STEFNIR

Policy on *responsible investment*

3rd issue

Contents

Purpose and scope

The policy on responsible investment describes how Stefnir integrates environmental, social and governance (ESG) issues and sustainability into investment decisions. The policy has been approved by Stefnir's board of directors and ESG committee. Stefnir's ESG committee is responsible for ensuring compliance with the policy, decisions on exclusions and other commitments. This policy is based in part on Regulation (EU) 2019/2088 on sustainability-related disclosure in the financial services sector (SFDR) and on the standards we wish to adopt in this field, and it applies to all our investments. The policy is reviewed and updated as necessary, but never less than once a year.

The role of Stefnir

The role of Stefnir is to manage the financial assets of our clients as best serves their interests in the short and long term.

Responsible and diverse investment options and thorough disclosure of information are central to the corporate social responsibility to which Stefnir is committed. By paying due attention to environmental and social issues and good corporate governance we believe we can have a positive influence on our society, to the benefit of fund members and other stakeholders.

The fundamentals of responsible investment

Investment decisions are taken on the basis of laws, regulations and internal rules, such as rules on proxy voting, rules of procedure on counterparty due diligence and due diligence criteria in Stefnir funds. Funds managed by Stefnir use ESG analyses by domestic and international service providers when performing due diligence of investments. International rules such as the OECD guidelines on corporate governance are also utilized.

As a signatory to the United Nations Principles for Responsible Investment (PRI), Stefnir has pledged to introduce and implement PRI rules on responsible investment. Under these rules environmental, social and governance factors form part of the decision-making process on investments. Stefnir is a founder member of IcelandSIF, an initiative designed to promote awareness and debate on responsible investment. Stefnir was one of many organizations in Iceland which signed a declaration of intent with the government on investment for a sustainable recovery.

Stefnir's ESG committee

The managing director appoints an ESG committee comprising employees involved in the funds' investment process. The ESG committee works in accordance with rules of procedure, provides support on asset allocation and assurance that Stefnir works in accordance with the established criteria on responsible investment. The ESG committee determines the ethical standards for investments which must be adhered to when funds are taking investment decisions.

Sustainability risk

SFDR defines sustainability risk as an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment.

Sustainability risk varies according to asset class and type of investment product at Stefnir. Sustainability is incorporated in the decision-making process which forms part of the holistic risk assessment of investments. The risk assessment is, among other things, based on qualitative and quantitative information on ESG factor which is based on detailed analyses of sustainability risk both at Stefnir and by third-party analysts such as MSCI, Sustainalytics and Reitun. Stefnir analyzes sustainability risk by assessing ESG factors in the investment process and assessing the positive and negative impacts of ESG factors on the value of investments.

Stefnir takes into account the principal adverse impacts (PAI) of investment decisions on sustainability factors pursuant to Article 4 (1.a.) of SFDR where applicable. However, it can be difficult to assess such risk due to a lack of information and it depends on circumstances to what extent risk linked to sustainability has an impact on the choice of investment options.

Methods used for asset allocation in Stefnir funds

Fund management should always ensure due diligence throughout the investment process, safeguarding the best interests of the funds' unit holders. There must be adequate understanding and knowledge of the investment options available to the funds at the beginning of the investment process and throughout the investment period. This includes knowledge of the ESG factors which impact our society in the short and long term.

Integrating ESG into the investment process

Wherever possible Stefnir integrates ESG into the investment process at funds managed by the company. Companies are screened in order to identify those which do not meet the set ethical standards and a thematic methodology is applied where appropriate.

The ethical standards for investments are set out in a separate appendix which can be viewed on Stefnir's website.

The policy on responsible investment applies to all Stefnir funds. Stefnir strives to show in a transparent way how sustainability risk is assessed in its investment decisions.

Active ownership and impact investing

Stefnir complies with rules on proxy voting and Stefnir exercises shareholder rights according to the best interests of the funds. Through active ownership, such as by direct action, we aim advocate positive change which benefits ESG issues in the short and long term.

Alternative equity investments

Due diligence is performed on alternative investment options to identify and highlight the key features of a company's operations and finances. There is a particular emphasis on ESG factors in this respect, and the extent of the ESG check performed depends on the nature of the investment option under consideration.

Where Stefnir is directly involved in the operations of companies via ownership of funds managed by the company and where it is necessary to make improvements and to create ESG strategy, representatives of the company should advocate these issues to the benefit of all stakeholders. Good corporate governance practices are introduced at companies where Stefnir has a stake on behalf of customers in alternative investment funds.

