BRUMMER & PARTNERS

Brummer multi

Sustainability Report

Brummer Multi-Strategy, 2023

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1. Brummer Multi-Strategy – sustainability in a double sense

Brummer Multi-Strategy ("BMS")[1] allocates to hedge fund strategies managed by Sub-Investment Managers in the Brummer & Partners group. By allocating to different investment strategies with exposure to a variety of asset classes, we strive to build a diversified "all weather" portfolio that generates sustainable alpha over time, independent of market direction. At the same time, thanks to our partnership model, we have an opportunity to collaborate to ensure alignment of sustainability efforts from a multi-strategy, multi-manager perspective, including putting our heads together to continuously improve responsible investment practices. Hence, we strive to achieve a long-term sustainable alpha in a double sense.

As a multi-strategy manager allocating to absolute return focused strategies, risk management is the core of our DNA. To consider factors that may have a material effect on a portfolio's return is essential if we want to make well informed investment decisions and generate returns in a responsible way. Thanks to our Nordic heritage, with investors from the Nordic countries pioneering in responsible investment, client expectations, and more recently also regulatory developments such as the EU Action Plan on Sustainable Finance, we are encouraged to continuously improve our responsible investment practices.

The purpose of this report is to briefly describe BMS's approach to sustainability and ESG[2], to illustrate the tools for responsible investment that BMS applies, to inform about activities we performed in 2023, and to share some insights on how hedge fund strategies that BMS allocates to adopt ESG integration in ways suitable to their specific investment strategies.

1.1 OUR APPROACH

BMS allocates to a number of different hedge fund strategies managed by separate investment teams in the Brummer group, herein defined as Sub-Investment managers. The investment strategies include sector focused long-short equity strategies (currently technology, media, telecom, financials, and healthcare), as well as systematic macro and trend following strategies (traditional and developed markets as well as alternative, more exotic markets[3]).

Long-short equity strategies are so called fundamental strategies (analysis and evaluation of fundamental data) where the investment decisions are made by portfolio managers on a discretionary basis. Trend following and systematic macro strategies use algorithms to analyse huge amounts of data, and to create signals that data models apply when making investment decisions, hence, the investment decisions are "systematic" and not discretionary.

In *Short*

- BMS AIF is domiciled in Sweden and the investment team is based in Stockholm.
- BMS UCITS is domiciled in Ireland and the investment team is based in Stockholm.
- BMS Cayman is domiciled in the Cayman Islands and the investment team is based in London.

Brummer Multi-Strategy AIF ("BMS AIF") and Brummer Multi-Strategy UCITS ("BMS UCITS") are classified as Article 8 funds within the meaning of EU's Sustainable Finance Disclosure Regulation ("SFDR") and integrate sustainability risks, consider certain principal adverse impacts of investment decision on sustain- ability factors, and promote the environmental and social ("E&S") characteristics below:

- the climate (to consider and mitigate climate change and its impacts)
- human rights, labour rights, the environment and anti-corruption (governed by international norms and conventions)
- the UN Sustainable Development Goals (the "SDGs")

Brummer Multi-Strategy Cayman ("BMS Cayman") is classified as an Article 6 fund according to SFDR, and integrates sustainability risks, and consider certain potentially material adverse impacts that relates to the ESG factors that the investment team considers relevant for the management of the fund.

Our approach to sustainable investments is based on our partnership structure where i) Brummer & Partners holds a minority stake in the Sub-investment management companies; or ii) Brummer Multi-Strategy AB or Brummer & Partners Asset Management (UK) Ltd employs an investment team to manage a separate risk allocation mandate on behalf of BMS. The ownership structure coupled with the asset allocation and investment management perspectives, facilitates close collaboration including on sustainability ambition and responsible investment practices.

1) BMS is here defined to include the Brummer Multi-Strategy products managed by Brummer Multi-Strategy AB and Brummer & Partners Asset Management (UK) Ltd., unless otherwise stated.
2) Environmental, social and governance factors.
3) Exotic meaning operationally challenging markets with fewer participants, for example newer contracts where liquidity is not yet sufficient to allow for trading by larger systematic trend following funds.

Responsible Investment Committee

The Responsible investment committee[4] ("RI-committee)" sets the strategic direction and decides on project prioritisation of the Brummer group's sustainability activities, to ensure alignment of sustainability ambition as well as continuous learning and development of responsible investment practices.

1.2 OUR TOOLBOX

Despite not being an actual asset class, such as for example equities or corporate credits, the term "hedge fund" is often used as an asset class label to group together a broad set of different investment strategies investing in a wide variety of asset classes and financial instruments other than the ones typically used by more "traditional" and "long-only" investment strategies, and which may also use leverage to increase exposure to certain asset classes, and apply varying risk/volatility targets.

The term "long only" is typically used to differentiate between investment strategies that buy and hold assets, for example equities/shares, with the purpose of gaining from price increases in such assets, and investment strategies labelled "hedge funds" that can apply the buy and hold strategy (in aspiration of price increases), but which may also apply "shorting" to try and gain from price decreases of assets (which can be achieved either by borrowing and selling an asset, or via a financial derivative).

1.2.1 Shorting

Shorting, is by some considered unethical, or morally inferior, but we could not disagree more. Quite the contrary, we believe that shorting provides liquidity and facilitates price discovery. This process helps identify and deflate bubbles that might otherwise go undetected for quite some time, potentially causing more damage when they eventually burst.

One example of bubbles relates to crowding in companies that are considered top sustainability performers and therefore attracts interest from capital owners and institutional investors that strive to make sustainable investments in order to classify their investment products as sustainable in compliance with new sustainability related disclosure regulations. In case the "ESG-premium" cannot be substantiated by fundamental data, hedge fund managers may choose to enter a short position if they consider a company and its shares to be overvalued, hoping for a correction in the valuation and a more reasonable share price. Such a move may by some be considered to be wrong if a company's ESG profile is strong, despite the overvaluation.

