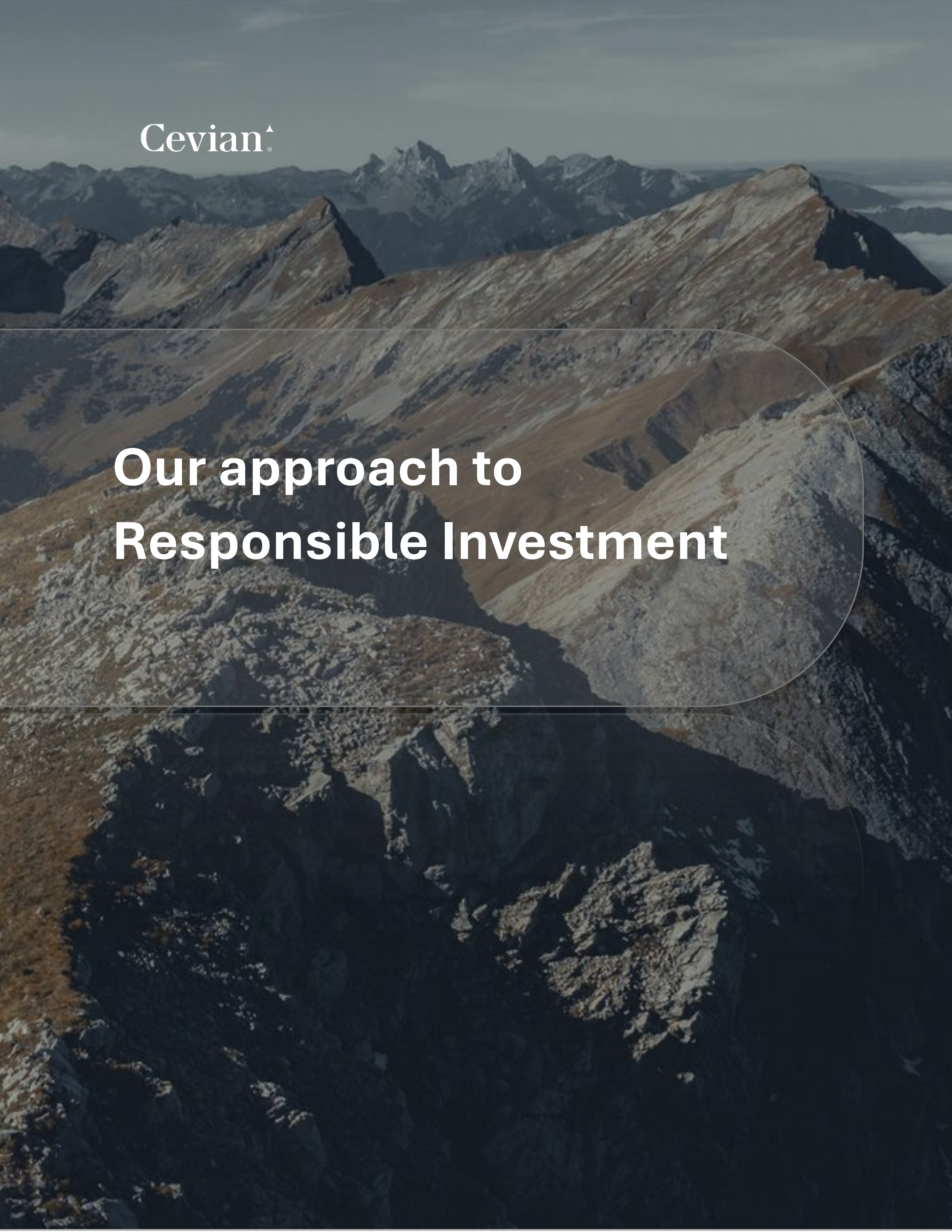
Cevian



# Our approach to Responsible Investment

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## OUR APPROACH

Our approach to sustainability is driven by and fully integrated into our investment strategy. We see a clear and direct relationship between sustainability and long-term value. Driving governance changes (such as improving boards and management incentive structures) has been at the heart of our work since we started Cevian more than 20 years ago.

Today, governance and other aspects of sustainability can impact companies' revenues, costs, risks, employee engagement and retention, stakeholder sentiment, and valuations. Thus, sustainability is incorporated throughout our entire investment process, from lead screening to our ownership work. Because of this, our sustainability analysis and value-creation work are led by our investment case teams, not a separate team or outsourced function.

When we do our deep analysis of the long-term fundamentals of investment candidates, we assess sustainability factors alongside other factors that impact fundamentals. When we develop and advance value-creation plans for our companies, sustainability is a part of our value-creation toolkit, alongside improvements to operations, corporate strategy, organizational structure and financial management.

