FONDITA

Annual Review of Responsible Investments 2021

Content

Introduction

Dear reader,

In front of you is Fondita's first annual Responsible Investment Review. We want to actively promote responsible investing, and with this review we aim to tell you more about our investment activities and the responsible investment methods we have been gradually applying in our operations since 1997.

In 2022 Fondita is celebrating its 25th anniversary. Our assets under management have risen to EUR 936 million (2021), our family of funds has grown from two funds to eight actively managed equity funds, and our portfolio management team today comprises five experienced portfolio managers.

We believe that the will for continuous development and improvement is key to our success. This is something we expect from companies that we invest in and that we strive for in our own day-to-day operations too. Responsibility has found its way into the heart of corporate strategy, and responsible investing has been one of the biggest drivers of change in the investment industry over the past decade.

For investors, opportunities can be created by taking into consideration environmental aspects and the impact of trends related to societal change, and finding responsible companies that can provide solutions to these changes. At Fondita, right from the start we identified three important megatrends that we believe create good value-creation opportunities, while also supporting sustainable development:
1.) Climate-smart solutions
2.) Health and wellbeing
3.) Digitalization and technological development

Small cap-investing has always been a strong part of our identity, and here our own analytical work is paramount for good performance. Therefore, the integration of ESG factors plays a natural role in the investment process. Factors related to the environment, social responsibility and good governance have a major impact on how we define opportunities and see risks. These factors can also affect a company's valuation.

As active, long-term owners, it's natural for us to build good relationships and have an open dialogue with our portfolio companies. Whenever possible, we strive to encourage responsible and sustainable operations, as well as transparency in reporting.
Each year we will focus on at least two responsibility themes in our corporate meetings. For 2022, these are: "The Company's Strategy for Achieving Carbon Neutrality" and "The Company's Actions for Achieving Equality and Diversity".

We are constantly developing our work in the field of responsible investing and the year 2022 will bring many interesting new projects that we're excited about. In this review, we will highlight our own principles for responsible investing and the methods we implement. We will also report on what regulatory changes the EU's Sustainable Finance Action Plan has brought to the financial market and what is still expected to come.

Our annual review also includes comprehensive ESG reports for all our funds. 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 will continue our determined work to achieve good investment returns, always taking responsibility into account.

Enjoy the review and let's keep in touch!

Responsible investing
principles, goals and methods

Principles of responsible investment

The goal of our investment business is to generate the best possible return for our customers. We aim to do this responsibly and in accordance with the chosen investment strategy.

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

We strive to always act responsibly and in accordance with sustainable development in our investment decisions and in our own daily operations. 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 and standards that guide society and business.

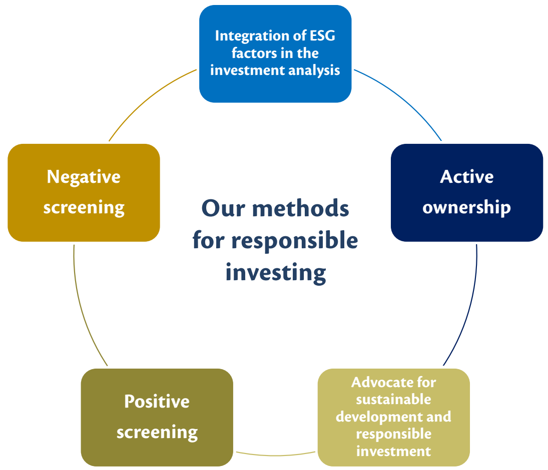
The goal of responsible investing

We want to own shares in companies where sustainability and ESG factors are integral to a company's strategy and corporate culture. This means the company acts responsibly towards its employees and treats everyone equally, while monitoring, measuring and improving its own environmental footprint. The company's sales come mainly from business operations that we believe are 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 equity funds' carbon footprint towards carbon neutrality. All Fondita funds – both small cap and thematic funds – are actively managed funds based on bottom-up stock picking. They have a consistent investment philosophy and follow the same strategy for responsible investing. Our goal is to be a long-term owner in responsible, high-quality growth companies, and our strong thematic driving forces are 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 a number of 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 standards 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 tools and ESG analyses from partners, as well as ESG tools and databases from MSCI and Morningstar.

When carrying out our own ESG inquiries with our portfolio companies, we go into detail on various parameters that affect environmental, social and governance aspects. We pay special attention to the following factors:

We pay special attention to the following factors:

Environment

- Use of renewable energy
- CO2 emissions
- Carbon dioxide risk
- Energy consumption
- Water use
- Waste management
- Taxonomy

Social

- Gender equality and diversity
- Safety
- Health
- Corporate culture
- Measures to prevent human-right violations

Governance

- Measures to combat corruption and bribery
- Board independence
- Remuneration policy
- The relatioship between ESG factors and remuneration
- The company's risk management

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 each year. 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. From 2022 onwards, we will identify at least two important sustainability issues that we will consistently discuss with the companies' management.

In 2022, we will focus on: 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 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 annual 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).

At the AGM, Fondita attaches special importance to issues concerning the interests of fund unit holders. This applies to, for example.

- ***The companies´capital structure***
- ***Its remuneration policy***
- ***Appointments to and the composition of the board***
- ***ESG matters***
- ***Transparent impact opportunities and appointment processes***

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 committed ourselves 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 ourselves to:

1. Integrating 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. Striving 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. We have also signed the ***UN Global Compact initiative.*** By becoming a member, companies and organizations commit themselves to actively work with sustainability issues and to annually report their work to the UN. The work is based on the Global Compact's 10 basic principles, which are based on internationally accepted conventions on human rights, labour rights, the environment and anti-corruption.

Companies that have joined the Global Compact undertake to adopt, support and implement these core values relating to human rights, working principles, the environment and anti-corruption in their sphere of interest. Companies and organizations involved in the initiative will comply with international obligations regarding working conditions, human rights, the environment and the fight against corruption in all countries, regardless of the country in which they operate. This provides companies with a framework for accountability. As we do not accept norm-breakers in our investment activities, we also want to commit to following the same principles and values in our own operations.

In 2021, the ***Net Zero Asset Manager's Initiative*** was also signed. 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 **netzeroassetmanagers.org.**

An overview of our responsible investment methods

Negative screening/exclusion **Exclusion of norm breakers** Impact of the sector on sales >5%	✓ *Fossil fuels* ✓ *Weapons* ✓ *Tobacco and cannabis* ✓ *Alcohol* ✓ *Commercial gaming operations* ✓ *Quick loans* ✓ *Adult entertainment* ✓ *Uranium* ✓ *Genetic engineering (red)*
Positive screening	**Companies whose operations are adapted to sustainable megatrends** • *Environmentally and climate-smart solutions* • *Health and well-being* • *Digititalization 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 Morningstar (Sustainalytics)*
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)* • *UN Global Compact (2021)* • *Net Zero Asset Managers Initiative (2021)*
ESG Committee	• *External expert member* • *Annual reporting to the board*
ESG reporting	• *Fund-specific ESG reporting* • *MSCI reporting models* • *Annual Report for Responsible Investments (2022)* • *UNPRI reporting*

Fondita's ESG-committee

Fondita's aim is to continuously develop our responsible investment work. Portfolio managers are in their daily work responsible for integrating sustainability aspects in investment decisions and to monitor regulatory requirements and related news flow.

