

## CB European Quality Fund Investment Process

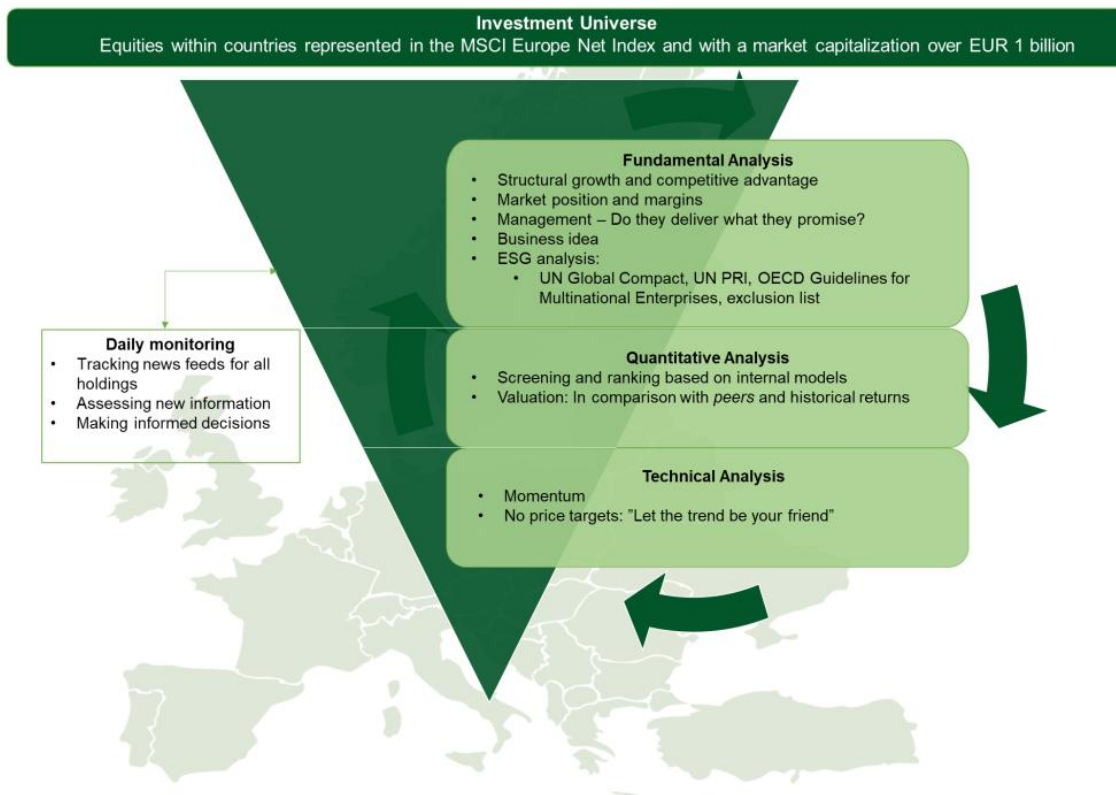


Fig 1. Investment process, the steps illustrated are covered and explained further down.

## The Idea of Sustainable Investments

It is our belief that that long-term investing is synonymous with investing in sustainability. With this rationale, CB European Quality Fund aims to achieve long-term capital growth through investing in European quality growth companies.

Expanding on this notion companies pioneering development of products within their industries provide structural growth and by extension higher profit growth and returns than the stock market average, for a foreseeable future. For CB Fonder it is important that we deliver a competitive return within the bounds of social responsibility and sustainability. We find matters of ESG very important for a company's possibility of creating and maintaining a stable long-term return.

The fund seeks to limit the exposure to companies with nascent technologies and weak or no profitability, where future winners are difficult to predict. Since the strategy prefers companies with stable growth the portfolio is resilient to downturns in the economy and the fund has almost always outperformed in drawdowns. Many companies are large and in mature industries, generating stable revenue and profit growth over an economic cycle.

As previously mentioned, it is the managers' belief that long-term investing is synonymous with investing in sustainability. The fund management is subject to an ethical framework as well as the UN principles for Responsible Investments, UN PRI. Additionally, the fund is connected to [SWESIF Hållbarhetsprofilen](#) and exclude all controversial products and services mentioned by SWESIF such as weapons, alcohol, uranium, and pornography.

