SUSTAINABILITY 2023

Strategy

Humle invests in companies that:

- Do not borrow current earnings from the future.
- Demonstrate clear connections between profitability, competitive positioning, and their sustainability practices, products, or services.
- Provide goods or services that contribute to a prosperous, equitable, healthy, and safe society.

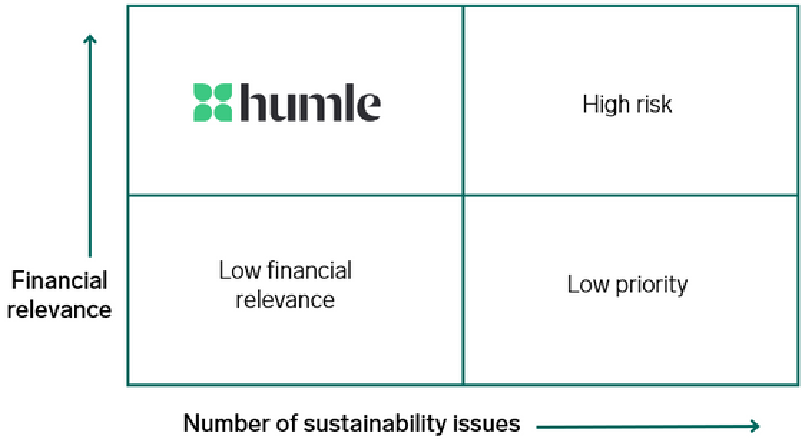
SFDR Classification

Humle classifies as Article 8, indicating it does not aim to achieve specific sustainability outcomes. Instead, Humle aims to maximize long-term risk-adjusted returns for clients, using sustainability as a tool for achieving this goal.

Bottom-Up Approach

Companies are evaluated holistically. Portfolios are constructed using a bottom-up approach based on market capitalization and active weighting. Active weights are determined by the portfolio manager's overall conviction in a company, which is shaped by both financial and sustainability factors.

Focus on Engagement

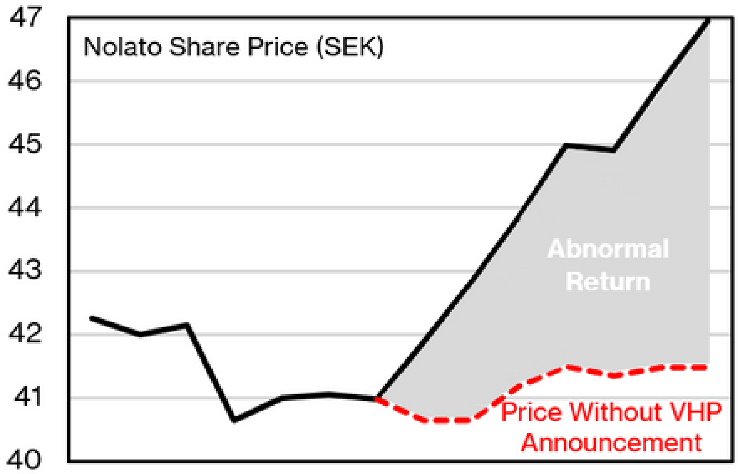


Humle prioritizes developing strong relationships with investee companies, many of which are under-analyzed and challenging to value accurately based on desk research alone. The fund leverages these relationships to advocate for progress on sustainability issues. Humle prioritizes engaging companies with a small number of sustainability issues that channel into their finances in many different ways. Research indicates that sustainability momentum yields the greatest equity premiums for such companies.

NOTABLE EVENTS

Nolato winds down VHP production

On August 24, 2023, Nolato announced it would wind down VHP production. The market responded strongly with statistically significant ($p < 0.01$) cumulative abnormal returns of 13.7% during a seven day event window.