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. Companies may also be facing sustainability risks that requires a broader review.

For this reason, Fondita established an ESG Committee at the end of 2021. The committee held its first meeting on the 20th of January 2022. The purpose of the Committee is to meet on a regular basis to further strengthen Fondita's responsible investment work, ensure that the required level of regulatory reporting is maintained, anticipate sustainability trends and changes and, where necessary, discuss norm breaches or other company specific ESG issues. The Committee reports on its activities to the Board of Fondita.

The Committee includes representatives from portfolio management and sales, our ESG analyst, and an external expert member. The role of the external member of the Committee is to act as an expert speaking partner and informal advisor.

It is important for Fondita to gain high-level, expertise from outside our company, so we invited **Hanna Silvola (PhD)** to work with us. Hanna has extensive expertise in responsible investments. She currently works as an Associate Professor in Accounting and teaches responsible investing at Hanken School of Economicsand in executive education programmes. Her research areas include measuring, reporting, verifying, and interpreting corporate sustainability information as part of financial information and decision-making. She has lectured at the London School of Economics and has visited Stanford University.

"Financial markets are in a green transition towards a carbon-neutral society. Cooperation between universities and the financial sector is important, as responsible investing and related regulatory requirements are evolving at a tremendous pace. As an external expert member of Fondita's ESG Committee, I can bring insights from the world of science to responsible investing"

- Hanna Silvola says

ESG-committee members in 2022
Marcus Björkstén, Portfolio Manager
Janna Haahtela, Portfolio Manager
Isabelle Ramsay, ESG analyst
Hanna Silvola, External Member
Fredrik von Knorring, Sales Director

Active ownership

Stock selection plays an important role in our investment philosophy. All our funds are high conviction, concentrated funds, with approximately 30-40 holdings per fund. Extensive internal analysis work is carried out as a basis for investment decisions, especially for the small cap funds. In addition, we value discussions with analysts covering our holdings. We also place a lot of importance on meeting with the portfolio company's management to verify the implementation of strategy and future prospects.

Active ownership for us is best reflected through company meetings. If the situation requires, we can also vote at general meetings or exercise influence via investor initiatives together with other investors. As active and long-term owners, it's natural for us to have a good dialogue with our portfolio companies. Whenever possible, we strive to encourage 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 always make a detailed ESG analysis of our new holdings, and ask questions about factors related to the environment, society and social responsibility, and good corporate governance.

Company meetings in 2021

While the pandemic prevented normal physical meetings in 2021, it actually generated more virtual meeting opportunities between investors and company management. Fondita's portfolio managers participated in a total of **641** virtual meetings in 2021. In these meetings we discuss current issues that affect the company's business, both from an operational point of view and in relation to the business environment. We discuss the company's strategy, goals, and the conditions for implementing the strategy successfully, as well as look at the company's competitors and competitive advantages, market position and pricing power. ESG aspects play an increasingly prominent role in the meetings, which is very positive. The focus is often on companies' environmental impact, but the importance of social responsibility and governance is constantly growing. The discussions are often framed around the UN's sustainability goals and the companies' own corporate responsibility and sustainability strategy.

In 2022, we will focus specifically on two sustainability issues in our company meetings. These are: **"the company's strategy for achieving carbon neutrality"** and **"the company's actions for achieving equality and diversity".**

Megatrend and examples of holdings

We have identified three megatrends that we believe are sustainable and will prevail for years to come: climate-smart solutions, health and wellbeing, and digitalization and technological development.

They all entail a development that contribute to a more sustainable future combined with growing underlying markets. A clear majority of our holdings in our funds are in some way positioned to gain from strong structural growth and increasing investments within these trends. Below we have listed examples of one holding from each of the three sustainable and long-term megatrends identified by us at Fondita.

Climate-smart solutions

Befesa

A company specialized in the collection and recycling of steel dust, a problem waste product from the steel industry. This particular form of industrial waste is hazardous and needs to be handled correctly. After collecting the waste, Befesa processes it and recycles any valuable metals. These are then sold back to the market. Befesa is currently active in Europe and the US. The company is also building two recycling plants in China to meet local demand stemming from stricter regulatory requirements for handling hazardous waste. Befesa's ESG strategy is fully aligned with its business strategy. The company´s strategic ambition is to make the world more sustainable by helping its customers to comply with environmental regulations (stricter regulations and recycling higher volumes of hazardous waste) and enabling the circular economy by recovering the valuable materials that are then reintroduced into the economy, preserving natural resources and biodiversity. At the end of 2021 this holding was in the Fondita Sustainable Europe fund and the Fondita European Small Cap fund.

Health and wellbeing

Straumann

This Swiss company manufactures and supplies dental implants, instruments and prosthetics for the dental industry. The company sells products that contribute to wellbeing and quality of life in general. As demographic shifts in the developed world lead to a growing percentage of senior citizens, the demand for Straumann products is likely to grow. Worldwide penetration for dental implants is still low. The company has a leading market position in a growing market and thanks to its quality company criterias it is a good investment.

Straumann also wants to lead the way in terms of sustainability, especially through social responsibility, but also in terms of climate objectives. The company aims at carbon neutrality and 100% renewable energy. Straumann's social responsibility is underlined, for example, by a significant investment in training programmes in low and middle income countries, and employee well-being and skills development are essential to the company's corporate culture. In 2026, the company aims to have 50% women in management positions (40% in 2021). At the end of 2021, this holding was in the Fondita Healthcare fund and the Fondita 2000+ fund.

Digitalization and technological development

Adesso

An IT service provider focused on the optimization of companies' core business processes. Its offering includes IT consulting and the development of software and industry-specific solutions. We believe the company is well positioned to benefit from the growing need to optimize workflows and processes, and consequentially save valuable resources and energy, and increase productivity. Again, we see this company as being present in a structurally growing market and providing sustainable solutions that improve efficiency. Adesso has in addition communicated a clear ESG strategy that targets energy consumption reduction at the different business locations, the increase of renewable energy, increase the usage of sustainable materials and the reduction of travel by employees. The retainment and wellbeing of employees is also something the company highlights in its sustainability goals. At the end of 2021 this holding was in the Fondita European Small Cap fund.