Identifying issues that may have a material effect on a company's share price and entering a short position while either: i) communicating directly with the company on room for improvement; ii) joining so called collaborative engagement initiatives together with other institutional investors/capital owners; or iii) if the short position in itself, or in aggregate with other investors' short positions, communicate uncertainties in relation to the sustainability characteristics of a company's business model (including on product/service offered, the way business operations are conducted, or in terms of lifecycle and consumer demand estimates), is therefore, in our opinion and given our role in the financial system, a tool we may apply to invest responsibly.

1.2.2 ESG integration

When BMS's investment team evaluates new hedge fund strategies in advance of an initial allocation from BMS, the ESG assessment includes alignment with BMS's Responsible investment policy ("RI-policy") on for example integration of ESG factors in investment processes, the E&S characteristics that BMS strives to promote, relevant SDGs[5], and potential ESG topics specific to that investment strategy.

In addition to the above, the monitoring of Sub-Investment Managers includes other qualitative and quantitative indicators related to the E&S characteristics that BMS strives to promote, for example WACI (Weighted Average Carbon Intensity), exposure to fossil fuels, and SDG impact, as well as screening of portfolios for exposure to potentially material sustainability risks and principal adverse impacts that BMS avoids.

Further, the Sub-Investment Managers integrate ESG in ways suitable to their respective investment strategies and the financial instruments that they trade.

Brummer's Sustainability team advises both BMS and the Sub-Investment Managers to ensure alignment of responsible investment practices as well as continuous learning and development.

The Sustainability working group

The results of the monitoring and engagement with the Sub-Investment Managers are assessed by the Sustainability Working Group (the "SWG")[6]. The SWG meets monthly and summarises its conclusions in an ESG matrix, which feeds into BMS's portfolio managers' monthly allocation decisions. Repeatedly poor results or ignorance of recommendations regarding sustainability practices are factors that are considered in the investment decision-making process and could lead to BMS decreasing, alternatively redeeming, its investments in any investment strategy.

1.2.3 Engagement with the investment teams

When a new investment team is joining Brummer & Partners, and prior to BMS's initial investment, the Sustainability team engages with the new team to develop an RI-policy and ESG integration processes as well as to ensure that the team has access to adequate ESG data.

The partnership structure allows for continuous dialogue with the Sub-Investment managers on responsible investment practices. Quarterly calls are held with each Sub-Investment Manager to discuss the results of the screening and relevant sustainability indicators, as well as other sustainability topics of relevance to the Sub-Investment Manager. If the Sustainability team would suggest implementing a new investment restriction for example, feedback and buy-in would be sought from the Sub-Investment Manager and discussed by the Responsible Investment Committee prior to presenting the case for board approval.

4) Members of the committee include Brummer Multi-Strategy AB's CEO, the Head of Governance & Compliance, the Head of Investor Relations, a co-founder and Strategic Advisor of Brummer & Partners, (all of whom are also partners of Brummer & Partners), and the Sustainability team.
5) United Nations Sustainable Development Goals
6) The SWG consists of members from the Sustainability team, the Risk team and BMS's Risk Manager.

1.2.4 Investment restrictions

BMS and the Sub-Investment Managers strive to avoid sustainability risks and potential adverse impacts on sustainability factors that may have material effects on returns; either i) directly on a company's share price, or, ii) indirectly by affecting a company's image and perceived license to operate, if they were to materialise. The investment teams are therefore avoiding the business activities outlined below as they are deemed to potentially involve material negative risks both to people's health and well-being and the health of the planet, as well as to returns.

▪ Long exposure to companies that generate more than five percent of their revenues from production of:

(i) Thermal coal
(ii) Oil sands
(iii) Arctic drilling
(iv) Pornography
(v) Tobacco
(vi) Cannabis intended for recreational use, and

▪ Long exposure to companies that derive more than 30 percent of their revenues from energy production based on thermal coal, as well as;

▪ Long exposure to companies involved in:

(vii) Violations of international norms on human rights, environmental protection, labour standards, and anti-corruption; and

▪ Long and short exposure to companies involved in:

(viii) Controversial weapons[7]

The investment restriction list is updated quarterly and distributed to the Sub-Investment Managers along with their respective quarterly screening results. Unwanted exposure may be identified when the ESG research and data provider issues new and/or updated ESG data/research in between two screening dates. For screening purposes, the most up-to-date data is applied while investment restrictions lists are only updated quarterly.

If an exposure to thermal coal is identified in the long book, the Sustainability team would engage with the relevant Sub-Investment Manager to understand their investment rationale including whether the company is a so-called transition case, that is, a company whose products or services are expected to significantly contribute to the transition away from carbon emissions. If this is the case, the exposure would not be liquidated but instead a topic of further evaluation and discussion with the relevant Sub-Investment Manager.

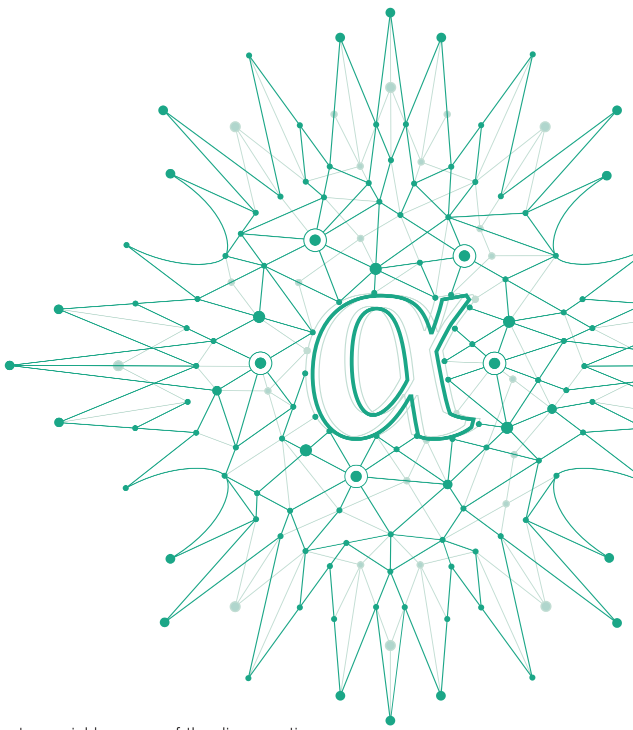
In case an exposure in the long book is identified to be in violation of international norms on human rights, labour rights, the environment or anti-corruption, the Sustainability team would engage with the Sub-Investment Manager to understand the Sub-Investment Manager's investment rationale and the investment team's view on the violation and its materiality, and to discuss potential actions, such as further analysis and evaluation, engagement with the investee company, or divestment.