Other alternative investments

In traditional investment classes, such as equities, ESG integration is widespread and access to information is constantly improving. However, there is less information available on alternative bonds and the quality differs greatly. As the quality of information in this area improves, Stefnir will seek to introduce ESG integration as applicable.

Corporate governance, risk management, transparency and disclosure

The board of directors of Stefnir is committed to good corporate governance and endeavours to promote responsible behaviour and corporate culture within Stefnir for the benefit of all the company's stakeholders. In addition, a code of ethics and the company's policy on conflicts of interest support the responsible corporate culture which thrives at Stefnir and which the company endeavours to bring to those companies in which Stefnir is involved through fund ownership.

Risk management is fundamental to Stefnir's business and the integration of ESG into investment decisions is a key component of risk management. Active risk management in responsible investment involves identifying and quantifying risk related to ESG factors and taking action if it exceeds defined limits. By tending to ESG factors Stefnir can acquire a greater understanding of risk in its investments and take action to mitigate risk. The company's risk officer is a member of Stefnir's ESG committee.

Stefnir will inform fund members clearly and transparently what action the company has taken and what it has achieved in terms of responsible investment, for example by publishing a PRI progress report. Information on voting in accordance with the rules on proxy voting is published annually on Stefnir's website.

We will advocate, support and encourage the positive development of responsible investment in line with our commitments as a signatory of PRI.

Sustainability related disclosure

The following tables apply to Articles 10 (1) and 23 of SFDR

Table 1: Environmental and social characteristics of funds

Fund	Article of SFDR	Commitment to sustainable investment	Commitment to E and S characteristics	Ethical standards for Stefnir fund investments	Active ownership	PAI
Katla Fund – Global Equity	8	-	90%	√	√	√
Stefnir – Scandinavian Fund – ESG	8	20%	90%	√	√	√
Stefnir – Sustainable Arctic Fund	8	50%	90%	√	√	√
Stefnir – Green Selection	8	-	90%	√	-	√
Stefnir – Sustainable Fixed Income Fund	8	20%	100%	√	√	√
Stefnir – Icelandic Growth Fund	6	-	-	√	√	-
Stefnir – Icelandic Growth Fund Leveraged	6	-	-	√	√	-
Stefnir – Dividend Fund	6	-	-	√	√	-
Stefnir – Balanced Fund	6	-	-	√	√	-
Stefnir – Liquidity Fund	6	-	-	√	√	-
Stefnir – Savings Fund	6	-	-	√	√	-
Stefnir – Fixed Income Opportunities Fund	6	-	-	√	√	-
Stefnir – Yield Fund	6	-	-	√	√	-
Stefnir – Treasury Note Fund	6	-	-	√	Not applicable	-
Stefnir – Inflation Linked Fund	6	-	-	√	Not applicable	-
Stefnir – Government Bonds Medium	6	-	-	√	Not applicable	-
Stefnir – Government Bonds Long	6	-	-	√	Not applicable	-
Asset Allocation Fund A	6	-	-	√	√	-
Asset Allocation Fund B	6	-	-	√	√	-
Asset Allocation Fund C	6	-	-	√	√	-
Eignaval – Asset Allocation Fund Equities Fund	6	-	-	√	√	-
Eignaval – Asset Allocation Fund International Equities Fund	6	-	-	√	√	-

Disclaimer: All funds under Article 8 of SFDR are waiting approval from FSA (theFinancial Supervisory Authority) in Iceland except Katla Fund - Global Equity

Table 2: Sustainability indicators

Fund	Article of SFDR	Carbon footprint	UNGC violations	Emissions intensity	Social violations
Katla Fund – Global Equity	8	√	√	√	√
Stefnir – Scandinavian Fund – ESG	8	√	√	√	√
Stefnir – Sustainable Arctic Fund	8	√	√	√	√
Stefnir – Green Selection	8	√	√	√	√
Stefnir – Sustainable Fixed Income Fund	8	√	√	√	√
Stefnir – Icelandic Growth Fund	6	√	-	√	√
Stefnir – Icelandic Growth Fund Leveraged	6	√	-	√	√
Stefnir – Dividend Fund	6	√	-	√	√
Stefnir – Balanced Fund	6	√	-	√	√
Stefnir – Liquidity Fund	6	√	-	√	√
Stefnir – Savings Fund	6	√	-	√	√
Stefnir – Fixed Income Opportunities Fund	6	√	-	√	√
Stefnir – Yield Fund	6	√	-	√	√
Stefnir – Treasury Note Fund	6	√	-	√	-
Stefnir – Inflation Linked Fund	6	√	-	√	-
Stefnir – Government Bonds Medium	6	√	-	√	-
Stefnir – Government Bonds Long	6	√	-	√	-
Asset Allocation Fund A	6	√	-	√	√
Asset Allocation Fund B	6	√	-	√	√
Asset Allocation Fund C	6	√	-	√	√
Eignaval – Asset Allocation Fund Equities Fund	6	√	-	√	√
Eignaval – Asset Allocation Fund International Equities Fund	6	√	-	√	√