Our funds' environmental certificates

Environmental certificates for investment funds provide investors with assurances that certain criteria are being met regarding how environmental factors are integrated into a fund's investment process and holdings. In 2020 we decided that funds with a clear environmental focus could be eligible for the certificates we had identified as being the most relevant for us, namely the Nordic Swan Ecolabel and the Austrian Ecolabel. The Nordic Swan certificate is the most well-known and credible certificate within the Nordics, whereas the Austrian Ecolabel is widely recognized in continental Europe. Fondita Sustainable Europe was awarded both certificates in the latter part of 2020, and Fondita 2000+ was awarded the Austrian Ecolabel during the same period.

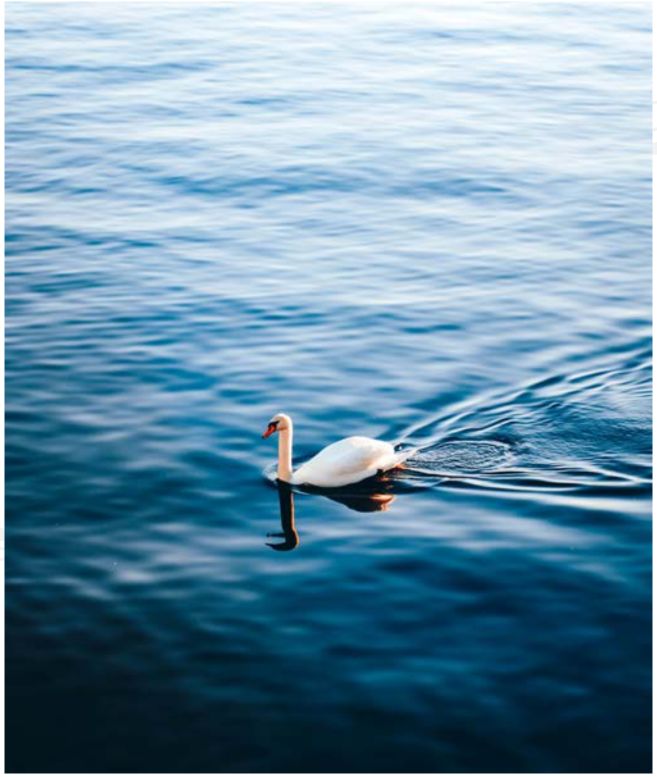
For an investment fund, carrying the Nordic Swan Ecolabel means that:

- *The fund excludes investments in certain industries and companies that are particularly problematic from a sustainability point of view*
- *The fund conducts an extensive ESG analysis of its potential investments and prioritizes companies that are more sustainable*
- *The fund discloses all holdings on a quarterly basis. In addition, the fund publishes an annual report on the sustainability performance of the fund*
- *Nordic Ecolabelling encourages active ownership and rewards funds that engage with investee companies*

For an investment fund, carrying the Austrian Ecolabel means that:

- *The fund excludes investments in certain industries and companies that are particularly problematic from a sustainability point of view*
- *The fund conducts an extensive ESG analysis of its potential investments and prioritizes companies that are more sustainable*
- *The fund commits to the ESG-risk being at an adequate level*
- *The fund publishes an ESG analysis on its most significant holdings*
- *The fund discloses its holdings on a quarterly basis*

We are very proud to have these certificates. We encourage other asset managers to apply for these cerificates if the funds have an environmental focus. These certificates are an effective tool to eliminate greenwashing within the fund industry. Investors can rest assured that the fund is doing exactly what it is claiming from a sustainability perspective. This is ensured through the audit by the issuer of the certificate and the complete transparency that is required.



Investment Fund
3101 0046

Read more about the Nordic Swan Ecolabel here.

Read more about the Austrian Ecolabel here.

UN Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) – or Global Goals – are a collection of 17 interlinked global goals designed to be "a blueprint to achieve a better and more sustainable future for all." The SDGs were set up in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030.

The lists of targets and indicators for each of the 17 SDGs were published in a UN resolution in July 2017. Each goal typically has eight to twelve targets, and each target has between one and four indicators used to measure progress toward reaching the targets. The 17 goals are the following:

SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY. End poverty in all its forms everywhere.

2. ZERO HUNGER. End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

3. GOOD HEALTH & WELL-BEING. Ensure healthy lives and promote well-being for all at all ages.

4. QUALITY EDUCATION. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

5. GENDER EQUALITY. Achieve gender equality and empower all women and girls.

6. CLEAN WATER AND SANITATION. Ensure availability and sustainable management of water and sanitation for all.

7. AFFORDABLE & CLEAN ENERGY Ensure access to affordable, reliable, sustainable and modern energy for all.

8. DECENT WORK & ECONOMIC GROWTH. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

9. INDUTSRY, INNOVATION & INFRASTRUCTURE. Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation.

10. REDUCED INEQUALITIES. Reduce inequality within and among countries.

11. SUSTAINABLE CITIES & COMMUNITIES. MAke cities and human settlements inclusive, safe, resilient and sustainable.

12. RESPONSIBLE CONSUMPTION AND PRODUCTION. Ensure sustainable consumption and production patterns.

13. CLIMATE ACTION. Take urgent action to combat climate change and its impacts.

14. LIFE BELOW WATER. Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

15. LIFE ON LAND. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation, and halt biodiversity loss.

16. PEACE, JUSTICE & STRONG INSTITUTIONS. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable and inclusive institutions at all levels.

17. PARTNERSHIP FOR THE GOALS. Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Source: UN.com

UN Sustainable Development Goals

alignment with Fondita funds

Below we have listed the top four goals that the funds are aligned with operationally and from a product/service perspective (according to the MSCI ESG database).

By operational alignment we mean which SDGs are best represented in our holdings when examining the operations of the company. By product/service-alignment we mean which SDGs are best aligned with the actual product or service produced by the company.

This alignment can naturally change over time, but we feel these goals currently represent our values, priorities and thematic focus very well.

Top 4 SDG Goals
Fund´s holdings operational alignment

1. GENDER EQUALITY ***(SDG 5).***
2. DECENT WORK & ECONOMIC GROWTH ***(SDG 8).***
3. CLIMATE ACTION ***(SDG 13).***
4. REDUCED INEQUALITIES ***(SDG 10).***

Top 4 SDG Goals
Fund´s holdings product/service alignment

1. RESPONSIBLE CONSUMPTION & PRODUCTION ***(SDG 12).***
2. INDUSTRY INNOVATION & INFRASTRUCTURE ***(SDG 9).***
3. CLIMATE ACTION ***(SDG 13).***
4. AFFORDABLE & CLEAN ENERGY ***(SDG 7).***

Source: UN.com

EU Taxonomy

What is the EU Taxonomy all about?

In order to meet the EU's climate and energy targets for 2030, and to reach the objectives of the European Green Deal, it is vital that we direct investments towards sustainable projects and activities. The Taxonomy regulation is a classification system establishing environmentally sustainable economic activities.