As the investment restriction lists are based upon our ESG research provider's methodology and analysis, there may be cases where our opinion on a company's involvement in a specific violation or in the activities mentioned above differs from the research provider's. Should that be the case, the Sustainability team would recommend the RI-committee to amend the restriction lists.

1.2.5 Proxy voting and engagement with investee companies

When allocating to investment funds, voting rights in underlying investee companies are not retained by BMS but by the underlying Sub-Investment Manager. For UCITS structures however, voting rights may be retained. Therefore, BMS only retains a limited number of voting rights, however, the Sustainability team is subscribing to proxy advisory research and voting recommendations that, among other things, take violations of international norms into account. The proxy advisory research may support discussions and collaboration with the Sub-Investment Managers, to potentially inform voting decisions. BMS encourages the Sub-Investment Managers to be active owners and engage with investee companies on relevant ESG topics.

In addition to engaging with the Sub-Investment Managers, BMS also participates in collaborative engagement activities together with other capital owners and institutional investors, targeting companies that the Sub-Investment Managers may, or may not, have exposure to. The purpose of the collaborative engagements is to further improve companies' compliance with international norms on human rights, labour rights, the environment and anti-corruption, as well as encouraging them to take action on the climate, for example by setting so called Science-based targets and alignment with the Paris Agreement.[8]



7) Includes development, production, or sale of weapons that are illegal or defined as particularly controversial because of the disproportionate harm they cause (for example cluster munitions, anti-personnel mines, nuclear weapons, biological and chemical weapons.
8) Ambitious corporate climate action - Science Based Targets Initiative, and The Paris Agreement | UNFCCC

2. Year 2023 in review

2.1 SFDR - TO BE CONTINUED...

In 2023 we continued implementing and improving the regulatory disclosures mandated under the EU Sustainable Finance Disclosure Regulation, the new regulatory framework for the finance industry that has been coming into effect piece by piece over the past couple of years. We participated in working groups organised by SBAI (Standards Board for Alternative Investments) and AIMA (Alternative Investment Management Association) to discuss the regulatory requirements from a hedge fund management perspective and provide constructive feedback to the EU policy makers on how to make them more meaningful and relevant for hedge fund strategies.

One of the challenges with the Sustainable Finance Disclosure Regulation ("SFDR"), for example, is that derivatives[9] are to be included in the numerator when calculating potential negative effects of investment decisions on sustainability factors (the so called Principal Adverse Impact Indicators) but not when calculating share of sustainable investments or alignment with the EU taxonomy on environmentally sustainable economic activities, for example. Also, netting of long and short exposure is only allowed for the same issuer (company) and only to zero. Therefore, one could argue that calculating the indicators according to the formulae in SFDR could potentially result in misleading information for hedge fund strategies, which would counteract the purpose of the disclosure regulation – to facilitate for investors to invest in alignment with their sustainability preferences.

Although SFDR is a relatively new regulatory framework, with the last requirements coming into effect as recently as 2023, the EU Commission has already launched two separate consultations on potential amendments/improvements. We provided feedback via SBAI and AIMA, as mentioned above, including as panelists discussing challenges with SFDR and potential improvements, at AIMA's annual Putting ESG into Practice event in London.

2.2 NEW INVESTMENT RESTRICTIONS

As the climate is interlinked with nature and they are mutually reinforcing, nature related risks and biodiversity loss are getting more and more attention from policy makers and other stakeholders as awareness that climate change cannot be mitigated and reversed unless action is also taken on nature related issues, such as land degradation for example, is increasing. According to the UN PRI "Nature provides ecosystem services, which benefit businesses and society. It is estimated that USD 58 trillion of economic value generation – more than half of the world's total Gross Domestic Product (GDP) – is either moderately or highly dependent on nature. Investors' ability to optimise risk-adjusted returns depend on, and impact, nature.[10] Resilient ecosystems are also fundamental in ensuring basic human rights such as access to food and water, and more than 40% of pharmaceutical formulations are derived from natural sources.[11] At the same time, 66% of respondents in the World Economic Forum Global Risk Perception Survey 2023-2024 selected extreme weather as the top risk when asked to select up to five risks that they feel are the most likely to present a material crisis on a global scale in 2024, and environmental risks dominate all three time frames (2024, 2 years, and 10 years).[12]

Nature related risks and biodiversity are therefore on top of policy makers' agendas[13] and are also, increasingly, getting attention from investors, including from us. In 2023 we engaged with all investment teams in the group on avoiding long exposure to companies involved in unconventional fossil fuel extraction methods (oil sands and arctic drilling). In addition to causing greenhouse gas emissions, production of oil sands and arctic drilling also risks harming the nature and biodiversity due to the sensitive environment in which such operations are typically performed. After evaluating potential effects on risk and return characteristics, the Sub-Investment Managers were all positive and the decision to add exclusion of long exposure to oil sands and arctic drilling to the investment restriction list (which already included long exposure to thermal coal) was made by year-end 2023. In 2024, we are planning on identifying other types of climate and nature related risks, including potentially material dependencies and impacts, that may be of relevance to BMS and the investment strategies that BMS allocates to.

In addition to engaging with the Sub-Investment on adding avoidance of unconventional fossil fuel extraction methods to the investment restrictions, we also engaged with them on adding avoidance of long exposure to companies involved in production of tobacco, pornography, as well as cannabis for recreational use, to the investment restrictions as such exposure may result in potentially material sustainability risks, including certain adverse impacts on people's health and well-being, that BMS strives to avoid.

In 2023, we welcomed a couple of new investment strategies to the Brummer group including the tech-focused long-short equity strategy Katamaran. For a description of the set-up process from a sustainability perspective, see section 3).

