

Cevian[^]

Our approach to Responsible Investment

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OUR APPROACH

This document describes how we integrate sustainability into our investment process. 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, we consider that governance and other aspects of sustainability can impact companies’ revenues, costs, risks, employee engagement and retention, stakeholder sentiment, and valuations. When we analyse the long-term fundamentals of investment candidates, we assess sustainability factors alongside other factors. When we develop and advance value-creation plans for our companies, material sustainability considerations are a part of our value-creation toolkit, alongside improvements to operations, corporate strategy, organizational structure and financial management. The materiality of sustainability factors varies depending on the company, and we customize our approach depending on the unique sustainability risks and opportunities for each case.

CEVIAN’S SUSTAINABILITY VALUE-CREATION FRAMEWORK

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, if applicable, ESG ratings or index inclusion).

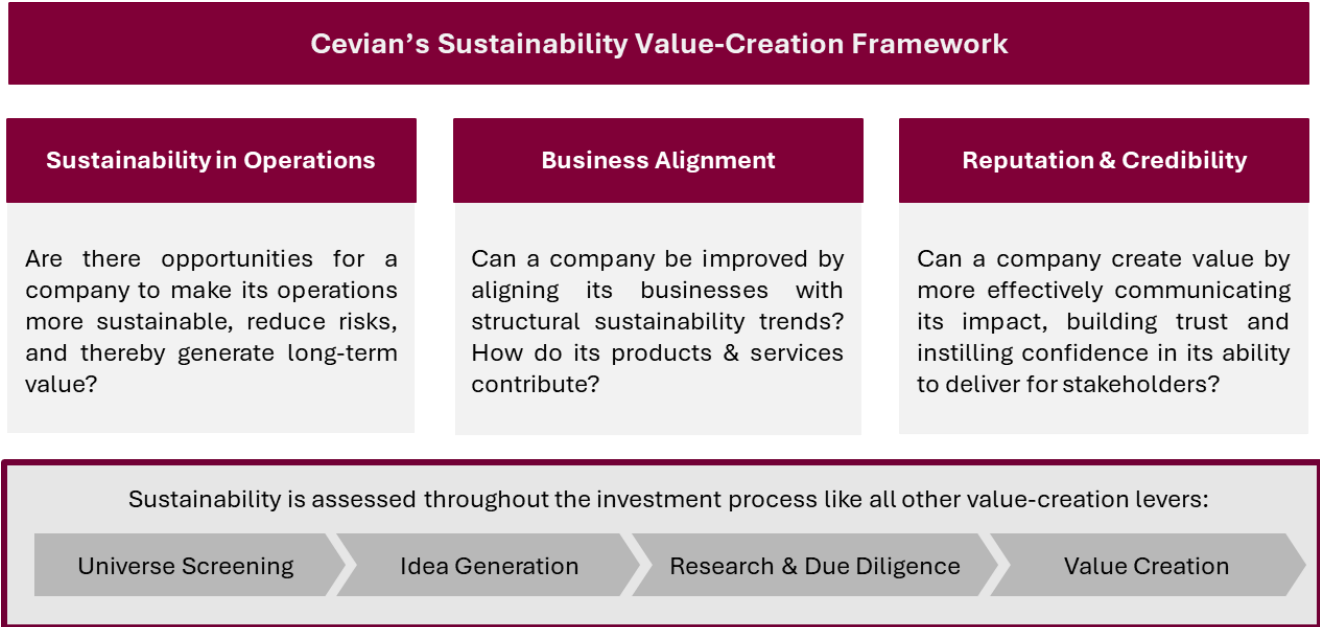


Figure 1 Cevian's Sustainability Value-Creation Framework

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

Some companies can 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. When appropriate, 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").

Through our monitoring and engagement, 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, when relevant, 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.

As a firm, 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;
- Talent attraction, retention and competence development;
- Supply chain management;
- Diverse, inclusive workforce and equal opportunities;
- Equity in products and services;
- Human rights;

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 Labor 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 policies and processes related to sustainability, including compliance, anti-corruption and bribery, business ethics, anti-competitive behavior, and their operational execution;
- 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, where relevant, 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 “reduce carbon intensity by 30% by 2035”). Yet, 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.

Based on our more than 20-years of experience of working to improve companies, we know that appropriate management incentives can be used to bridge horizon gaps and create accountability for unfulfilled ambitions. While we recognize that companies may choose to incorporate a variety of sustainability factors into their incentive plans, we generally consider climate- and decarbonisation-related metrics as most financially material (especially in high-emitting industries) and objectively defined.

Thus, we encourage relevant portfolio companies to integrate emissions-linked metrics into their management incentives that are 1. Tied to the strategy of the company, 2. Measurable (because what is measured gets done), 3. Transparent, so we and other stakeholders can see that the ambition level is high enough, and 4. Aligned with any important pledges that companies have made.

For companies that fall under the purview of the US Securities and Exchange Commission or with otherwise significant US operations, business activities, or other material exposure to the United States, we acknowledge that integrating sustainability-linked metrics into executive incentive plans may not be practical or appropriate in all circumstances.

In addition, where companies are demonstrably delivering against ambitious decarbonisation targets, or where their core business activities are not materially exposed to high-emitting sectors, we recognize that the need for such incentive structures may be reduced.

Our approach remains grounded in the principle that incentives should support long-term value creation through meaningful sustainability progress on financially material topics. We therefore assess the relevance and appropriateness of such metrics on a case-by-case basis, informed by the company's unique needs.

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

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.

The factors we would typically consider adverse include, but are 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.

Where we see an opportunity for change, the presence of such factors will not automatically preclude us from investing.