The EU Taxonomy is aimed at providing companies, investors and policymakers with appropriate definitions for how to consider various economic activities as environmentally sustainable. In this way, the Taxonomy should create security for investors, protect private investors from greenwashing, help companies to become more climate-friendly, mitigate market fragmentation, and help to shift investments to where they are most needed. In a nutshell, the Taxonomy will provide a classification system of what can be considered as sustainable and what not.

The EU Taxonomy Regulation establishes six environmental objectives:

1. Climate change mitigation (released April 2021)
2. Climate change adaptation (released April 2021)
3. The sustainable use and protection of water and marine resources (release date December 2021)
4. The transition to a circular economy (release date December 2021)
5. Pollution prevention and control (release date December 2021)
6. The protection and restoration of biodiversity and ecosystems (release date December 2021)

The Taxonomy framework does not yet cover all sectors, but its scope is gradually being expanded. The six objectives of the Taxonomy are being rolled out in stages, with the focus currently on the first two steps: climate change mitigation, and climate change adaptation. The rest of the objectives will be rolled out during 2022/2023.

How we take the EU Taxonomy into account in our portfolio management?

We believe that companies with sustainable business models are good investments and are more attractive from a risk perspective. We always try to assess whether a company – providing it is active in a sector covered by the Taxonomy – is aligned with the criteria of what is considered sustainable. We see a high Taxonomy alignment as being positive, but it is certainly not our only criterion upon which to base an investment decision. Funds that have environmental and climate smart solutions as a theme are naturally expected to have a higher Taxonomy alignment than funds with a more general investment focus.

In order to assess the Taxonomy alignment of a holding we rely on third-party research, our own analysis, and information from the companies we hold in the funds. Our visibility into Taxonomy alignment in our funds is currently fairly low – especially for small and micro-caps – but this visibility is expected to improve significantly by the end of 2022 as companies become more transparent in this respect.

Carbon-neutral funds

One of our most important sustainability goals is to counteract climate change. Today, our funds' CO_2 footprint is already 65% 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.

During 2022, we will set an interim target for 2030 and will establish our strategy for net-zero greenhouse gas emissions for all funds by 2050. To increase both transparency and credibility, we will report annually on progress towards the target as part of our PRI reporting and in our Annual Report for Responsible Investments. 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.

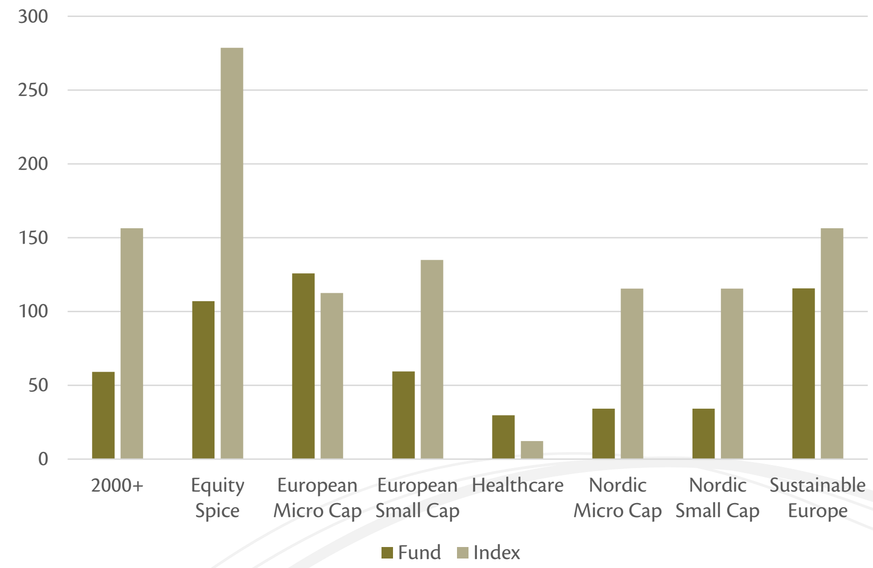
Fondita wants to play its part in the change. Although net-zero emissions for all investment assets is a goal that requires work, we believe that the will to stop climate change is so strong for the companies we own that the goal can be achieved together. By joining this investor initiative, we believe 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: **netzeroassetmanagers.org.**

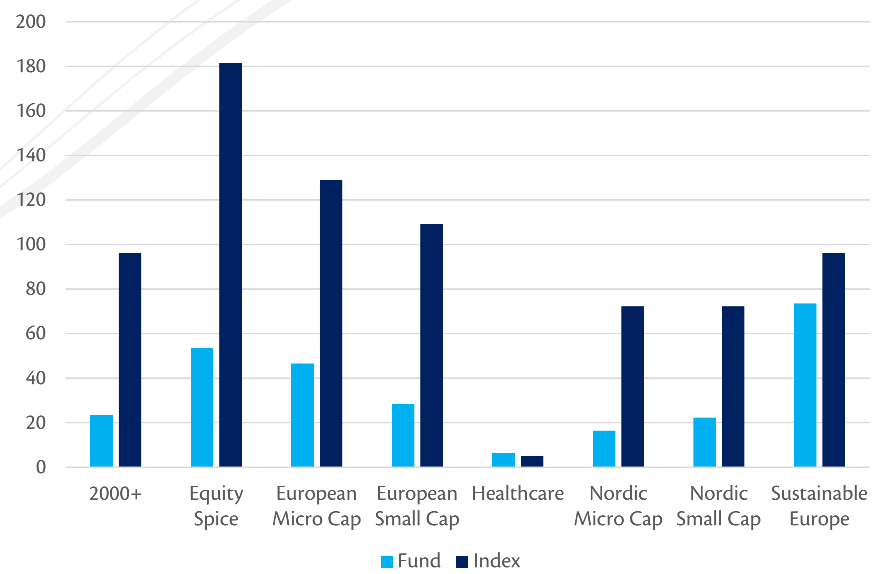
"By joining this investor initiative, we believe that together with others in the asset-management industry we can contribute to achieving net-zero emissions.

Carbon footprint of our funds

This table illustrates the funds Carbon Intensity (tCO_2/M$ sales) compared to a relevant benchmark.