## Fundamental Analysis

The fund is actively managed with a concentrated portfolio and investments are made on a long-term basis. The fund invests in companies with exposure to structural growth themes that can deliver stable growth independent of the volatile business cycle. The fund also prefers to invest in companies with protected growth, often characterized by industries with high barriers of entry.

In analyzing companies, a lot of investors set the growth rate to the market growth rate for all securities, when the fact is that some grow at a pace higher than the market, while some grow at a slower pace. This can create discrepancies in the valuation of companies growing at a high pace, due to cash flows not being discounted at the appropriate rate. Our aim is to find these companies. Oftentimes, they are high quality companies that are both undervalued given their future outlooks, while they also grow faster than the market in general. This generates the alpha that makes the fund perform well in both falling and rising markets.

Additionally, a stable growth rate is a prerequisite for us to be able to meet the fund's objective of keeping a lower risk (standard deviation) than the benchmark - the standard deviation of the companies' profit growth is of course highly correlated with the standard deviation of the companies' share price. Furthermore, a stable earnings growth "guarantees" better visibility and less surprises for us as investors. That, combined with a credible management, makes us more comfortable listening to the companies' forecasts than listening to those who take on the role of making the forecasts for the companies.

We are long-term investors, but companies cannot deliver above average growth rates in perpetuity. However, good quality companies have proved that they can deliver high growth rates for a longer period than the market thinks. By identifying quality companies and market leaders in markets with a structural growth we can find the companies with the best prerequisites to continue to deliver above average growth rates in the long run. If, however, the fundamental story surrounding a holding change, which seldom happens, that can trigger us to sell, otherwise we just fine-tune our holding to maintain "ideal" portfolio weights.

The fundamental analysis restricts the investment universe accounting for:

- Structural growth driven by secular trends, technical leadership and leading business models. As opposed to cyclic components that are purely driven by macroeconomic factors (see Fig 2)
- The competitive situation analyzed through Porter's five forces (see Fig 3)
- Has management delivered on their promises historically?
- Is the business idea strong enough to deliver a solid return over an entire business cycle?
- Value companies in comparison to their peers and through historical returns
- Assess key valuation multiples