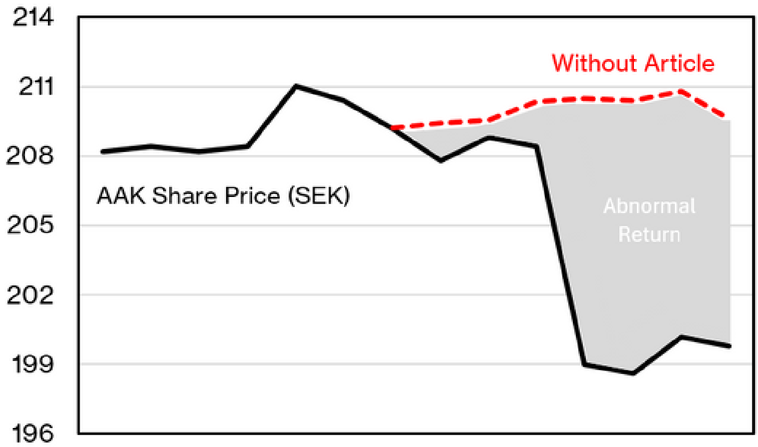


Methodology: Share price data are from Nasdaq. The event window is seven trading days, starting the day before the announcement. Abnormal returns are based on a market model. Statistical significance of cumulative abnormal returns was evaluated with Patel's standardized residual test.

The components of VHPs manufactured by Nolato are consumer electronics that exploit loopholes in public health laws. These devices posed a substantial divestment risk due to the high likelihood they will be re-classified as tobacco products. Specifically, many institutional shareholders have tobacco exclusions and these self-imposed exclusions would trigger mass liquidation of Nolato's shares when VHPs are re-classified.

AAK accused of buying illegal oil palm

On June 12, 2023, Sveriges Natur magazine published an article accusing AAK of incorporating illegally produced palm oil in its supply chain. The market responded negatively with statistically significant ($p = 0.03$) cumulative abnormal returns of -4.8% during a seven day event window.



Methodology: Share price data are from Nasdaq. The event window is seven trading days, starting the day before the announcement. Abnormal returns are based on a market model. Statistical significance of cumulative abnormal returns was evaluated with Patel's standardized residual test.

The magazine claimed that some of AAK's palm oil was produced within an Indonesian national park, and that this was driving deforestation in the area.

ENGAGEMENTS

Iconovo

Goal

Reduce the cost of capital by implementing human rights and anti-corruption policies necessary to minimize divestment risk and attract a wider investor base.

Fund:
Småbolagsfond

Start:
23 November 2023

End:
29 April 2024

Initial Outcome

The engagement was successful. Iconovo's Board of Directors adopted human rights and anti-corruption policies.

Background

Iconovo lacked human rights and anti-corruption policies, essential indicators of good corporate governance. Approximately 24% of share capital was held by mutual funds obligated by their SFDR classification to ensure good corporate governance of investee companies. The absence of these policies posed a divestment risk while also limiting the range of funds from which the company could raise additional capital, likely inflating its cost of capital unnecessarily.

Engagement Activities

- Conducted a meeting with Iconovo's management to emphasize the importance and investor expectations of human rights and anti-corruption policies.
- Provided guidance on best practices for corporate human rights policies, including principles from the UN and OECD.
- Supplied a draft human rights policy and implementation strategy, tailored to Iconovo's business scale and context.
- Sent two advocacy letters to the Chair of the Board of Directors, urging adoption of the policies.

ENGAGEMENTS

NP3 Fastigheter

Fund:
Småbolagsfond
Sverigefond

Start:
09 June 2023

End:
11 April 2024

Goal

Minimize risk of acquiring properties subject to higher costs or reduced pricing power due to future water shortages by adopting a freshwater management plan.

Initial Outcome

The engagement was successful. NP3 now considers freshwater availability material to its business.

Background

NP3 wrote in their 2022 annual report that freshwater issues were not relevant to the company. However, Humle‘s analysis found that 24% of NP3‘s property value was in municipalities with recent water shortages, and that this will rise to 36% by 2050. This will increase operating costs for properties where NP3 is responsible for utilities, and decrease pricing power for properties where the tenant is responsible for utility costs, at least for properties where tenant activities are likely to be water intensive.

Engagement Activities

- Conducted an analysis of NP3's exposure to water scarcity.
- Drafted a sustainability policy that includes freshwater management, and an implementation strategy, scaled to NP3's business scale and context.
- Conducted a meeting with NP3's management to present our analysis, and request adoption of our proposed policy.
- Sent an advocacy letter to the Chair of the Board of Directors thanking them for taking up the water issue and emphasizing how it channels into NP3's finances from an investor perspective.

ENGAGEMENTS

NP3 Fastigheter

Goal

For NP3 to achieve efficient capital allocation by reducing its cash dividend until interest rate pressures subside.