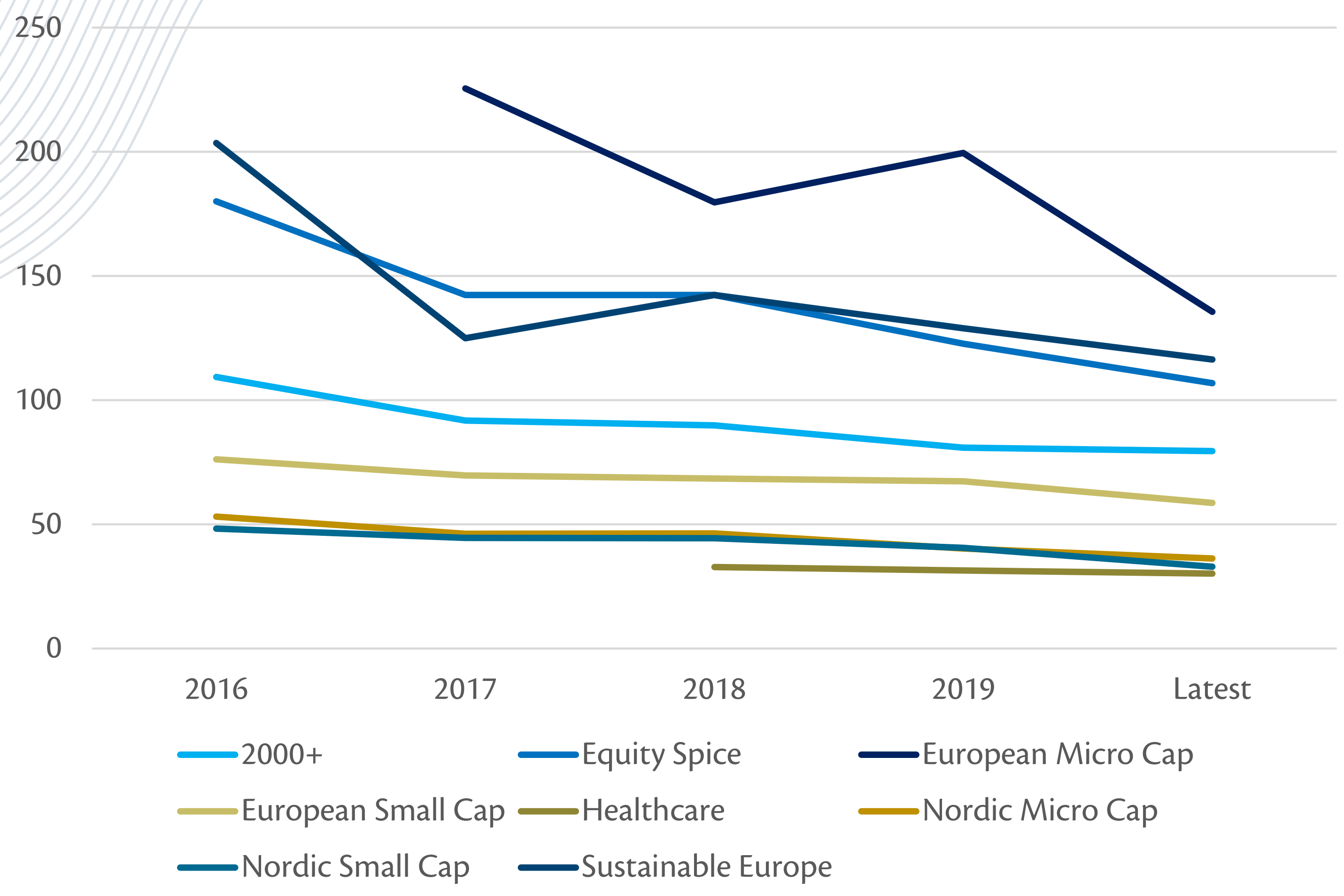
This table illustrates the funds Carbon Emissions (tCO_2/M$ invested) compared to a relevant benchmark.



Benchmarks:
2000+ vs MSCI Europe
Equity Spice vs OMX Helsinki
European Micro Cap vs MSCI Europe Micro Cap
Healthcare vs MSCI World Healthcare
Nordic Micro Cap vs Carnegie Nordic Small Cap Return
Nordic Small Cap vs Carnegie Nordic Small Cap Return
Sustainable Europe vs MSCI Europe

Carbon Intensity Development

This table shows the evolution of the Carbon Intensity (tCO2/M$ sa-les) of the Fund's current holdings.



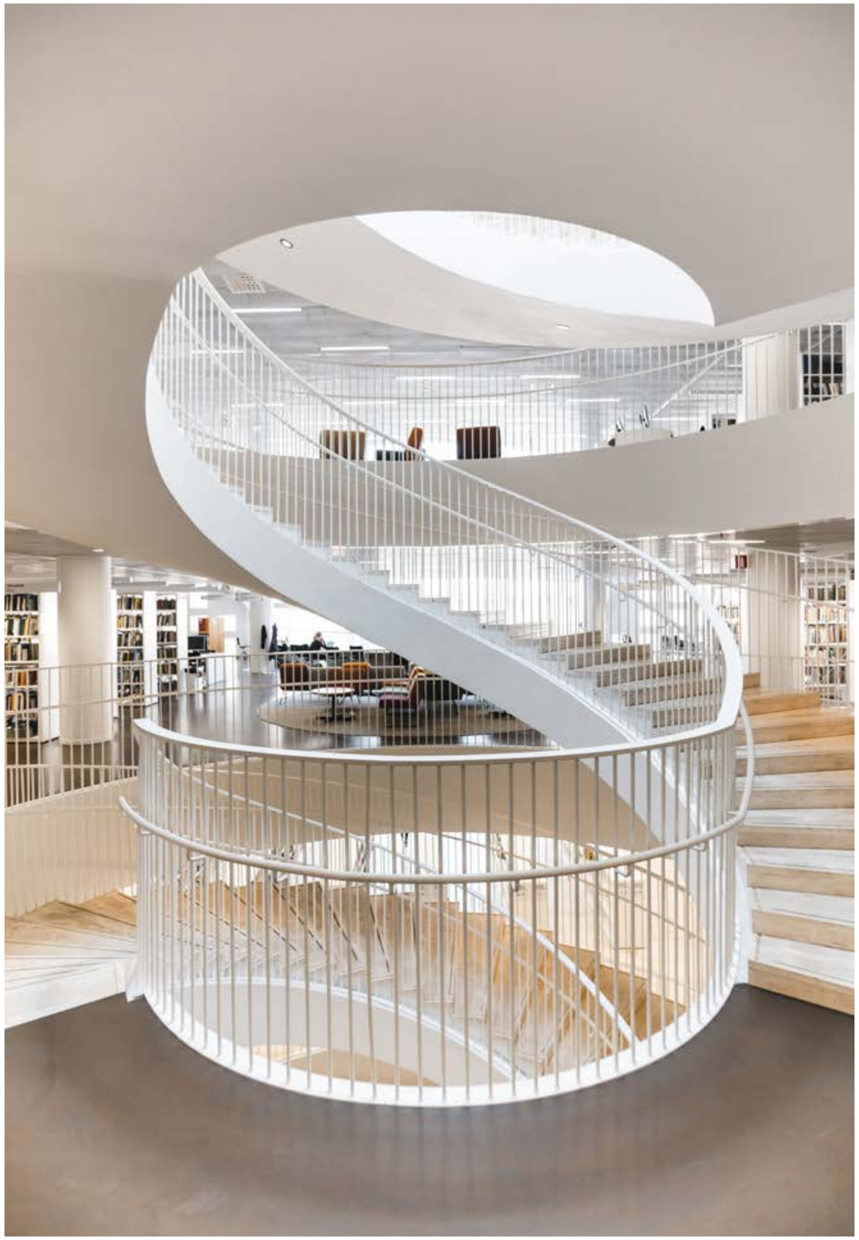
SFDR and our funds' sustainability classifications

On 10 March 2021, a new EU regulation for sustainable finance came into force. The requirements are divided into Level 1 (principle-based disclosures) and Level 2 (details of what the various disclosures should contain and how they should be presented). Level 2 will not enter into force until early 2023.