## CEVIAN'S SUSTAINABILITY VALUE-CREATION FRAMEWORK

Our work is customized for each company. We use a framework that focuses on three elements of sustainability value creation to guide our research and analysis efforts: (1) Sustainability in Operations (e.g., operational risk management, regulatory compliance, cost efficiency); (2) Business Alignment (e.g., growth & margin impact, customer requirements, business capabilities and readiness); and (3) Reputation & Credibility (e.g., relevance to a company's investment case, ESG ratings & index inclusion).

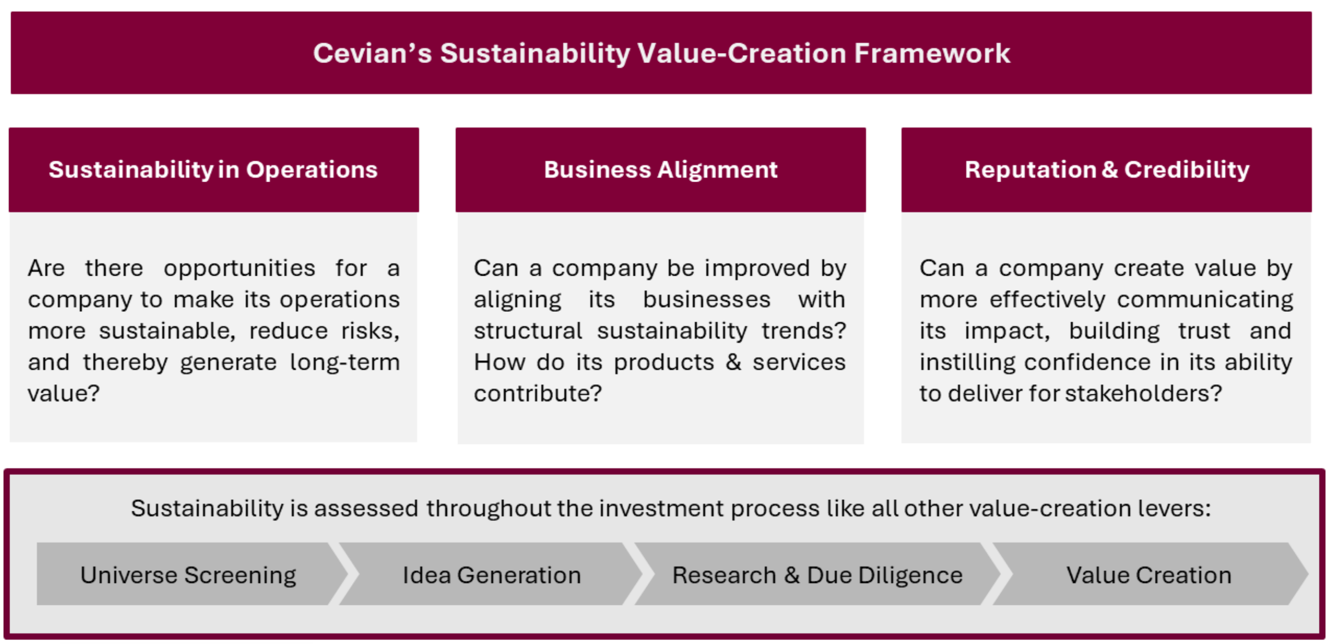


*Figure 1 Cevian's Sustainability Value-Creation Framework*

## SUSTAINABILITY IN OPERATIONS

Companies may be impacted by, and can impact, a wide range of sustainability factors. This is not a box-ticking exercise. It is fundamental to safeguarding long-term value, minimizing corporate risk, and avoiding negative impacts on people and planet. We believe that many companies can address sustainability in their operations more effectively. As such, our fundamental research, analysis and value-creation work may include the following:

- Materially relevant sustainability topics
- Current and past operational performance in these areas, related risks and opportunities for improvement
- Suitability of strategy, metrics, targets and action plans
- Governance and organization
- Integration within day-to-day operations

We aim to answer the following: Are there opportunities for a company to make its operations more sustainable, reduce risks, and thereby enhance long-term value?

## BUSINESS ALIGNMENT

Companies can increasingly seize opportunities by developing more sustainable products and services for their customers. To assess this potential, we may look at the following:

- Structural sustainability trends and their potential impact as a growth driver (or risk factor) on a company's businesses, e.g., energy efficiency, electrification
- Evolving customer and end-market requirements, e.g., improved product design to reduce resource intensity or carbon emissions in use
- Commercial approaches to clearly demonstrate sustainability impact, e.g., certifications and labels, avoided emissions accounting

We will ask: Can a company be improved by aligning its business with structural sustainability trends? How do its products and services contribute to these trends?