Disclaimer: All funds under Article 8 of SFDR are waiting approval from FSA (theFinancial Supervisory Authority) in Iceland except Katla Fund - Global Equity

Definitions of sustainability indicators

Carbon footprint: Defined by TCFD as total carbon emissions (scopes 1 and 2) for a portfolio normalised by the market value of the portfolio, expressed in tons CO2e / USD$M invested. The carbon footprint expresses the percentage of greenhouse gas emissions of companies and issuers which are owned by or financed by the fund's investments.

Emissions intensity: Defined by TCFD as volume of carbon emissions per million dollars of revenue, expressed in tons CO2e / USD$M revenue.

Social violations: Measured as the number of investee companies or investee countries subject to social and human rights violations referred to in international treaties and agreements, the UN PRI and, as applicable, national law. Social violations are measured in absolute and relative numbers.

UNGC violations: Used to measure the percentage of investments in companies or issuers which have been linked to violations of UNGC rules or OECD guidelines for multinationals. The ten principles are linked to human rights, labour, environmental issues and anti-corruption.

Sustainable investments: Sustainable investment is defined by SFDR as an investment in an economic activity that contributes to environmental or social objectives, provided that the investment does no significant harm to environmental or social objectives and that the investee companies follow good governance practices.

Sustainable investment – Stefnir funds definition

1. Good corporate governance – the investee company follows good corporate governance practices

2. Economic contribution – an economic activity which makes a positive contribution to environmental or social objectives. This takes into account environmental or social income, cost of capital, operating costs or sustainable activities. At least 20% of income needs to be considered sustainable. Assessment of positive contribution to economic activity is based on EU Taxonomy.

3. Do no significant harm – the investment does no significant harm (DNSH) to sustainable investment objectives.

Glossary

PRI: PRI is a leading organization in terms of responsible investments globally. PRI endeavours to understand the investment impact of environmental, social and governance factors and to support the international cooperation of organizations which have committed themselves to investing responsibly and to incorporate ESG factors into their investment and ownership decisions.

TCFD: The Task Force on Climate Related Financial Disclosures (TCFD) was created by the Financial Stability Board (FSB) to develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks related to climate change.

PAI: Principal Adverse Impact (PAI) is any impact of investment decisions or advice that results in a negative effect on sustainability factors, such as environmental, social and employee concerns, respect for human rights, anti-corruption, and anti-bribery matters.

SFDR: The Sustainable Finance Disclosure Regulation (SFDR) places ESG disclosure requirements on asset managers and other financial markets participants. The regulation was implemented in Iceland in 2023.

UNGC: The United Nations Global Compact (UNGC) is a non-binding United Nations pact to get businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. UNGC is the world's largest corporate sustainability initiative.

IcelandSIF: The aim of IcelandSIF is to promote awareness and debate about the methods of sustainable and responsible investment. IcelandSIF is intended to function as an independent forum for discussion and education about responsible and sustainable investment.

Environmental risk: Risk linked to the adverse financial impact of climate change. Environmental risk is twofold: firstly, there is risk relating to the adverse impact of the issuer's activities on the climate, and secondly the adverse impact of the climate on the issuer's activities. Environmental risk can be due to more extreme weather conditions or greater air and water pollution.

Social risk: Risk linked to the adverse financial impact of current or expected social factors on the issuer. Social risk can be due to inequality, discrimination or inadequate workplace security.

Governance risk: Risk linked to the adverse financial impact of current or expected governance factors on the issuer. Governance risk can be due to corruption, inadequate risk management or inadequate disclosure.

EU Taxonomy: The taxonomy defines whether an economic activity is sustainable or not. Under the taxonomy, an economic activity is considered sustainable if it meets four key criteria. Firstly, it needs to significantly contribute to one or more of the following objectives:

» Climate change mitigation
» Climate change adaptation
» Sustainable use and protection of water and marine resources
» Transition to a circular economy
» Pollution prevention and control
» Protection and restoration of biodiversity and ecosystems

An investment cannot therefore be considered sustainable if the underlying activity does not significantly contribute to at least one of these objectives. Secondly, an economic activity may not do any significant harm to the six objectives listed above. Not all of these objectives had been passed into law when this strategy was approved.