9) A financial instrument typically used by hedge fund strategies to get exposure to a financial asset, such as shares for example, without holding the asset in one's portfolio.
10) Nature in responsible investments | Introductory guide | PRI (unpri.org), accessed June 26, 2024.
11) How biodiversity loss impacts medicine and human health | World Economic Forum (weforum.org), accessed June 26, 2024.
12) WEF_The_Global_Risks_Report_2024.pdf (weforum.org), accessed June 26, 2024.
13) COP15: Final text of Kunming-Montreal Global Biodiversity Framework | Convention on Biological Diversity (cbd.int), accessed June 26, 2024.

2.3 A SUMMARY OF ACTIVITIES PERFORMED

Tools and activities relating to the monitoring and assessment of Sub-Investment Managers and their investment strategies are outlined below. Please note that activities and tools may change over time as we continuously evaluate our approach to sustainable investments.

Tool	Description	Activity
ESG integration	Monitoring and assessment of existing Sub-IMs and their investment strategies are performed at least quarterly but typically on a continuous basis. The results of the assessments are documented in the ESG matrix and considered by BMS's portfolio managers in analysis and allocation decisions.	The SWG convened 12 times and the ESG matrix covered 8 investment strategies at the end of the year.
	Investment teams and strategies not yet part of the Brummer group are assessed prior to a potential initial allocation from BMS.	ESG due diligence was performed on 2 investment strategies/teams that were added to the Brummer group.
Engagement with investment teams	The Sustainability team engages with the Sub-IMs to ensure alignment of sustainability activities and compliance with RI-policies.	35 meetings were held with 9 Sub-IMs. Key topics were: ▪ screening results ▪ RI-policy development (including new investment restrictions) ▪ the SDGs
Investment restrictions	Restriction lists are updated quarterly, and the investment strategies are screened at least quarterly to ensure compliance. Please note that unwanted exposure may be identified when the ESG research and data provider issues new and/or updated ESG data/research in between two screening dates. For screening purposes, the most up-to-date data is applied while investment restrictions lists are only updated quarterly.	BMS and the Sub-IMs evaluated the possibility to add oil sand and arctic drilling to the investment restrictions, see Section 2.2 above. For quarterly screening results, see the table below.[14]

14) The number refers to exposure identified as a result of the quarterly screenings performed and does not capture exposure, if any, identified and managed as part of daily business operations.

Proxy voting and collaborative engagement[15]	Collaborative engagement on compliance with international norms (human rights, labour rights, the environment, and anti-corruption).	130 companies were subject to engagement dialogues on approximately 190 separate ESG topics. Approximately 65% were responsive. Breakdown of topics discussed: Environment: 40% Human rights: 30% Labour rights: 24% Corruption: 7%
	Collaborative engagement on climate action	30 companies were subject to continued engagement efforts on for example target setting, transition plans, and transparency. The engagement process entered its second year and approximately 70% of targeted companies have been responsive, and a majority of these are showing progress towards the engagement goals.
	Proxy voting*	BMS UCITS's voted on approximately 70% of the nearly 40 meetings for which voting rights were retained. A reason for not voting may be trading restrictions, for example[16]. BMS subscribes to proxy voting research to help inform discussions with Sub-IMs, however, the main contributor to voting decisions are the Sub-IMs' insights and rationale as well as the ESG characteristics that BMS promotes, and no commitment to follow the proxy voting advice has been made.

* The potential impact from votes cast in 2023 can be assumed to be rather insignificant and the resources needed to analyse and report on voting activities as outlined in the Shareholder Rights Directive II (including a general description of voting behaviour, an explanation of the most significant votes, and disclosing how votes have been cast), would not have been proportionate to the potentially insignificant impact achieved from votes cast, hence, disclosures on proxy voting activities have been limited to the above.

15) The collaborative engagement activities are coordinated by our ESG research provider and although we have signed formal communication sent to the target companies, we have not, due to resource constraints, participated in all calls held in 2023. The engagements are typically performed over two years with regular reviews and reports on progress, actions planned and outcome.
16) In some jurisdictions exercising voting rights imposes restrictions on the ability to trade the shares for a specific period of time around when the votes are cast.

2.4 SUSTAINABILITY INDICATORS

BMS adopted its inaugural RI policy in 2016 and the screening criteria, based on sustainability risks and potential adverse impacts that BMS strives to avoid, already included sustainability indicators relating to some of the so called Principal Adverse Impact Indicators in SFDR when SFDR was adopted in 2021.

BMS AIF's and BMS UCITS's sustainability indicators for the year 2023, as well as actions taken to mitigate or manage exposure to the sustainability risks/adverse impacts covered by them, are outlined below.

Sustainability indicator	Year 2023 (averages)	Comment
Weighted Average Carbon Intensity ("WACI") of investee companies in the Sub-IMs' portfolios. Long/Short Scope 1 and 2 emissions.	tCO2/MEUR (tonnes per € million revenue) BMS AIF: Long: 63 Short: 73 BMS UCITS: Long: 66 Short: 70	WACI is calculated for monitoring and screening processes and is included in the ESG matrix, as well as a topic of discussion with relevant Sub-IMs.
Violations of UNGC's principles and OECD's guidelines (violations of international norms)[17] Share of NAV Long/Short Verified violations of international norms on human rights, labour rights, the environment, and anti-corruption.	BMS AIF: Long: 0.77% Short: -0.22% BMS UCITS: Long: 1.38% Short: -0.37%	BMS and the Sub-IMs avoid long exposure to companies violating international norms. When long exposure was identified in any of the quarterly screenings, discussions were held with the relevant Sub-IM and further research and evaluation was performed, including for example engagement with the investee company and the norms-based research provider. In all cases but one, the Sub-IMs divested. For the one company that was not divested, the research provider's analysis was questioned, and it was decided to recommend the Responsible investment committee to remove the company from the investment restrictions list. Following further evaluation by the RI- committee, the members concluded that the company should be removed and instead added to the "watch-list" for regular re-evaluation.
Controversial weapons Share of NAV Long/Short Verified involvement in anti-personnel mines, biological weapons, chemical weapons, cluster munitions, depleted uranium, and nuclear weapons.	BMS AIF: Long: 0% Short: >-0.01% BMS UCITS: Long: 0% Short: >-0.01%	BMS avoids both long and short exposure to companies involved in controversial weapons however, an exposure may be identified when the ESG data supplier updates their analysis of companies' involvement in between the quarterly distribution of restriction lists. When any such exposure was identified, it was divested in an orderly manner.