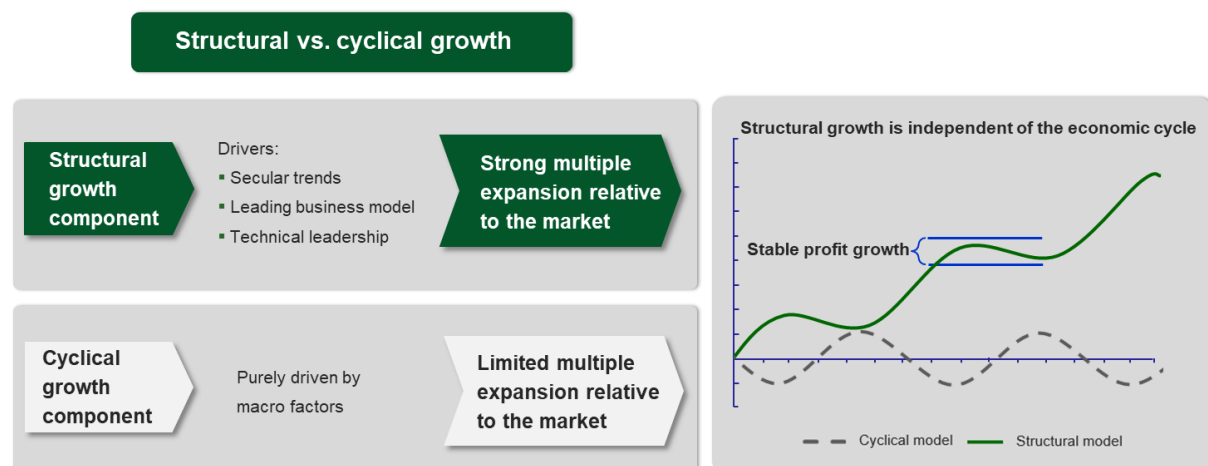


Fig 2. Structural vs. cyclical growth

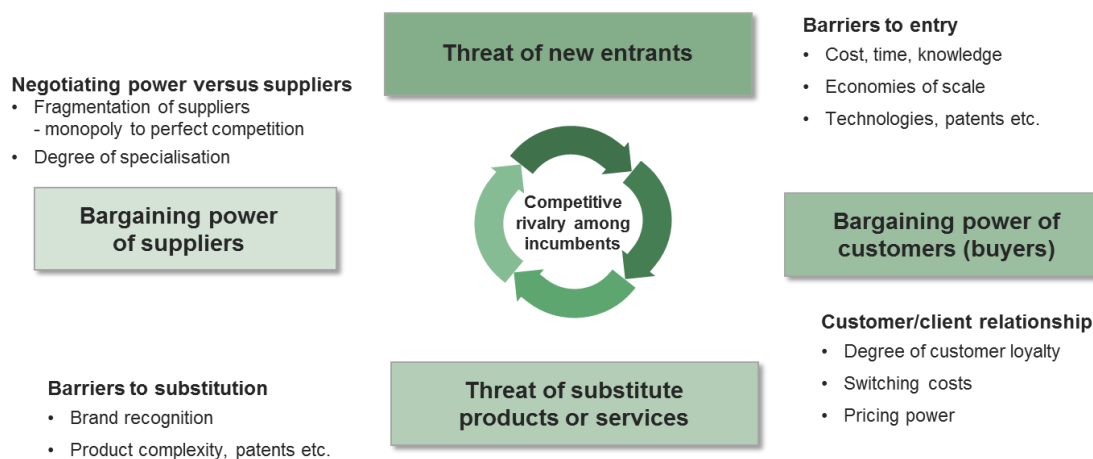


Fig 3. Porter's five competitive forces

The analysis is not per se focused on finding inefficiencies or arbitraging. Of course, any type of investing is, per definition, about finding some type of mispricing/inefficiencies. What we do seek to find is long term opportunities in companies that we find well managed, reflected in a superior history – attributes not seldom overlooked by the market.

## ESG Analysis

### Strong ESG Practices

As a cosignatory of the UN PRI, the six Principles of Responsible Investments are the foundation for investment decisions made by CB European Quality Fund. We believe that environmental, social and governance (ESG) issues can affect the performance of our investments. We also recognize that applying the principles makes us better aligned with broader objectives of society, something we value greatly. We commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together with others to enhance our effectiveness in implementing the Principles.
6. We will report on our activities and progress towards implementing the Principles.

The sustainable investment objective of CB European Quality Fund is to achieve a sustainable long-term capital growth mainly through investment in equities dealt in the European financial markets, of the countries represented in the MSCI Europe Net Index that:

- 1) Contribute to the climate change mitigation and/or adaption goal(s) outlined in the EU taxonomy (at least 1%), and/or
- 2) Contribute to one or more of the UN's global goals for sustainable development, and/or
- 3) Have a verified goal of carbon neutrality or emission targets according to the Science-Based Target initiative (SBTi).

### Exclusion

The funds managed by CB Fonder invest in companies with a stable profit growth and a long-term sustainable business model, which is why the funds do not have any holdings in companies with, e.g., fossil assets.

The funds managed by CB Fonder also do not invest in companies active in:

- Production of tobacco, alcohol and cannabis
- Weapons manufacturing

- Weapons sales
- Sales and manufacturing of civilian hand-held weapons
- Gambling
- Pornography
- Mining or refining of coal, natural gas, crude oil or uranium for fuel
- Companies in the energy sector that extract energy from coal, natural gas, crude oil or uranium
- Production of genetically modified seeds used by others in agriculture

These restrictions are valid also for companies who supply services/products to the above-mentioned industries. Activity in these industries is defined as accounting for 5% or more of the companies reported revenue in the most recent annual report. In the case of energy production from fossil fuels, the production capacity in Gigawatt (GW) must also not exceed 5%.

Furthermore, the funds managed by CB Fonder do not invest in companies operating in any capacity in the production or sale of the following controversial weapons:

- Nuclear weapons
- Chemical weapons
- Biological weapons
- Cluster munition
- Landmines
- Depleted uranium
- White phosphorus

The restriction also applies to companies that provide components with the sole purpose of being used in these weapons and refer to those cases where it has been stated in the company's most recently published annual report that they generated sales in some capacity in the above-mentioned areas.