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 and non-ESG products. The regulation requires entities to classify the products or advice they offer in one of the following three categories: **Article 6, Article 8 and Article 9.**



The definitions of these three classifications are as follows:

Article 6 (grey) Financial products that do not integrate or take into account sustainability in the investment process.
Article 8 (light green) Financial products that promote sustainability in the investment process. This means that the product promotes environmental and social characteristics, and that the investment object complies with good governance practices.
Article 9 (dark green) Financial products that have sustainable investment as an objective in the investment process. This means that the product makes investments in an economic activity that contributes to environmental or social objectives, and that observes the 'Do no significant harm (DNSH)' principle. It is also assumed that the investment objective of this product complies with good governance practices.

SFDR classification of Fondita's funds :

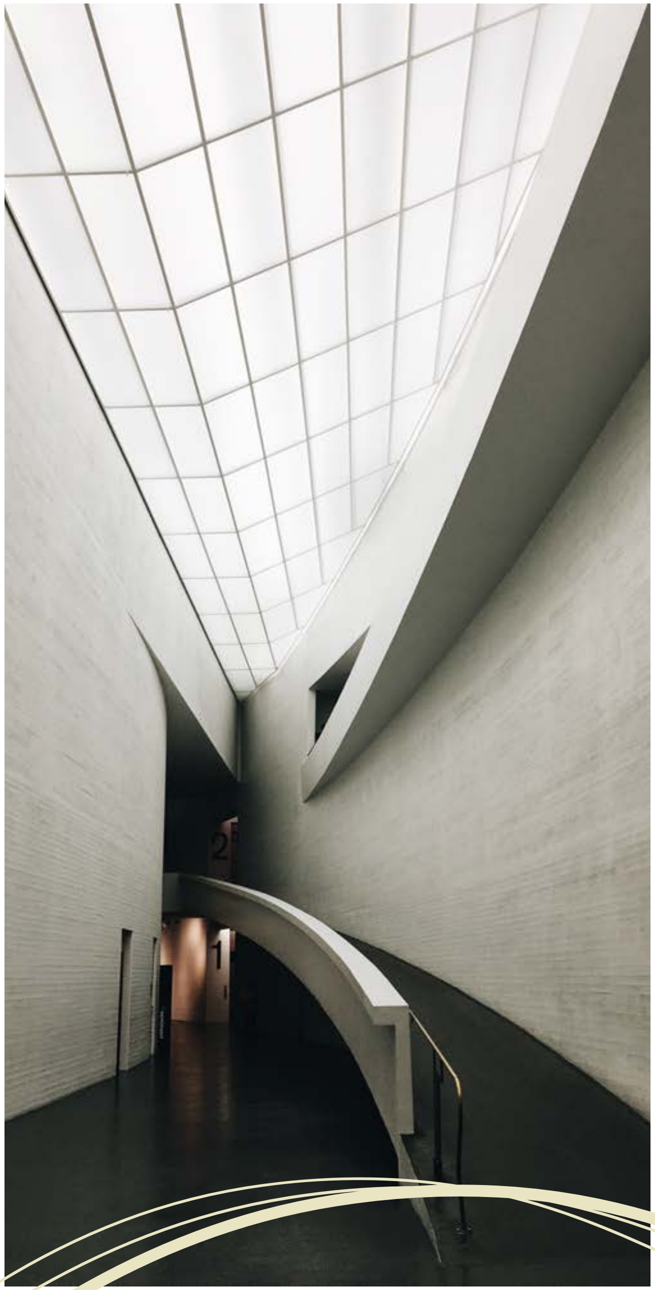
Fund	Article 9	Article 8
Fondita Sustainable Europe	✓ Yes	
Fondita 2000+		✓ Yes
Fondita Equity Spice		✓ Yes
Fondita European Micro Cap		✓ Yes
Fondita European Small Cap		✓ Yes
Fondita Healthcare		✓ Yes
Fondita Nordic Micro Cap		✓ Yes
Fondita Nordic Small Cap		✓ Yes

SFDR classification: article 8, light green

The fund promotes environmental and social characteristics, among other aspects. As part of the fund's investment-decision process, environmental and social– and the risks associated with them – are taken into account. The funds require good corporate governance. Fondita's definition of ESG risk is the risk of an E (environmental), S (social) or G (governance) incident occurring that is serious enough to have a significant negative impact on the share price. In order for the Fondita funds to be aware of these risks, this aspect is taken into account in investment decisions. The fund applies a select-in/select-out approach, which means that the managers systematically include and exclude companies whose activities are not in line with the fund's investment strategy and ESG ambition. In addition, the fund excludes certain controversial sectors and companies that violate the UN Global Compact Principles. The ESG analysis of the companies is carried out together by the ESG team and the fund managers. The funds have no official benchmark.

SFDR-classification: article 9, dark green

Fondita Sustainable Europe has sustainable investment as its objective. From an ESG perspective, the objective of this 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. We look mainly at what the company produces, but also at its carbon footprint and carbon-reduction targets. As part of the fund's investment-decision process, environmental and social issues – and the risks associated with them – are taken into account. The fund require good corporate governance. Fondita's definition of ESG risk is the risk of an E (environmental), S (social) or G (governance) incident occurring that is serious enough to have a significant negative impact on the share price. In order for the fund to be aware of these risks, this aspect is taken into account in investment decisions. The fund applies a select-in/select-out approach, which means that the managers systematically include and exclude companies whose activities are not in line with the fund's investment strategy and sustainability ambition. In addition, the fund excludes certain controversial sectors and companies that violate the UN Global Compact Principles. The ESG analysis of the companies is carried out together by the ESG team and the fund managers. The fund has no official benchmark.