17) The United Nations Global Compact (UNGC) and Organisation for Economic Cooperation and Development (OECD).

Thermal coal Share of NAV Long/Short More than five percent of revenue is generated from the production of thermal coal, or more than 30 per cent from energy (electricity) production based on coal.	BMS AIF: Long: 0% Short: 0% BMS UCITS: Long: 0% Short: 0%	BMS and the Sub-IMs avoided exposure to companies involved in thermal coal in their long books, and no such exposure was identified in the quarterly screenings performed.
Fossil fuels Share of NAV Long/Short More than 5% of revenue is generated from the production or distribution of fossil fuels, or more than 50% generated from services (including oil sands and arctic drilling that were not yet excluded).	BMS AIF: Long: 4.05% Short: -0.40% BMS UCITS: Long: 6.70% Short: -0.71%	In 2023, BMS and the Sub-IMs excluded thermal coal but not other types of fossil fuels. However, the Sustainability team engaged with relevant Sub-IMs on their exposure to fossil fuels to understand their investment rationale and view on different types of fossil fuels, including on potentially excluding unconventional fossil fuels extraction methods such as oils sands and arctic drilling (see Section 2.2 above).

3. Launching Katamaran, from a sustainability perspective

3.1 ATTRACTING TALENTED INVESTMENT TEAMS

Founded in 1996, we have nurtured a partnership model that enables investment teams to focus on investment management activities and on generating returns, as necessary infrastructure and operational support is provided by Brummer. The investment teams are either operating in separate investment management companies co-owned by the investment team and Brummer & Partners, or employed by, and allocated a separate risk mandate, from BMS.

This model has proven to attract talented investment teams with a long-term commitment and collaborative approach that contributes to, and benefits from, the aggregated knowledge and expertise in the group. Although a global firm, our Nordic heritage still characterises our talent pool and to some extent also BMS's portfolio.

3.2 MANAGER SELECTION

BMS's investment team continuously evaluate new investment strategies with the purpose of further improving BMS's expected risk-adjusted returns over time, and strive to achieve a portfolio of 7 to 15 different strategies.

The process applied for including new investment teams/strategies in BMS's portfolio is illustrated in figure 1.

3.3 ACHIEVING ALIGNMENT

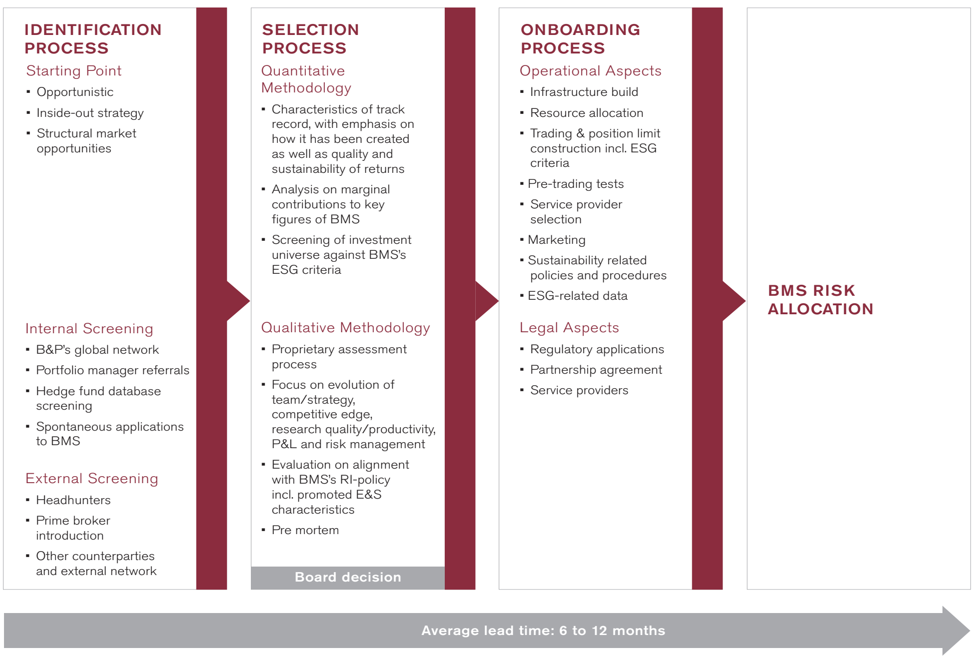
The investment teams' previous experience of sustainability and ESG integration frameworks varies, however they are all experts at managing risk, including sustainability related risks, albeit typically not labelled as such. Prior to an allocation from BMS, the Sustainability team engages with the investment team to educate them on Brummer's sustainability activities and responsible investment practices, while also assessing the investment team's awareness of sustainability related themes and responsible investment experience, including the investment strategy's alignment with the E and S characteristics that BMS strives to promote.

Leading with *Sustainability*

"The Katamaran team benefits from the backing of a well-established, leading European multi-strategy hedge fund manager. The relationship enables the team to maintain a high level of autonomy and focus on generating alpha. The support of Brummer has been valuable both during the launch and ongoing deployment of the Katamaran investment strategy."

~ The Katamaran team

1. PROCESS FOR INCLUDING NEW STRATEGIES IN BMS



3.3.1 Transformative change and innovation...

Katamaran is a global long-short equity strategy focused on sectors and companies undergoing transformative change or innovation, such as consumer technology, fintech, medtech, and clean tech, for example. Katamaran's investment philosophy determines that companies operating in sectors experiencing high levels of change/innovation are often mispriced as their ability to adapt to disruptive trends, technologies and innovation varies and may not be correctly reflected in valuations and share prices. The investment team strives to identify winners and losers by combining fundamental analysis with systematic and data-centric quantitative analysis.