In the case of investments in government bonds, in addition to the restrictions defined in the prospectus, investments from the funds managed by CB Fonder may not be made in government bonds issued by:

- Countries which the EU or the UN issued financial sanctions against
- Countries that have not approved the following:
  - The UN Convention on Biological Diversity
  - The Paris Agreement

Countries whose ranking in the Transparency International's Corruption Perception Index falls outside of the top 70.

CB Fonder aims to invest in companies which promote human rights and should therefore show diligence in the management of funds with investments that pose a risk of contributing to:

- Harmful forms of child labor and forced labor or unreasonable working environment (defined in the UN Rights of the Child Convention and ILO Conventions nr 29, 87, 98, 105, 138 and 182)
- Deliberate discrimination of employees due to gender, race, or religion (defined in the UN Declaration of Human Rights and ILO Conventions nr 100 and 111)
- Deliberate crimes against central international agreements in the environmental area (defined in the UN Climate Convention and the Kyoto protocol)
- Corruption, extortion and / or bribery (defined in the UN Convention against Corruption)

CB Fonder aims to invest in companies supporting the conservation of biodiversity and to refrain from investing in companies active within deforestation.

CB Fonder is a member of UN PRI, the principles regarding socially responsible investments sanctioned by the UN, and SWESIF, Sweden's forum for sustainable investments.

CB Fonder is not an official signatory of the Paris Agreement but supports it by analyzing the funds' portfolio temperature, the proportion of companies that have set SBTs and various other GHG emission metrics. Further, CB Fonder evaluate and works towards minimizing sustainability risks in accordance with the TCFD framework.

CB Fonder provides quarterly updates on all holdings in the funds managed by the company. This is done to ensure access to data and information that investors need to ensure that all investments made by the funds are within the limits of this document.

## **Inclusion**

For a company to be included in the fund, it must:

- Contribute to the climate change mitigation and/or adaption goal(s) outlined in the EU taxonomy, and/or
- Contribute to one or more of the UN's global goals for sustainable development, and/or
- Have a verified goal of carbon neutrality or emission targets according to the Science-Based Target initiative (SBTi), and
- Not be on our exclusion list

If the company fulfill these criteria, it needs to pass the screening process. After the company has been tested against the strict exclusion and inclusion requirements through the MSCI ESG- Manager and passed these, we normally undergo an in-depth analysis of our own to ensure that the company fits into the fund. We do this by looking at several factors, including but not limited to:

- Controversies
- Established guidelines and ESG targets
- Previous history regarding ESG

In addition, all investments are subject to an ethical and sustainable framework. This framework is upheld by the portfolio managers and used in the screening of potential investments, continuous screening of holdings, and screening of potential divestments. With help from a leading provider of ESG rating, the Sub-Fund is screened continuously to detect violations against matters of ESG. The screenings are key in ensuring that the internal investment process at CB Fonder is based on the guidelines and restrictions set in place by the sustainability policy. In situations when a screening comes back positive for a violation, CB Fonder evaluates the violation and decides what action to take. If it is determined that the company for which the violation is raised is not responsible for any of the actions leading to the violation, CB Fonder can hold on to the company in anticipation of preventive actions from the affected company. On the other hand, if CB Fonder agrees with the results of the screening, and the company for which the violation has been raised is not in the process of remedying it, CB Fonder excludes the company and sells all holdings of the company in its funds.

## **Screening process**

CB European Quality Fund is continuously screened by MSCI ESG Research to ensure that all holdings meet the high standards set by CB Fonder on matters of ESG. The companies are screened by using the UN global Compact principles as the underlying framework. Furthermore we also screen the companies for involvement in specific sectors deemed as controversial in our [sustainability policy](#). CB Fonder controls for reported incidents of violations against the UN Global Compact, OECD guidelines and conventions regarding human rights, labour rights, discrimination, corruption, the environment, and those related to weapons.

The screening process extends to all holdings in CB European Quality Fund. Any potential investment is screened prior to the investment being made. This ensures at all times that all holdings in the fund have gone through ESG screening.

