



Policy on responsible investment

4th edition

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Purpose and scope

Stefnir's hf. (hereinafter referred to as “Stefnir” or “the company”) has sought to be a leader in the field of responsible investment, as this is the area where it can have the greatest impact and create real value for the economy and society.

The policy on responsible investment describes how Stefnir integrates environmental, social and governance (ESG) issues and sustainability into investment decisions, in addition to other sustainability considerations. Stefnir's objective with responsible investments is to reduce risk and deliver sustainable long-term returns. This policy is partly based on Regulation (EU) No. 2019/2088 of the European Parliament and of

the Council on sustainability-related disclosures in the financial services sector (SFDR), which has been transposed into Icelandic law No. 23/2023. The policy applies to all of Stefnir's investments and is reviewed as necessary.

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 considering environmental, social and governance (ESG) factors in the investment decision-making process, we believe that we can positively influence our society, the investors in our funds, and other stakeholders.

The fundamentals of responsible investment

Investment decisions are taken based on laws, written regulations and internal rules of the company¹. 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 (ESG) 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.

¹ This refers to rules governing the exercise of proxy voting rights, internal procedures for

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 analyses sustainability risks by industry sector, as well as by individual issuers where applicable. The analysis covers various forms of sustainability risk, taking into account ten key sustainability risk factors:

- Regulatory and legal changes
- Technological change
- Market changes
- Physical risk
- Event-driven risk
- Workplace and human rights related risk
- Risk related to lack of diversity and equality
- Reputational risk

conducting due diligence on counterparties, and criteria for due diligence in Stefnir's funds.

- Risk related to breaches of data protection and information security
- Conduct risk

Each risk factor is evaluated on a scale reflecting both the probability of the risk materialising in the respective industry and the potential impact it may have on the value and/or performance of investments in that industry, should it occur.

Stefnir considers 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.

Adverse impacts on mandatory PAI indicators in the activities of issuers in which Article 8 funds have invested are monitored on a regular basis, subject to data availability

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.

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 investment

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 policy development in the field of ESG, 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. Alternative investment funds holding listed securities disclose the

proportion of the portfolio's assets that fall under Regulation (EU) No. 2020/852 of the European Parliament and of the Council, along with the proportion of environmentally sustainable assets.

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 Stefnr 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 Stefnr and which the company endeavours to bring to those companies in which Stefnr is involved through fund ownership.

Risk management is fundamental to Stefnr'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 Stefnr 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 Stefnr's ESG committee.

Stefnr 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 Stefnr'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

Funds	Article of SFDR	Commitment to sustainable investment	Commitment to E and S characteristics	Ethical standards for Stefnr fund investments	Active ownership	PAI
Katla Fund – Global Equity	8	-	90%	✓	✓	✓
Stefnr – Scandinavian Fund - ESG	8	20%	90%	✓	✓	✓
Stefnr – Sustainable Arctic Fund	8	50%	90%	✓	✓	✓
Stefnr – Green Selection	8	-	90%	✓	-	✓
Stefnr – Sustainable Fixed Income Fund	8	50%	100%	✓	✓	✓
Stefnr – Icelandic Growth Fund	6	-	-	✓	✓	-
Stefnr - Icelandic Growth Fund Leveraged	6	-	-	✓	✓	-
Stefnr – Dividend Fund	6	-	-	✓	✓	-
Stefnr – Balanced Fund	6	-	-	✓	✓	-
Stefnr – Liquidity Fund	6	-	-	✓	✓	-
Stefnr – Savings Fund	6	-	-	✓	✓	-
Stefnr – Fixed Income Opportunities Fund	6	-	-	✓	✓	-
Stefnr – Yield Fund	6	-	-	✓	✓	-
Stefnr – Treasury Note Fund	6	-	-	✓	Not applicable	-
Stefnr – Inflation Linked Fund	6	-	-	✓	Not applicable	-