Initial Outcome

The engagement was successful. The Board's proposed cash dividend was reduced from 50% of operating profit in 2023 to 11% in 2024.

Background

NP3 manages high-yield commercial real estate in central and northern Sweden. In 2023 the Board proposed a cash dividend while also raising capital by issuing new equity and debt. Humle believed this was inefficient capital allocation that violated our principle that today's profits should not be borrowed from the future. We voted against the dividend proposal at the annual meeting. It is Humle's policy to engage companies when voting against a Board proposal.

Engagement Activities

- Conducted a management meeting to communicate Humle's investment principles relative to the 2023 dividend proposal.
- Sent an advocacy letter to the Chair of the Board of Directors stating our intention to vote against the proposed dividend.
- Voted against the dividend proposal during the annual meeting.
- Provided our analysis of optimal dividend policy to the Board in response to questions sent after the annual meeting. We advocated for no cash dividend.
- Sent an advocacy letter to the Chair of the Board of Directors stating our support for the 2024 proposal which contained the reduced cash dividend.

NP3 Fastigheter

Fund:
Småbolagsfond
Sverigefond

Start:
04 April 2023

End:
10 May 2024

ENGAGEMENTS

Iconovo

Goal
To manage investment risks stemming from the CEO‘s market manipulation indictment.

Outcome
The holding was liquidated.

Background
Iconovo announced that their CEO was charged with manipulating Newbury Pharma‘s shares. Humle decided to liquidate the holding after learning that Iconovo‘s Chair is a major shareholder in Newbury Pharma and stood to benefit from the alleged crime.

The decision to liquidate was taken based on research completed before the engagement activities started. However, we pursued the engagement until the final shares were liquidated, something we see as part of the fund‘s obligation as a responsible investor.

The CEO was convicted of the crime in February 2024, but remains in place at Iconovo.

Engagement Activities
- Conducted a meeting with the Chair of the Board of Directors to gather information about the charges and Board’s continued confidence in the CEO.
- Sent two advocacy letters to the Chair outlining the divestment risks stemming from the charges and specific steps they should take to regain investor confidence in Iconovo’s governance.

ICONOVO

Fund:
Småbolagsfond

Start:
23 November 2023

End:
29 April 2024

ENGAGEMENTS

Nolato

Goal

For Nolato to eliminate divestment risk by stopping VHP production.

Final Outcome

The engagement was successful. Nolato announced that they will wind down VHP production to less than 5% of group revenue.

Background

Nolato produced components for VHP's - a type of consumer electronic that posed divestment risks due to the likelihood of being classified as a tobacco product by regulators. During the engagement, management informed Humle during the engagement they had not previously considered the divestment risk. The market rewarded the decision to reduce production with significant abnormal returns, accompanied by statements from analysts praising the positive ESG momentum (see Notable Events section).

Engagement Activities

- Analyzed the divestment risk associated with VHP production. Over 76 million shares were at risk for forced liquidation, compared to a typical daily trading volume of 200,000 shares.
- Conducted a management meeting to present Humle's findings on divestment risk and advocate for cessation of the VHP product line.
- Were pursuing an escalation plan when management announced the wind-down of VHP production.

Nolato

Fund:
Småbolagsfond
Sverigefond

Start:
20 February 2023

End:
24 August 2023

ENGAGEMENTS

AAK

Goal

To limit legal and reputational risks from oil spills by reporting significant spills in the annual report.

Outcome

The engagement is ongoing.

Background

AAK produces specialized vegetable oils for the food and cosmetics industries, requiring the import of large quantities of crude vegetable oil by tanker ship. This process carries the same risks of spills and environmental impacts as transporting petroleum, posing legal and reputational risks. Past sustainability events have impacted AAK's reputation, including an event in 2023 that resulted in a -4.8% abnormal return (see the Notable Events section). Improving transparency by disclosing significant spills in the annual report is a first step toward minimizing these risks and enhancing investor confidence in the company's sustainability program.

Engagement Activities

- Conducted a management meeting to inquire why AAK stopped reporting spills and to establish our interest as investors in the topic.
- Sent an advocacy letter to AAK's President of Global Sourcing, Trading, and Sustainability outlining the legal and reputation risks and urging the company to assure investors that these risks are well managed through transparency about significant spills.