3.3.2 ... is often driven by mega trends such as sustainability

From a sustainability perspective, Katamaran's investment team has extensive experience in managing portfolios with sustainability criteria given its Portfolio manager's long-term track record and the investment strategy itself. The investment process, which has been developed over nearly three decades, assesses change related themes that may help identify drivers of change and innovation. As sustainability is a mega-trend influencing policy makers, new regulatory frameworks, business strategies and corporate conduct, consumer behaviour and employee relations, it also influences research and development and drives innovation hence, sustainability elements are often key parts of these drivers.

In addition, Katamaran's investment team has prior experience in managing portfolios governed by responsible investment practices and is familiar with investment restrictions and screening as a tool to avoid exposure to certain sustainability risks, such as thermal coal. Therefore, the request from Brummer's Sustainability team to screen Katamaran's investment universe as part of the ESG due diligence process, was expected by the investment team. Further, for governing purposes, certain investment restrictions are expressed as sustainability related risk limits/screening criteria included in Sub-Investment Managers' specific Investment guidelines, and violations, if any, are reported to fund governing bodies as well as to BMS's boards of directors.

To further strengthen alignment with BMS's sustainability activities, the assessment of new investment strategies, including Katamaran, includes alignment of the investment strategy with the E and S characteristics that BMS strives to promote; i) climate action, ii) international norms and conventions on human rights, labour rights, the environment, and anti-corruption, and iii) the SDGs. Katamaran's focus on change and innovation in the sectors outlined above, as well as the investment team's awareness of sustainability related drivers for such change and innovation, is expected to contribute to BMS meeting these characteristics.

Following a formal decision by BMS to allocate to Katamaran, Katamaran was added to the ESG matrix and is since then evaluated on a continuous basis along with the other investment strategies that BMS allocates to. The ESG matrix is maintained by the Sustainability Working Group and reviewed approximately monthly to reflect potential changes or to confirm existing scores.

3.3.3 Collaboration

For Katamaran, it was decided to found a new investment management company to host the investment management activities of the Katamaran investment strategy. The Katamaran team leveraged, where appropriate, Brummer to assist with everything from incorporating and registering the new company, completing and submitting relevant regulatory filings and approvals, drafting pre-contractual documentation, reviewing and selecting lawyers, auditors, prime brokers, and trading execution systems, as well as on developing relevant policies and procedures.

Prior to the initial investment from BMS, the Sustainability team and Katamaran's investment team collaborated to develop Katamaran's RI policy and to implement pre-trade investment checks to ensure compliance with the policy, including the investment restriction list. There is no one size fits all RI policy and in addition to the group wide screening and monitoring criteria, and alignment of certain sustainability characteristics, the RI policies are tailored to each specific investment strategy, the financial instruments/asset classes traded, and applicable sustainable finance regulations in the jurisdiction where the relevant investment team is based and/or where the underlying fund is domiciled.

3.4 POST-LAUNCH

Following the initial allocation from BMS, the Sustainability team engages with the Katamaran team on all things related to sustainability, and perform the continuous monitoring and assessment activities outlined in Section 1 (Brummer Multi-Strategy – sustainability in a double sense) and 2 (Year 2023 in review). By getting our heads together and collaborating on sustainability related issues, we hope to achieve alignment on sustainability related activities and ambitions while at the same time respecting and supporting the investment team's autonomy.

We are committed to continuous learning and development and hope that all investment teams realise the benefit of collaborating and learning from each other, further contributing to the experience and expertise in the Brummer group.

4. Callisto sneak peek

4.1 SUSTAINABLE FINANCE

In 2015 UN members adopted the 17 Sustainable Development Goals, also referred to as the 2030 Agenda for Sustainable Development. The SDGs corresponds to global challenges that need to be addressed to achieve a more sustainable future and are by many viewed as a roadmap for sustainable investments. The SDGs have also informed EU's Action Plan on Sustainable Finance, of which the Sustainable Finance Disclosure Regulation (SFDR) requires us to disclose sustainability related information, for example if we consider sustainability risks and principal adverse impacts of our investment decisions on sustainability factors in our investment decisions. The purpose of the SFDR is to enable investors to make well informed investment decision in line with their sustainability preferences, with the hope of reorienting capital towards solving for the SDGs.

4.1.1 The SDGs

In terms of sustainability, and more specifically the SDGs, healthcare is an apparent choice as a theme for investment products if you strive to do good as healthcare strategies, more or less by design, invest in companies which products and/or services contribute to solving for SDG 3 – Good health and well-being. However, a company may contribute to (or obstruct) solving for one or more of the SDGs while at the same time have a negative impact on other SDGs through its operations and production methods. Therefore, in addition to considering whether a company's products or services contribute to solutions in relation to the challenges the SDGs address, it is important to also consider how a company's operations impact on the SDGs, as well as any involvement in violations of international norms (on human rights, environmental protection, labour standards, and anti-corruption), as such norms relate to several of SDGs. With healthcare and the increasing awareness on climate change, nature and biodiversity loss, it is important to also consider climate and nature related risks as many drugs are manufactured using inputs from nature, hence, depend on nature (see Section 2.2 New investment restrictions), while also impacting nature through its operations.

4.2 CASE STUDY

As Callisto is a new healthcare strategy and our most recent addition to the BMS and therefore may be of extra interest to the readers, Callisto kindly contributed to this report by sharing a case study on Edwards Lifesciences Corporation ("Edwards"). As sustainability risks/opportunities should be included in research and analysis as any other risks/opportunities that may have a material effect on returns, we also hope to illustrate how sustainability may be relevant to Edwards.

The Sustainable Development Goals[18]

18) The content of this publication has not been approved by the United Nations and does not reflect the views of the United Nations or its officials or Member States. Home - United Nations Sustainable Development

As an introduction, and to comment on the SDGs, if we apply third party SDG impact data to Edwards Life Sciences there is a clear indication of a significant positive contribution to SDG 3 – Good health and well-being from Edwards cardiovascular treatment and diagnostic products. In addition, there is positive impact from Edward's operational management on several other SDGs, for example SDG 6 – Clean water and sanitation, SDG 9 – Industry, innovation and infrastructure, SDG – 16 Peace, justice and strong institutions, and SDG – 17 Partnership for the goals. However, there seems to be a limited negative impact on SDG – 7 Affordable and clean energy.

