the company's valuation.

By joining CDP's Climate, Water and Forests program, we have the opportunity to influence organizations beyond our own investment universe and, through investor initiatives, we can encourage companies to reduce greenhouse gas emissions and protect water security and forests. In addition, CDP's high quality research work also enhances our knowledge of climate and environmental issues, supporting the decision-making process for increasingly responsible investment decisions.

For more information on the CDP: www.cdp.net/en



11. A review of Fonditas ESG committe year 2022

Fondita's ESG committee is a forum where discussions focus on various ESG related themes. The committee consist of four internal and one external member. During the year 2022, Fonditas ESG committee had five meetings. A wide area of topics was discussed ranging from geopolitics and its effect on country and governance risk to sector exclusions. SFDR and the definition of sustainable investments (both environmental and social). Biodiversity and water as a theme. Taxonomy. ISSB and CSRD reporting. ESG tools and comparability of data and scores. PAI reporting, how to estimate if companies don't report? Will the future bring minimum ESG-related skill requirements (CESGA/CFA-ESG) for fundmanagers?

As the development of responsible investing is an ongoing process changing regulatory and reporting requirements require vigilance and up-to-date information. At the same time, the global focus on sustainability and responsibility has grown enormously, which we believe requires an increasingly broad range of expertise to support investment decisions and be compliant with regulation.

During 2022 assistant professor Hanna Silvola from Hanken acted as the external member of our committee. Hanna will continue in the committee with her valuable insights and be accompanied by another external member, David Seekell for the year 2023.

David is the Head of Sustainable investing and ESG at Swedish Atle. Atle is a minority owner of Fondita. Both Hanna and David share an extensive academic expertise complimenting each other with Hannas strong corporate reporting knowledge and Davids current strong focus on sustainable investing and ESG . The role of the external member of the Committee is to act as an expert speaking partner and informal advisor solely.

2022 Committee Members

Marcus Björkstén (PM)
Janna Haahtela (PM)
Isabelle Ramsay (ESG Analyst)
Fredrik von Knorring (Sales)
Hanna Silvola (ext)

2023 Committee Members

Marcus Björkstén (PM)
Janna Haahtela (PM)
Erik Wikström (ESG Specialist)
Fredrik von Knorring (Sales)
Hanna Silvola (ext)
David Seekell (ext)

Guest column by Hanna Silvola, Associate Professor at Hanken and Fondita ESG committee member

12. Sustainable finance regulation brings out new information to investors

The EU's sustainable finance regulation package is progressing rapidly and brings a lot of new information to the investor. This massive package has been prepared for a decade and some of the reforms have already been implemented in the operations of asset managers and other financial market players. A smart investor prepares for reforms in advance and examines his own investment portfolio in the light of new opportunities.

The Sustainable Finance Disclosure Regulation (SFRD) requires that investors must be given information about the sustainability of the investment target. In practice, the funds are divided into dark green (Article 9), light green (Article 8) and others (Article 6). Dark greens are the most sustainable investments according to the EU taxonomy, while Article 6 funds have no sustainability targets at all. The aim of the classification is to help the investor choose sustainable investment targets for his portfolio and to reduce the greenwashing associated with the marketing of funds. The Finnish Financial Supervisory Authority has announced that only dark green or light green funds can use sustainability-related terms such as 'sustainable', 'ESG' and 'responsible' in the name of the fund.

Although most investors already choose a sustainable investment strategy, SFDR classifications are still not well known among private investors. The limited availability of dark green funds is also a challenge, because their science-based environmental criteria are very demanding and ESG information is not yet available from all companies.

The quantity and quality of sustainability information will improve in the next few years when companies have to meet extensive sustainability reporting requirements. As part of the Sustainable finance regulation package, the European Commission will gra-

dually make sustainability reporting (Corporate Sustainability Reporting Directive, CSRD) and its independent assurance mandatory for listed companies and other large companies during the years 2024–2026. A company is classified as large if at least two of the three size criteria are met: the company has more than 250 employees, its turnover is more than 40 million euros and the balance sheet is more than 20 million euros. We have many such capital-intensive unlisted companies in the Nordic countries, for example in the construction industry, real estate, and logistics, which now must start reporting on their sustainability. The reporting reform affects an estimated 700–1,000 companies in Finland and around 50,000 companies at the EU level. Investors will get access to a lot of new sustainability information.

Sustainability information must be published in the annual report in the same way as the income statement and balance sheet and must be approved by the board of directors. Disclosing sustainability information in the annual report also means that it comes under the scope of official supervision in the same way as other financial information published by the company. The reporting requirements are extensive, and these European Sustainability Reporting Standards (ESRS) require companies to report numerous issues, from climate risks to gender pay-gap of employees. This is the most significant change in financial reporting since the introduction of International Financial Reporting Standards (IFRS).