Fund:
Småbolagsfond
Sverigefond

Start:
14 June 2023

End:
Ongoing

VOTING

Why We Vote

Humle believes that voting in annual meetings encourages management teams to implement good corporate governance and responsible policies. We believe that this will increase long-term shareholder value while also encouranging responsible corporate behavior, including that related to environmental and social issues.

Our ambition is to exercise voting rights for all investee companies. This is rarely possible in practice due to resource limitation and scheduling issues. Therefore, we prioritize:

1. Companies with agenda items that directly impact shareholder value,
2. Companies under engagement and companies where the fund's ownership is at least 1% of outstanding share capital, and
3. The remaining companies are prioritized in order of largest to smallest exposure weight.

We engage in securities lending to increase return to our unitholders. We recall these lent shares in order to exercise of voting rights. In 2023, we voted in the following meetings:

Date	Company	Småbolagsfond	Sverigefond
17-Feb	Beijer Ref	✓	
22-Mars	Axfood	✓	
23-Mars	Castellum	✓	
28-Mars	Bravida	✓	
30-Mars	Avanza Bank	✓	
30-Mars	Fortnox	✓	

Date	Company	Småbolagsfond	Sverigefond
4-Apr	SEB		✓
18-Apr	Nordnet	✓	✓
20-Apr	Bufab	✓	✓
27-Apr	Trelleborg	✓	
27-Apr	Atlas Copco		✓
28-Apr	Hexpol	✓	
2-Maj	Hexagon		✓
3-Maj	Nolato	✓	✓
3-Maj	Investor		✓
4-Maj	Addnode	✓	✓
4-Maj	AAK	✓	✓
4-Maj	NP3	✓	✓
9-Maj	SOBI	✓	✓
9-Maj	Hexatronic	✓	✓
9-Juni	Sagax	✓	✓

Notable Votes

In 2023, we voted with management on all agenda items with the exception that we voted against NP3's dividend proposal. NP3 proposed issuing a substantial cash dividend at the same time it was issuing new shares and debt, something that we saw as inefficient capital allocation and in conflict with our principle that companies should not borrow today's profits from tomorrow. We conducted an engagement associated with this vote.

EXCLUDED COMPANIES

Why Humle Uses Exclusions

Humle deems some products and services fundamentally unsustainable and excludes involved companies from its investment universe. Exclusions are a blunt tool, but we use them in these cases because being fundamentally unsustainable implies there is no potential to create value through engagement and ESG momentum. As a consequence, these companies do not fit Humle's investment criteria because they lack the clear connections we seek between sustainable products or practices, and competitive positioning or profitability. Humle currently excludes companies active in controversial weapons, weapons, alcohol, tobacco, pornography, and fossil fuel production. These exclusions are applied based on a 5% revenue threshold. We also exclude companies that violate international norms.

Companies Excluded During 2023:

- Saab (weapons)
- Mildef (weapons)
- Kopparbergs Bryggeri (alcohol)
- Mackmyra Svensk Whisky (alcohol)
- Umida Group (alcohol)
- Moment Group (alcohol)
- AB Igrene (fossil fuels)
- International Petroleum Group (fossil fuels)
- ShaMaran Petroleum (fossil fuels)
- Maha Energy (fossil fuels)
- Misen Energy (fossil fuels)
- Petrosibir (fossil fuels)
- Tethys Oil (fossil fuels)
- Zhoda Investments (alcohol and fossil fuels)
- Acroud (gambling)
- Fable Media Group (gambling)
- Kindred Group (gambling)
- Fantasma Games (gambling)
- Blick Global Group (gambling)
- FSPORT (gambling)
- Tangiamo (gambling)
- Scout Gaming Group (gambling)
- Gaming Corps (gambling)
- Betsson (gambling)
- LL Lucky Games (gambling)
- Evolution (gambling)
- Haypp (tobacco)
- Harm Reduction Group (tobacco)
- Nicoccino (tobacco)

OTHER ACTIVITIES

Expedition Humle

Humle, in collaboration with adventurer Oskar Kihlborg, launched an innovative project to combat the alarming rate at which Sweden's glaciers are melting. By covering a glacier on Kebnekaise, Sweden's highest peak, with wool blankets, we prevented 1.7 meters (5.6 feet) of snow and ice from melting over a single summer.