4.2.1 Edwards Lifesciences Corporation

Edwards develops and produces artificial heart valves and other types of cardiovascular treatment and diagnostic products and has pioneered Transcatheter Aortic Valve Replacement ("TAVR").

TAVR procedures are performed to replace the aortic valve in patients suffering from severe aortic stenosis, which is the most common valvular heart disease in the developed world. Aortic stenosis is a narrowing and stiffening of the valve between the heart's main pumping chamber (the left ventricle) and the body's main artery (the aorta). Aortic stenosis may occur as a result of being born with a heart disease where the aortic valve misses one of its leaflets (flaps). A normal valve may also harden with age due to calcifications, and a replacement of the aortic valve is the most common valve replacement among people older than 65.

Prior to the introduction of this technology, heart valve replacement required an open surgical procedure. A TAVR procedure, by contrast, is a far less invasive procedure as the new valve is delivered to the heart via the femoral artery in the upper leg and the new valve is positioned inside the faulty valve hence, the old valve does not need to be removed. The procedure is performed under minimal sedation hence, there is no need to the patience under general anesthesia, which is risky in itself. Also, while open surgery for aortic stenosis requires around a week in hospital, and several months of recovery at home, TAVR, on average, means spending a night in the hospital and going home the next day. Hence, in addition to offering a less invasive and less risky procedure thereby significantly lowering the risk of surgical complication, TAVR also contributes to higher wellbeing in the months following the procedure.

4.2.2 Investment rationale

Edwards is a leader in the market for innovations for structural heart disease, especially in the TAVR market, and has large growth opportunities in the market for Transcatheter Mitral & Tricuspid Therapies ("TMTT"). The company launched its first TAVR valve in Europe in 2007, and in the US in 2011, and currently holds over 90% of the worldwide market share. TAVR and TMTT hold strong growth projections for investors, with the TAVR market expected to reach USD 7bn in 2024 from USD 4bn in 2020, and the TMTT market expected to reach USD 3bn in 2024 from USD 1bn in 2021. The international TAVR implementation is still a work in progress, however, as penetration has been isolated to certain countries. However, data predicts that once the TAVR procedure becomes more standard practice, these lower-rate regions will increase in utilisation. Edwards has not yet expanded to large markets such as China, again providing opportunity for growth. Edwards's valve Sapien 3 is the most widely prescribed TAVR device worldwide and Edwards has consistently achieved a double digit increase in revenues. Also, Edwards continues to innovate, having received FDA approval in December 2018 for the next generation of valves with enhanced sealing performance, an important improvement as TAVR patients are becoming younger and more active.

In addition, in TMTT, Edwards is taking advantage of significant market opportunities as in the US for example, more than 10% of people aged 65 and above suffer from moderate to severe mitral valve regurgitation/ tricuspid valve regurgitation while only 2% receive surgical treatment. Research and development of valves therefore attracts significant interest from investors.

4.2.3 Sustainability considerations

Key sustainability risks for healthcare equipment/medical technology companies are for example:
- product safety, including regulatory compliance and quality controls
- responsible business conduct, including for example violation of the international norms mentioned above and responsible marketing
- environmental impact and climate change, including substances of concern

Product safety

In terms of product safety, Edwards's track record is significantly above peers' and the company have several programmes and control systems in place to ensure safety and quality of products. For example, Edwards have not had to make any global patient safety-related class 1 product recalls[19] nor any FDA Class 1 recalls[20] since 2019.

As the industry is subject to significant change in terms of product and medicine innovations, access and affordability considerations, changing needs related to climate change and infections diseases, for example, keeping track of regulatory changes such as, for example, the European 2021 Medical Device Regulation which requires Edwards to apply for re-certification of its products resulting in material additional expenses, can be a challenge, and may be worth monitoring for potential investors in the healthcare industry.

Responsible business conduct

On responsible business conduct, Edwards again outperform peers. The company's global business practice standards[21] include principles relating to for example procurement, sales and marketing practices, interaction with healthcare professionals, competition, bribery and corruption, etcetera. On the topic of competition, Edwards emphasises the importance of "avoiding situations that violate the principles of fair competition" and that although the
company is free to select business partners, cancelling or refusing to sell can raise antitrust or fair competition issues. In September 2023, international media reported that EU antitrust regulators had raided on Edward's facilities due to concerns that Edward's had abused its dominance in the market for cardiovascular valve replacement.[22] Both EU and US based regulators have increased their monitoring of the industry to facilitate for smaller innovative companies to compete with large competitors and to ensure affordability of products and medicines.

19) 2022-ESG-Metrics-Final-Protected.xlsx (live.com), accessed 10 July, 2024.
20) Medical Device Recalls (fda.gov), accessed 10 July, 2024.24)
21) Titanium Book (edwardsprod.blob.core.windows.net), accessed 10 July, 2024.
22) Exclusive: Edwards Lifesciences cooperating with EU antitrust regulators | Reuters, and Edwards Lifesciences' patent practices, anti-copycat policy in EU antitrust crosshairs -source | Reuters, accessed 10 July, 2024.

Edwards published a statement claiming, “an unwavering commitment to healthy, fair competition; when innovative companies like ours compete, patients benefit” and saying that they are cooperating with the EU and remain confident in their business practices.[23] As the fine of violating EU’s antitrust rules can be as high as 10% of global turnover, a potential fine could have a material financial impact on Edwards. Based on our understanding of the issues and past precedents, we are comfortable with the situation for now but keep monitoring any news and communication on the matter.

In relation to affordability and access to healthcare, Edwards make notable efforts to increase access to healthcare via community engagement initiatives and donations as well as initiative to reduce the cost of healthcare for patients. Further, and relating both to responsible marketing and product safety mentioned above, product related risk disclosures are published on the website.