Responsible Investments and Principal Adverse Sustainability Impact

Integration of ESG risks in the investment decisions

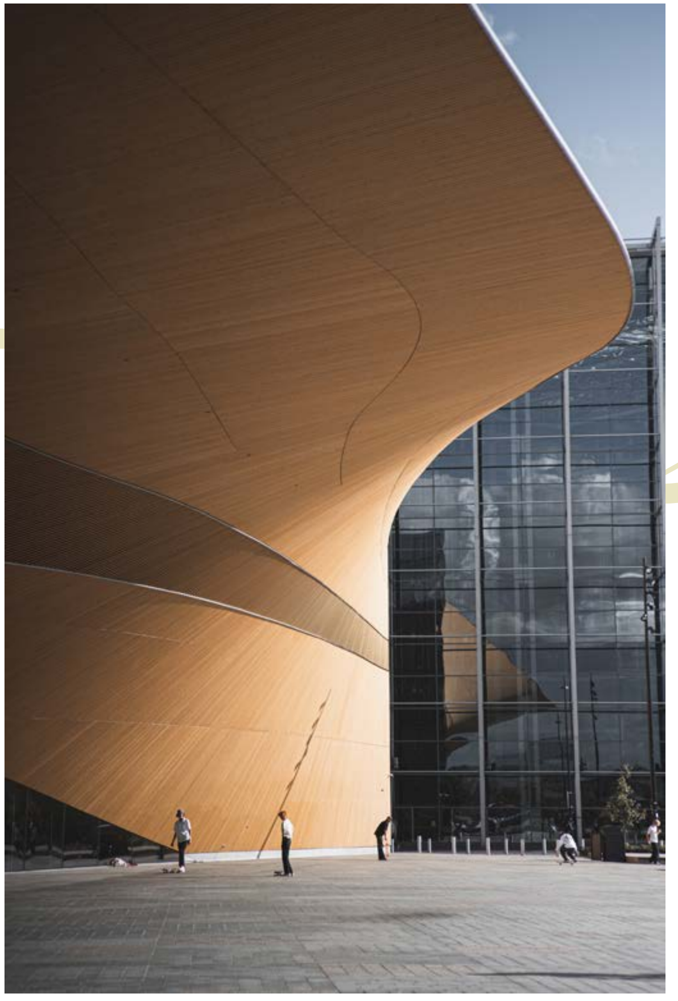
Fondita's definition of an ESG risk is the risk of an E (environmental), S (social) or G (governance) incident occurring that is so serious that it has a significant negative impact on the share price. In order for our funds to be aware of these risks, we include this aspect in our investment decisions.

Fondita avoids sectors that we believe are associated with high risk from an ESG perspective. There is a high risk of increased regulation, taxation and political opposition in these activities. Public opinion also tends to become more negative towards these activities. All this makes companies in these sectors operate in an uncertain and unfavourable environment. In addition, these activities can easily be considered questionable from an ethical perspective. The sectors in which we do not invest are fossil fuel, tobacco, cannabis, alcohol, weapons, adult entertainment, nuclear power plants, uranium, GMO (red), gambling and quick loans. The exclusion applies to companies that are directly active in these sectors (>5% of turnover) or that are suppliers to these sectors (>5% of turnover). We also avoid companies that have violated the UN Global Compact 10 principles.

Principal Adverse Sustainability Impacts

The SFDR defines Principle Adverse Impact (PAI) as ***"Negative, material or likely to be material effects on ESG factors that are caused, compounded by or directly linked to investment decisions and advice performed by the legal entity."***

Financial-market participants and financial advisors will be required to take into consideration 18 mandatory indicators (table 1) on GHG emissions, biodiversity, water, waste, and social indicators applicable to companies, sovereigns and supranationals, and real-estate assets. In addition to these 18 mandatory indicators, there are also 22 climate and other environment-related indicators defined, as well as 24 indicators for social aspects and



employees, respect for human rights, anti-corruption and anti-bribery matters. The reporting and integration of these are determined by the materiality of the financial entity's investments, and by the availability of data. Investments made in an Article 9 fund must meet the definition of sustainable investment in the SFDR Regulation. This means, among other things, that the fund's investments cannot 'Do No Significant harm' to any of the sustainability objectives set for sustainable investments. This means that all Article 9 financial products must report both mandatory and voluntary PAI indicators (PAI = principal adverse impact on sustainability factors). There are 18 mandatory indicators and 46 voluntary indicators, of which at least two must be selected.

Fondita take into consideration the investment decisions principal adverse sustainability impacts. Before making an investment, we evaluate the ESG risks associated with the company. If we perceive the risk to be higher, it affects our return requirement on the company. This evaluation is done based on the ESG risk metrics from our databases. Our own evaluation also influences the decision. This evaluation is based on the company's history, the industry, third-party analysis, and our dialogue with the company. We form an overall picture of the company from an ESG risk perspective. In our small- and micro-cap funds the availability of data is limited in the databases, so in these cases we form an overall picture mainly on the basis of a dialogue with management, and through our own ESG analysis. In order to assess the potential principle adverse sustainability impacts on an investment, we pay close attention to the sector to which the holding belongs, the geographical location of production, and what the company produces. Certain sectors and geographies are simply associated with a higher risk of ESG-related incidents. We also take into account a number of qualitative and quantitative indicators of the company's management and their prioritisation of ESG. In addition, we monitor the company's data points regarding CO2 emissions and its ambitions to reduce them. We also clarify management's approach to ESG in the company in general during meetings with them.

We strive to form a holistic picture with the data we have, thereby minimising these ESG-related risks in our investments. We avoid companies where the risks of principle adverse sustainability impacts are, in our judgment, clearly high.