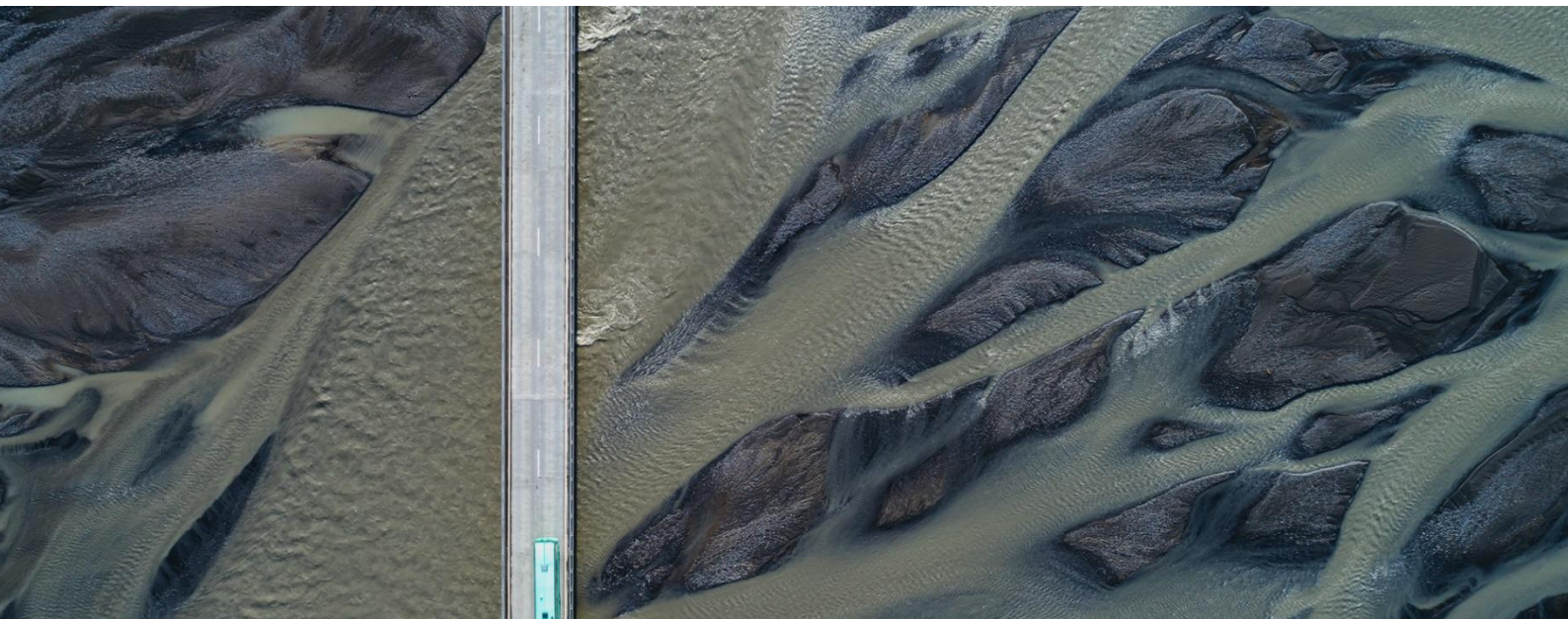
Stefnir – Government Bonds Medium	6	-	-	✓	Not applicable	-
Stefnir – Government Bonds Long	6	-	-	✓	Not applicable	-
Premia Asset Allocation Fund A*	6	-	-	✓	✓	-
Premia Asset Allocation Fund B*	6	-	-	✓	✓	-
Premia Asset Allocation Fund C*	6	-	-	✓	✓	-
Premia Asset Allocation Fund D*	6			✓	✓	
Premia Asset Allocation Equities Fund E*	6	-	-	✓	✓	-
Premia Asset Allocation International Equities Fund F*	6	-	-	✓	✓	-

* Premía was formerly known as Eignaval.

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	✓	-	✓	-
Premia Asset Allocation Fund A	6	✓	-	✓	✓
Premia Asset Allocation Fund B	6	✓	-	✓	✓
Premia Asset Allocation Fund C	6	✓	-	✓	✓
Premia Asset Allocation Fund D					
Premia Asset Allocation Equities Fund E	6	✓	-	✓	✓
Premia Asset Allocation International Equities Fund F	6	✓	-	✓	✓



Definitions of sustainability factors

Carbon footprint of funds: Total carbon emissions (scopes 1 and 2) for a portfolio normalised by the market value of the portfolio, expressed in tons CO₂e per invested million (tCO₂e/\$M). 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: Volume of carbon emissions per million dollars of revenue (tCO₂e/\$M).

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.

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 UNGC 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 – Stefmir 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 considers 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 and the United Nations Sustainable Development Goals.

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.

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. The EU Delegated Regulation No. 2022/1288 sets out 14 mandatory sustainability indicators for intermediaries that take into account principal adverse impacts on sustainability.

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 law No. 25/2023.

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 environmental factors, including climate change. Environmental risk is twofold: firstly, there is risk relating to the adverse impact of the issuer's activities on the environment, and secondly the adverse impact of the environment 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 environmentally 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.

Review, publication and transparency

This policy is approved by the Managing Director and Stefmir's ESG Council. The policy shall be reviewed whenever necessary, but at least every two years, and shall be published in the company's policy handbook and on its website.