## REPUTATION & CREDIBILITY

Corporate sustainability communications have long suffered from greenwashing, fragmented reporting standards, and a lack of third-party verification. We believe companies have everything to gain from transparently and effectively communicating their sustainability approach, ambitions, action plans and performance to a variety of stakeholders. We will typically take the following into consideration:

- How a company communicates its contribution to sustainability, and how this relates to its broader investment case;
- Clarity and consistency in all sustainability-related communications;
- High-quality sustainability reporting and alignment with key regulatory frameworks and standards;
- Appropriate assurance and third-party verification of relevant data and disclosures;
- Broad and accurate coverage by leading ESG rating agencies such as MSCI, S&P, Sustainalytics, ISS and CDP, and inclusion in leading ESG indexes.

Finally, we aim to answer: Can a company create value by more effectively communicating its impact, attracting new sustainability-minded investors, building trust and instilling confidence in its ability to deliver for stakeholders?

## MATERIAL TOPICS

We assess a broad range of material topics and how they may impact a company's sustainability in operations, business alignment, and reputation & credibility.

### ENVIRONMENTAL TOPICS

Cevian recognizes the importance of identifying climate-related and other environmental risks and opportunities for the companies in its portfolio. This may include:

- Climate change (GHG emissions, physical and transition risks)
- Circularity and waste management
- Water stewardship
- Land use, ecosystems and biodiversity
- Pollution

As part of our regular monitoring activities, we investigate materially relevant environmental concerns depending on a company's individual risk exposure. We tailor our value-creation work for each company. We also work to ensure adequate training, tools and other resources are available to assess, implement and monitor environment-related considerations.

Where relevant and feasible, we encourage our portfolio companies to apply a transition in line with a 1.5°C scenario based on the International Energy Agency (IEA) Net Zero scenarios, and verify these accordingly with the Science-Based Targets Initiative ("SBTi"). As of 2023, most of our portfolio companies have been verified by SBTi or are actively undergoing review, and we will continue to work towards progress in this domain.

Beyond mandatory reporting, we encourage companies in our portfolio to disclose a comprehensive set of metrics aligned to suitable voluntary reporting standard such as Global Reporting Initiative ("GRI"), the Sustainable Accounting Standards Board ("SASB") / International Sustainability Standards Board ("ISSB"), and CDP questionnaires. Further, we consult topic- and sector-specific frameworks such as the Taskforce on Nature-related Financial Disclosures ("TNFD") guidance and the Ellen MacArthur Foundation's circular economy principles. We encourage companies to choose voluntary reporting frameworks and metrics that suit their industry, individual businesses and strategic goals.

We are committed to remaining carbon neutral in our own operations, and offset our own emissions on an annual basis.

### SOCIAL TOPICS

It is increasingly important for companies to have effective policies and processes governing social topics across their value chains (relating to the company's own employees, workers in the supply chain, customers, communities, and society). This is necessary to manage significant business risks, and to enhance competitive advantage. We expect the importance and contribution of these factors to grow. Examples of key themes we assess include:

- Product safety and quality
- Occupational health & safety
- Employee engagement
- Diverse, inclusive workforce and equal opportunities
- Equity in products and services
- Talent attraction, retention and competence development
- Supply chain management
- Human rights

In line with our values, we are committed to respecting and promoting human rights in the companies we own. We monitor the exposure of our portfolio companies, and seek to actively engage in cases where we believe performance, practices or policies are inadequate. We are supportive of efforts to implement robust human rights practices in alignment with regulation, policies and frameworks such as the Universal Declaration of Human Rights ("UDHR") and the International Labour Organization ("ILO") conventions. We expect companies to report regularly on their human rights performance, strategy, and other related aspects.

We are closely monitoring progress of our companies to get ready for implementation of the EU Corporate Sustainability Due Diligence Directive ("EU CS3D"), including the status of supply chain audits, supplier standards and maturity level, and engagement practices.

## GOVERNANCE TOPICS

Governance topics have been at the heart of our work since Cevian first started 20+ years ago. The *sustainability-related* governance topics that we address depend on the situation of the company, but may include:

- Governance structures and organizational responsibility for sustainability, including seniority and profile of executives with ultimate responsibility for sustainability (strategy/legal & compliance/communications) and board involvement/oversight
- Board composition, including appropriately skilled, experienced, qualified and committed board members, with diverse backgrounds and viewpoints
- Management strength
- Alignment, ambition and scope of sustainability considerations embedded in management incentive plans
- Formal and standardized policies and processes related to sustainability, including compliance and business ethics
- Maturity of data management systems, data availability and accuracy, cybersecurity
- Reporting and disclosure standards, third-party certification and assurance

## OUR APPROACH TO PROACTIVE OWNERSHIP

Proactive ownership is at the core of everything we do. We continuously engage with our portfolio companies throughout the lifecycle of our investments, and sustainability-related topics are addressed as part of our value-creation plans. We customize our ownership work and priorities for each company.

If and when Cevian identifies an issue related to sustainability, such as lagging performance, controversies, or gaps in remuneration, Cevian typically raises these issues directly with the company.