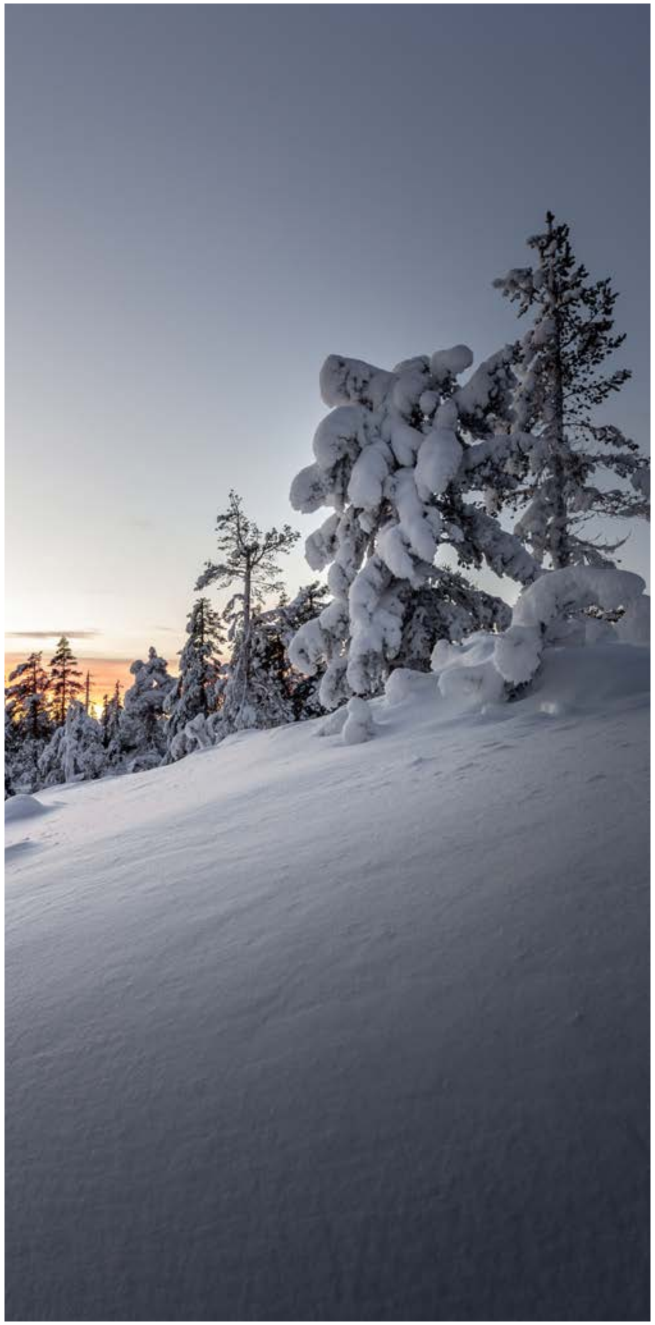


Table 1. Proposed SFDR Principle Adverse Impact Indicators

Environmental *(corporate issuers 1-14)*	**Social**
1. GHG emissions 2. Carbon Footprint 3. GHG intensity of investee companies 4. Exposure to companies active in the fossil fuel sector 5. Share of non-renewable energy consumption and production 6. Energy consumption intensity per high-impact climate sector 7. Activities negatively affecting biodiversity-sensitive areas 8. Emissions to water 9. Hazardous waste ratio	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises 11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises. 12. Unadjusted gender pay gap 13. Board gender diversity 14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons)
(Sovereigns and Supranationals 15-16) 15. GHG Intensity	16. Investee countries subject to social violations
(Real Estate Assets 17-18) 17. Exposure to fossil fuels through real estate assets 18. Exposure to energy-inefficient real estate assets	

Source: MSCI

The upcoming sustainanbility reporting iniative CSRD

On 21 April 2021, the European Commission issued a new proposal for an EU directive to replace the old EU directive NFRD (Non-Financial Reporting Directive). The purpose of the new CSRD directive is to increase reliability and trust in companies' sustainability information. The new EU directive will enter into force for the financial year 2023, which means that companies will be required to report in accordance with the directive in 2024. The requirement will enter into force for small and medium-sized companies only during the financial year 2026.

For which companies does the new directive apply?

Companies (not micro-companies) that meet two of the following requirements must report according to the CSRD:

- Turnover in excess of EUR 40 million
- A balance sheet of more than EUR 20 million
- 250 or more employees

What does the new directive mean for companies?

The directive requires around 49,000 companies across Europe to include information on the following in their reports: business model and strategy, policies, risks, goals and due diligence on environmental issues, social aspects and corporate governance, respect for human rights, anti-corruption and bribery issues, and diversity. The gender, age, educational and professional background of board members must be reported too.

There is also a requirement to report in accordance with mandatory EU standards developed by the European Financial Reporting Advisory Group (EFRAG) and adopted by the Commission as delegated acts. The standards state the information to be provided on environmental issues, social issues and corporate governance issues. The Commission must approve a first set of standards by 31 October 2022. According to the proposal for an EU directive, the sustainability report shall in the future be part of the annual report, while previously it could be separate.

We believe the new EU directive will increase companies' transparency and will improve the comparability between different companies' sustainability information. Previously, there have been no common standards for the reporting requirement, which has resulted in all companies being able to report in their own way. This has meant that it has not been possible to compare the companies' sustainability information in a reliable manner. Although the directive does not enter into force for a few years, we believe that the companies will already start to adapt their sustainability reporting to the new requirements.

The difference between NFRD and CSRD

NFRD	CSRD
Large companies, groups and companies of general interest with >500 employees	All large companies, groups and companies listed on a regulated market within the EU (micro business excluded)
Non-financial information can be provided in the annual report or in a separate report	Non-financial information must be provided in the annual report
No audit by an auditor	Audit by an auditor or other independent auditor
The sustainability report can be published in any format	The sustainability report must be submitted in electronic format
Voluntary use of standards, frameworks, or guidelines in the sustainability report	The sustainability report must be prepared in accordance with new European standards (financial year 2023)

Summary of upcoming ESG events in 2022 and 2023

We have already described the SFDR, Taxonomy and CSRD in more detail in previous chapters. Below is a brief summary of upcoming regulatory events:

Sustainable Finance Disclosure Regulation (SFDR)

• Level 1 entered into force on 10.3.2021 and Level 2 is likely to enter into force in 2023 (PAI indicators)

• Applies to financial market participants offering investment products and financial advisors

• Unit and product level information on sustainability risks and main negative impacts

• In 2022-2023, the European Commission plans to make a package of all regulatory technical standards that may replace the regulatory technical standards published in early 2021

Taxonomy

• Financial market participants; all firms covered by the CSRD

• Turnover, capital and operating expenditure during the reporting year for products or activities related to the taxonomy

In 2022-2023, the following will happen:

1) Taxonomy for the remaining four targets - expected to be published in Q1 2022

2) Report on the environmental transition taxonomy - expected to be published in Q1 2022

3) Report on the social taxonomy - expected to be published in Q1 2022

Reporting obligation likely to enter into force in January 2022 (for 2023 reports)

Corporate Sustainability Reporting Directive (CSRD)

• Applies to all large companies in the EU and all listed companies except micro companies

• Common reporting standard, non-financial information to be disclosed in the annual report and audited by auditor or other independent auditor

In 2022-2023, the following will happen:

2022: In October, the first set of reporting standards will be published

2023: In October, a second set of sector-specific standards will be published

• For the time being, it is not yet clear when the CSRD reporting requirement will come into force, but as it stands now, it will come into force in 2023 (for 2024 reports)

Fund specific ESG-reports

Carbon Footprint Calculator (31.12.2021)

Fondita 2000+

Fondita Equity Spice

Fondita European Micro Cap

Fondita European Small Cap

Fondita Healthcare

Fondita Nordic Micro Cap

Fondita Nordic Small Cap

Fondita Sustainable Europe

ESG-reports (Q4/2021)

Fondita 2000+

Fondita Equity Spice

Fondita European Micro Cap

Fondita European Small Cap

Fondita Healthcare

Fondita Nordic Micro Cap

Fondita Nordic Small Cap

Fondita Sustainable Europe


Contact information
Fondita Fund Management Company
Aleksanterinkatu 48 A
00100 Helsinki
Finland
+358 (0) 9 66 89 890
info@fondita.fi
fondita.com