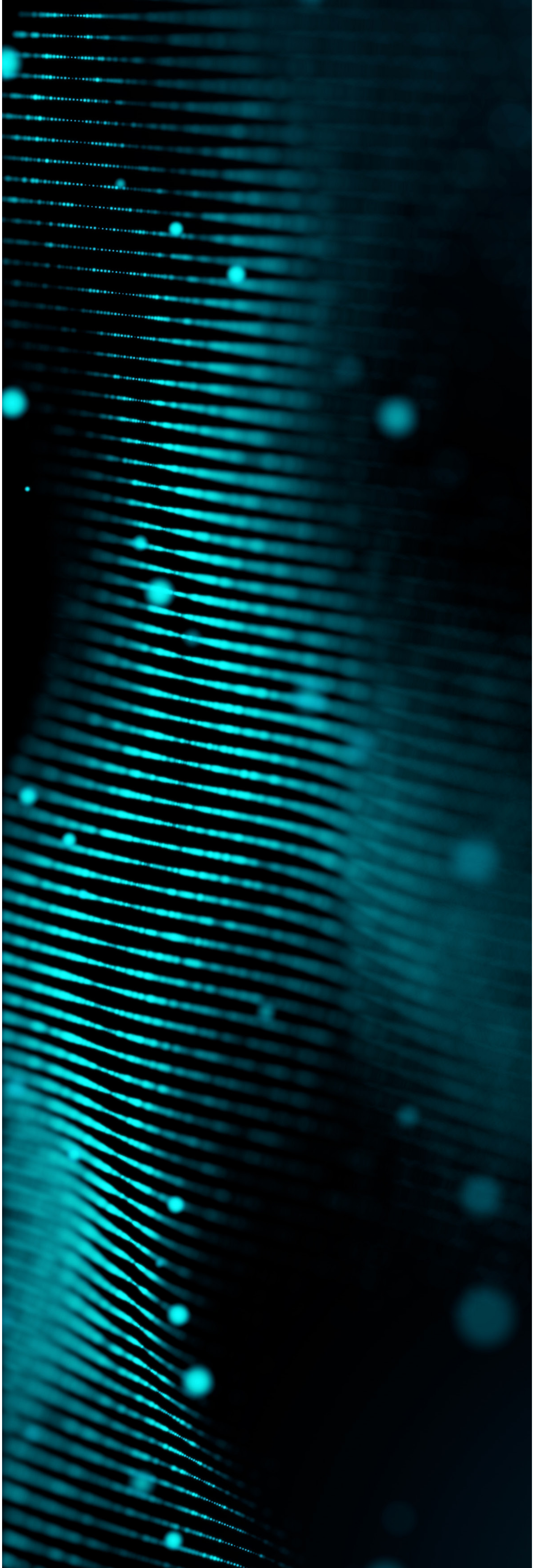
Environmental impact and climate change
In terms of environmental impact, Edwards’s is more or less in line with peers but are involved in several existing and new initiatives on a number of environmental impact related issues, such as driving environmentally sustainable medical packaging for example, or using the Singapore government’s NEWater system (reclaimed water produced from used water). Another example is using PET in the manufacturing process, a recyclable material requiring less energy to manufacture than many comparable polymers. In addition, it improves tissue ingrowth and reduces paravalvular leaks, hence using PET also contributes to enabling patients’ health and well-being.

In relation to climate change however, Edwards is an outperformer in its industry and its carbon intensity for example, is estimated at approximately a fourth of the peer average. Edwards’s science-based targets were approved by the Science Based Target initiative (“SBTi”) in 2023. The targets are aligned with a 1.5°C scenario and the company commits to reduce its absolute scope 1 and 2 GHG emissions 42% by 2030 (using 2021 as a base year) and to reduce its scope 3 GHG emissions 51.6% per USD of value added within the same timeframe. Also, the company has committed to achieving carbon neutrality by 2030.

As an example of a dependency on nature, Edwards regularly assess the risk of water shortages, rationing, fluctuations in water quality and unreliable water delivery due to climate change and droughts, and the company is disclosing several mitigation and adaptation initiatives, such as for example on water risk and more specifically on its California location where the company is headquartered and has a manufacturing site, an extremely high water stressed area (according to the World Resources Institute Aqueduct tool referenced by the company), as well as on its manufacturing plant in Utah which is classified as a low to medium water stressed region.

4.2.4 Positive outlook
Overall, Edwards is in a great position to leverage its market dominance and has good growth opportunities. In addition, Edward is taking advantage of increasing awareness on sustainability and investors’ and policy makers’ preferences for responsible investments and has identified a number of opportunities to improve its sustainability performance from an already outstanding level compared to peers. Therefore, at the time of publishing this report, Edwards Lifesciences is a core long holding in Callisto’s portfolio.

23) Edwards issues statement | Edwards Lifesciences, accessed 10 July, 2024.



5. Concluding

The sustainability space is developing in a tremendously fast pace and although we have made progress in 2023, there is still so much more to be done! One thing that we have learned though, is that sustainability never gets boring because when new regulatory frameworks have barely been implemented – they are being revised, and when the regulations in one jurisdiction appear to be finalised – new ones are implemented elsewhere. With operations in several jurisdictions, it is not always straightforward to navigate this space, to say the least. In addition, client needs and expectations are changing almost as quickly as the regulations if not quicker, and as policy makers and clients are prioritising increasing awareness of nature risk and biodiversity loss, for example, and potential impacts on the financial system and investment portfolios – so are we.

Although it is challenging to make plans in such a fast-paced and innovative environment as sustainability, we hope to start identifying nature related dependencies in BMS's and the Sub-IMs' portfolios and to improve our understanding of potential impacts by investee companies, and also to develop and improve scenario analysis, over the coming year. Moreover, we will continue to collaborate with peers and the PRI, the SBAI and AIMA to further contribute to enhancing sustainability practices in the hedge fund industry and to put our heads together in making sense of regulatory changes based on and, as it seems, intended for more traditional and long only focused investment products.

What is clear though, is that you need an open and curious mindset to adapt to and thrive in this dynamic and challenging environment (in a double sense!).

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