We may approach this in different ways, depending on the circumstances:

- Positioning sustainability as a priority topic at top-leadership level, e.g., within the board of directors and executive management, and aligning incentive structures to reflect this. At the time of writing, Cevian professionals sit on the board of directors of ten of our portfolio companies.
- Working with companies' sustainability teams to raise awareness of improvement areas, highlight gaps to leading peers, and identify potential solutions.
- Engaging with other relevant parts of the company, such as business areas, operations, communications, or compliance, as part of our value-creation work, and ensuring sustainability is reflected in overarching business strategy.

### SUSTAINABILITY IN REMUNERATION

Our work to advance sustainability-linked value-creation at companies led us to identify two critical issues that can hamper sustainability progress. First, important goals often extend years or decades beyond the horizon of management teams in place today (such as "Net Zero by 2040"). Yet the companies will not achieve these long-term goals without making near-term progress. Second, many management teams do not believe that improvements in certain sustainability factors will have an impact on corporate financial performance during their tenures.

Drawing on more than 20-years of experience of working to improve companies, we realized that appropriate management incentives could be used to bridge these gaps, and to create accountability for unfulfilled sustainability ambitions. In March 2021, we made a public call for all European publicly-listed companies to integrate sustainability-linked metrics into their management incentives that are 1. Tied to the strategy of the company, 2. Measurable (because what is measured gets done) and 3. Transparent, so we and other stakeholders can see that the ambition level is high enough. Further, 4. the metrics should align with any important pledges that companies have made, such as net zero targets.

In Europe, shareholders have significant governance rights over pay plans, and we made clear to our companies that would not hesitate to use these rights to advance this approach.[1] This was a novel policy at the time, and we have engaged widely to advance it more broadly. Since then, a number of other managers have adopted a similar approach, and in some markets, such as the UK, the clear majority of companies now have sustainability metrics in their executive incentive plans.

Improving the sustainability of European companies is bigger than Cevian. There are many companies in Europe that have adopted metrics, but where the metrics are not good enough in terms of measurability or transparency. We continue to work to address this.

[1] For companies that fall under the perview of the US Securities and Exchange Commission, we acknowledge that this may not be practical. We may adjust our approach accordingly.

## VOTING

Cevian votes at all general meetings and extraordinary meetings, in a manner that we believe best serves the interests of the funds we manage.

Due to the close relationships with our portfolio companies and our continuous, proactive value-creation efforts. Aside from regulatory filing disclosures, Cevian does not publicly disclose its voting record.

## POLITICAL ENGAGEMENT

As part of our advocacy for sustainability-linked metrics in remuneration, we may engage with other asset managers, standard setters (incl. country-level corporate governance code regulators), academic institutions, proxy agencies and other third-party experts.

Cevian does not carry out other activities related to political engagement through interaction with governmental bodies, regulatory authorities, governmental and non-governmental advisory bodies, or legislators in relation to our portfolio companies or leads.

## SUSTAINABILITY OUTCOMES

We assess each company individually, and as such, we do not have generalized policies related to sustainability outcomes, such as divestment in the case of missed sustainability targets. As part of our portfolio monitoring, we regularly review companies' progress and assess whether this is sufficiently advanced to align with broader societal goals. If a company is underperforming (from a sustainability or financial perspective), addressing this becomes part of our value-creation work.

## GOVERNANCE & OVERSIGHT

All materials, processes and procedures associated with responsible investment have been considered, reviewed, approved and adopted by Cevian's General Partner.

All Cevian investment and divestment decisions are supported by in-depth research and due diligence, which includes analysis of sustainability-related factors. Our responsible investment principles are embedded in this process.

## OUR EXCLUSION APPROACH

Our approach is based on active inclusion, and as such, we don't rely on negative exclusions. As a hands-on owner, we believe that significant value can be created from investing in companies with sub-par sustainability performance and pushing them to do better.

Cevian will typically not invest in companies that have significant negative impacts and / or risk exposures unless we see opportunity for change.

This could include, but is not limited to, the following:

- Companies with a substantial portion of their revenue from the exploration, extraction, distribution or refining of fossil fuels, including coal, lignite, oil, and gas;
- Companies with a substantial portion of their revenue from activities causing or associated with significant environmental damage, and / or with a consistent history of violations of environmental regulations (such as determined by controversies);
- Companies involved in activities with significant history of labor rights abuses, including child labor and forced labor, and / or companies in violation of international human rights standards;
- Companies with a substantial portion of their revenue from cluster munition, and other controversial weaponry including but not limited to nuclear, biological and chemical weapons;
- Companies whose primary business is the production or sale of tobacco;
- Companies with a substantial portion of their revenue from the operation of gambling establishments; and
- Companies with a substantial portion of their revenue from the production or distribution of adult entertainment content.