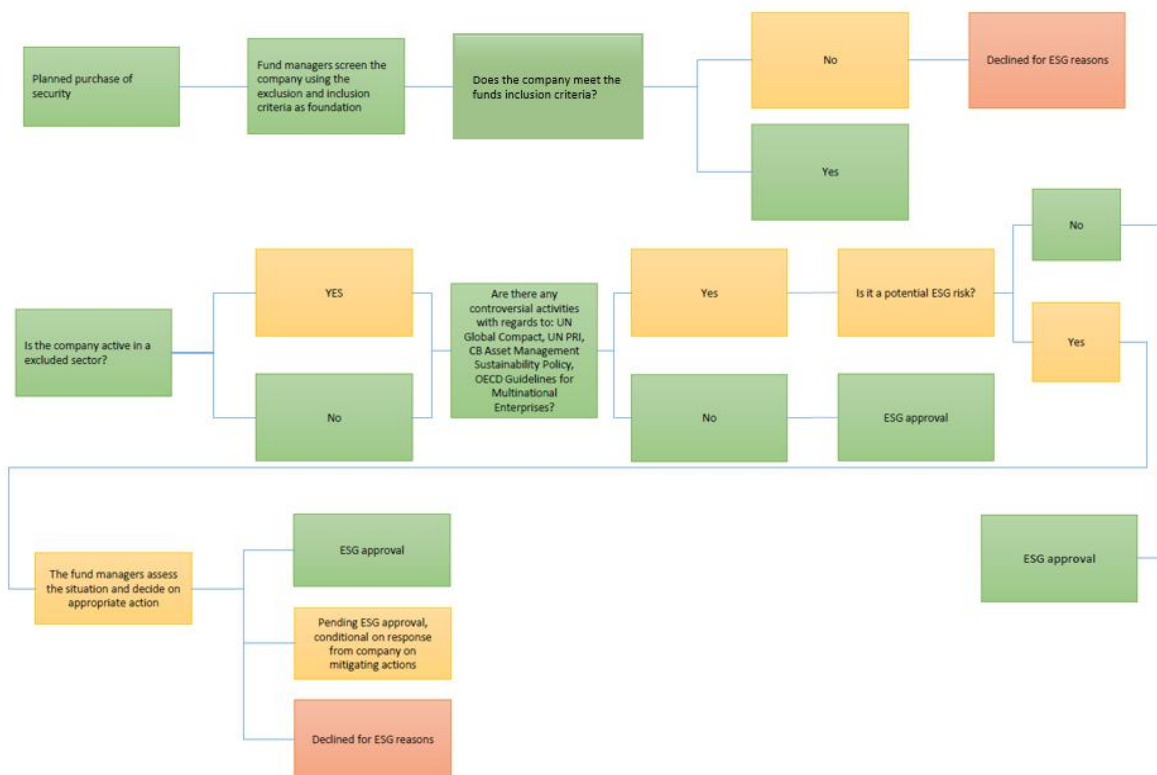


Fig 4. CB Fonder ESG-process, how we define strong ESG practices

## Quantitative Analysis

The quantitative analysis is also a part of restricting the investment universe, it aims to screen and rank investments using internal models based on quantitative variables such as:

- Growth
- Style
- Momentum
- Risk metrics
- Drawdowns
- Broader macro
- Sector themes

## Technical Analysis

The technical analysis is part of determining the portfolio weights with regards to an investment. The analysis covers:

- Momentum factors – does the short-term trend promote the sector/style?
- No price targets are set: “Let the trend be your friend”

We do not calculate price targets for our holdings, and therefore do not have a pre-defined level at which we will sell all or part of our holdings. We are supporters of the “ride your winners, cut your losers”-strategy, meaning that we have no problems holding on to stocks that have outperformed MSCI Europe Net, relevant sector indices as well as relevant peers, even if the company - which they tend to do - start to look richly valued. More of a concern is stocks with lacking momentum, underperforming the mentioned indices and peers – and with what at first glance looks like an attractive valuation (value trap).

## Daily monitoring

The fund managers monitor all holdings daily through:

- MSCI ESG screening reports
- News feeds
- Bloomberg
- Infront
- External research providers / Contact with brokers
- Relations with other investors
- Ongoing dialogue with companies

This is an ongoing process in the daily work of the managers to ensure that no holdings violate any exclusion criteria in the CB Fonder sustainability policy post-trade. Pre-trade the same screening is applied to any potential new holding along with the rigorous ESG-process and the previous steps in the investment process.