Key Benefits

Public Awareness: The visual and relatable approach of using blankets to protect the glacier makes the issue more tangible to the public.

Capacity Building: The experience gained from this project equips Swedes with the knowledge and skills to use this techique, potentially extending the life of certain glaciers by several decades, if scaled up.

Scientific Basis

Scientific studies show that blankets consistently reduce melting by 60%. This is achieved through the following mechanisms:

- Increased albedo.
- Reduced sensible heat flux.
- Facilitates evaporative cooling.

Scaling Up

Humle will continue to support the project's expansion in 2024.

OTHER ACTIVITIES

Round Table Meeting on Palm Oil

Humle organized a roundtable on August 22 to discuss the latest research on the environmental and social impacts of palm oil production.

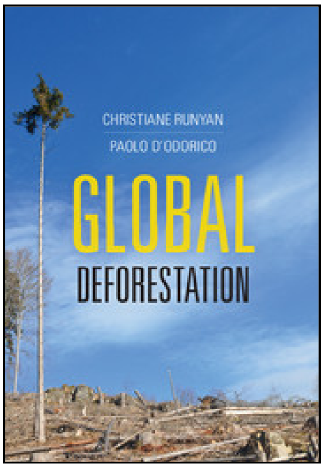
The event featured Paolo D’Odorico, Thomas J. Graff Professor of Natural Resources at the University of California, Berkeley, as the guest speaker. The discussion gathered NGOs, asset managers, and financial advisors, and covered topics including deforestation, carbon dioxide emissions, labor rights violations, and ethical land use in palm oil production.

The group also addressed Sveriges Natur’s allegation that AAK sourced palm oil from illegal plantations in Indonesia (see Notable Events). D’Odorico highlighted that while investors focus on the legality of the land, Western concepts of property rights don't apply to local Indonesian communities, who traditionally use the land communally and through shifting cultivation.

Small landowners often lack property titles, and a national park and government concessions for large plantations were established without considering the customary rights and livelihoods of local communities. The palm oil at issue comes from communities cultivating this land. The issue of AAK’s palm oil sourcing is far more complicated than Sveriges Natur represented, and there is no clear solution that respects both local communities and the environment.

Dr. Paolo D’Odorico holds the Thomas J. Graff Professorship of Natural Resources at the University of California, Berkeley. He specializes in global deforestation and the complex interactions between agricultural production, international trade, and environmental sustainability. His research includes studies on the environmental effects of oil palm cultivation.

Dr. D’Odorico is a Fellow of the American Association for Advancement of Science, the American Geophysical Union, and the American Meteorological Society. He has authored over 300 peer-reviewed scientific papers and 5 books. His publications are among the most widely cited by other researchers, according to the Web of Science database.



Dr. D’Odorico’s book *Global Deforestation* informed much of the discussion. It is available from Cambridge University Press.

INTERESTING READS

- **Ahopelto L, et al. (2019) Can there be water scarcity with abundance of water? Analyzing water stress during a severe drought in Finland. Sustainability 11:art6.**

  The authors find that localized water scarcity will develop around Finland's population centers, despite the country having abundant freshwater resources overall. This research informed our freshwater managment engagement with NP3.

- **Consolandi C, et al. (2022) How material is a material issue? Stock returns and the financial relevance and financial intensity of ESG materiality. Journal of Sustainable Finance & Investing 12:1045-1068.**

  The authors analyze the Russell 3000 index, finding that ESG momentum creates the strongest return for companies with a small number of sustainability issues that channel into their finances in many different ways. This research is the inspiration for the way Humle prioritizes companies for engagement.

- **Patell JM (1976) Corporate forecasts of earnings per share and stock price behavior: Empirical tests. Journal of Accounting Research 14:246-276.**

  The author describes the statistical test for cumulative abnormal returns that we apply in the Notable Events section of this report.

- **Lintner J (1962) Dividends, earnings, leverage, stock prices and the supply of capital to corporations. The Review of Economics and Statistics 44:243-269.**

  The author examines the impact of concurrent equity and dividend issues on enterprise value. The anlaysis informed our dividend engagement with NP3.