In the next few years, a large amount of new sustainability information will become available to investors, which will reveal the true sustainability of companies. It is no longer enough for companies to highlight their sustainability, but it must now be proven and assured. Pioneer companies benefit, but there are certainly many investment targets in the financial market whose real sustainable development does not match the expectations of advertising or society. The investor should already think about how the company's stakeholders, including paying customers, critical suppliers, or other investors, will react if the company's sustainability performance does not meet stakeholders' expectations. All this affects the company's reputation and market value. Investors who care about their assets see increasing sustainability information as a risk management exercise and an opportunity to identify winners – not an ideological issue.

Investors who care about their assets see increasing sustainability information as a risk management exercise and an opportunity to identify winners – not an ideological issue.

Hanna Silvola
Ph.D., Associate Professor at Hanken School of Economics

Hanna Silvola is an Associate Professor of accounting at Hanken School of Economics. Her research interests include ESG measurement, reporting and assurance, sustainable finance, and sustainable investing. She has international experience from, among others, the London School of Economics and Stanford University (USA). She also serves as an expert member of the European Securities Market Authority's (ESMA) sustainable finance advisory working group.

13. Sustainable Finance Disclosure Regulation (SFDR) update

On 10 March 2021, a new EU regulation for sustainable finance came into force. The requirements were divided into Level 1 (principle-based disclosures) and Level 2 (details of what the various disclosures should contain and how they should be presented). The level 2 is the mandatory implementation of the SFDR standards. Level 2 entered into force in 2023 but fund prospectuses were updated by end of 2022 with templates specifying the content and methodologies for sustainable investments.

The aim of the Sustainable Finance Disclosure Regulation (SFDR) is to increase transparency for sustainability in the financial market, and to prevent financial-market participants from greenwashing. Under the regulation, financial-market participants are required to report on the integration of ESG risks and the consideration of the principal adverse sustainability impacts on sustainable development in the investment process of products. Participants are also required to report on ESG-related disclosures with respect to financial products. The EU regulation primarily affects financial -market participants and financial advisors. The regulation imposes certain requirements both at the company level and at the product level.

Product level

Under the SFDR, financial-market participants and financial advisors are required to publish product information related to sustainability for environmental, social and governance (ESG)-related products. The regulation requires entities to classify the products or advice they offer in categories between Article 6, Article 8 and Article 9, depending on sustainability level.

SFDR Classification Article 8 (light green)

The article 8 funds promote environmental and social characteristics, among other aspects. The funds require good corporate governance.

SFDR classification Article 9 (dark green)

The article 9 fund has sustainable investment as its objective. From an ESG perspective, the objective of our article 9 fund is achieved by following the investment process, and by finding companies with a positive impact on the environment in their operations. These companies enable us to achieve our global goals of reduced CO2 and more efficient use of natural resources. The fund's objective is to invest in companies that enable us to reduce our CO2 emissions, as defined by the Paris Agreement. The fund also requires good corporate governance.

CO2 and more efficient use of natural resources. The fund's objective is to invest in companies that enable us to reduce our CO2 emissions, as defined by the Paris Agreement. The fund also requires good corporate governance.

Level 2

In December 2022, Fondita added to all its funds prospectuses the templates for pre-contractual disclosures regarding environmental and/ or social characteristics. Among other things, the annex states if the fund have a sustainable investment objective and what that minimum proportion is, and it's also stated if that environmental objective qualifies as sustainable under the EU taxonomy.

In the document we disclose what E & S characteristics are promoted and what sustainability indicators are used to measure the attainment of the promoted characteristics as well as what methods are used to make sure not to cause significant harm to any environmental or social sustainable investment objective.

A specification on how PAI or Principle Adverse Impacts on sustainable factors are considered is specified and the first company-level PAI-report will be published by 30 June 2023. Our funds including classifications, Exclusion, PAI, Sustainable Investments, MSCI Rating and % of portfolio covered by data on the next page. More product-specific information can be found on Fondita's website.

Fondita Fund	SFDR Article	Exclusion	PAI	Sustainable Investment	MSCI Rating	% of portfolio covered
Fondita Sustainable Europe	9	Yes	Yes	100 %	AA	86 %
Fondita European Micro Cap	8	Yes	Yes	50 %	BBB	45 %
Fondita European Small Cap	8	Yes	Yes	50 %	AA	76 %
Fondita Finland Micro Cap	8	Yes	Yes	50 %	A	39 %
Fondita Global Megatrends	8	Yes	Yes	50 %	AAA	77 %
Fondita Healthcare	8	Yes	Yes	50 %	AAA	88 %
Fondita Nordic Micro Cap	8	Yes	Yes	50 %	AA	35 %
Fondita Nordic Small Cap	8	Yes	Yes	50 %	AA	64%

14. A brief look into 2023

An eventful start of the yet again on the ESG front. As we have been used to for the past years regulatory implementations is as relevant as ever. Financial market participants will have to start reporting on the PAI indicators for the reference period 2022 in June. We recieved some welcome clarificaitons on parts of SFDR in April with responses to the questions presented in September 2022 to ESMA to assist in the interpretation of the regulation. At the same time, taxonomy alignment work continues and companies in the EU in scope for the CSRD are expected to adopt the final standards in June, which will further assist investors in retrieving relevant information from the companies.

While the regulatory topics certainly keeps us busy there is a lot of other agendas capturing our interest at this moment. As the investments towards the green transition and the journey towards a net-zero Europe has picked up speed the other environmental topics have recieved well deserved attention after being in the shadows of climate change.

Biodiversity and water is being discussed widely amongs investors and financial institutions, with the risks and opportunities these areas of environment brings with it. COP15 made a significant step forward by landing on a agreeement to global guidance on nature to 2030 with representatives from 188 goverments attending. The targets hope to mobilize public and private finance towards biodiversity. The conference recieved great media coverage and we can all agree this will help in pulling bidiversity into the spotlight. However, there are still some questions which need to be answered before we can better predict how biodiversity is to be taken into account in investments in the future. Future KPIs how to measure biodiversity is widely discussed, as the mandatory PAI indicators being ”activities negatively affecting biodiversity sensitive areas” as one parameter to be reported in June. Experts agree it's not as straight-forward as climate change where the KPI can be a one-size-fits-all such as emissions but instead we need to consider KPIs on a wider scale to truely capture the risks. Also, the most burning question which will be the insentives for private capital investments in biodiversity? Will it only be regulatory requirements which will drive the change or will there be as clear of an investment opportunity as the green transition relating to climate change? While biodiversity as the main headline leads the discussion, the water issue is growing in relevance

while private and public discussions remain far away from each other, as measurements in the public sector focusing on water availability and the private sector more on water processing. The areas continue to mature as investor initative and further efforts in alignment between public and the private sector bring new opportunities we are eager to explore!

Erik Wikström, ESG Specialist, Fondita Fund Management Ltd.
erik.wikstrom@fondita.fi +358 9 66 89 89 21

15. ESG rating development of Fondita funds

During 2022 we saw positive development in our funds' MSCI ESG ratings. In most of our funds the ESG rating improved compared to year 2021. Overall, we saw positive improvement in carbon intensity.

By year-end 2022 Fondita had two AAA ESG-rated funds, Fondita Global Megatrends and Fondita Healthcare. Our Nordic funds and Fondita Sustainable Europe kept their rating unchanged at AA. Both European funds increase their ratings by a notch. Fondita Finland Micro Cap changed its name and focus during 2022. From being a Finnish equity fund with the possibility to also invest in Nordic companies (Fondita Equity Spice) the fund transformed into a Finnish micro-cap fund.

On the right hand side you can see the ESG ratings and the CO2-emissiondevelopment during the past year.

Fondita European Micro Cap	ESG Rating	Carbon Intensity (tons CO2e/$M sales)
Q4 2022	BBB	62,3
Q4 2021	BBB	135,6
Fondita European Small Cap	**ESG Rating**	**Carbon Intensity (tons CO2e/$M sales)**
Q4 2022	AA	104,2
Q4 2021	A	58,6
Fondita Finland Micro Cap	**ESG Rating**	**Carbon Intensity (tons CO2e/$M sales)**
Q4 2022	A	34,4
Q4 2021	AAA	106,8
Fondita Global Megatrends	**ESG Rating**	**Carbon Intensity (tons CO2e/$M sales)**
Q4 2022	AAA	58,6
Q4 2021	A	62,2
Fondita Healthcare	**ESG Rating**	**Carbon Intensity (tons CO2e/$M sales)**
Q4 2022	AAA	30,2
Q4 2021	A	30,2
Fondita Nordic Micro Cap	**ESG Rating**	**Carbon Intensity (tons CO2e/$M sales)**
Q4 2022	AA	34,2
Q4 2021	AA	36,5
Fondita Nordic Small Cap	**ESG Rating**	**Carbon Intensity (tons CO2e/$M sales)**
Q4 2022	AA	34,5
Q4 2021	AA	36,2
Fondita Sustainable Europe	**ESG Rating**	**Carbon Intensity (tons CO2e/$M sales)**
Q4 2022	AA	140,2
Q4 2021	AA	116,3

16. Fund specific information

You can find more information (e.g. ESG Report, Responsible Investment Policy) about our funds on our home page under the following links.

Fondita Global Megatrends

Fondita Finland Micro Cap

Fondita European Micro Cap

Fondita European Small Cap

Fondita Healthcare

Fondita Nordic Micro Cap

Fondita Small Cap

Fondita Sustainable Europe

fondita.com

Contact information

Fondita Fund Management Company
Aleksanterinkatu 48 A
00100 Helsinki
Finland

+358 (0) 9 66 89 890
info@fondita.fi