CB FONDER

Active | Ethical | Long-term

CB Save Earth Fund Investment Process

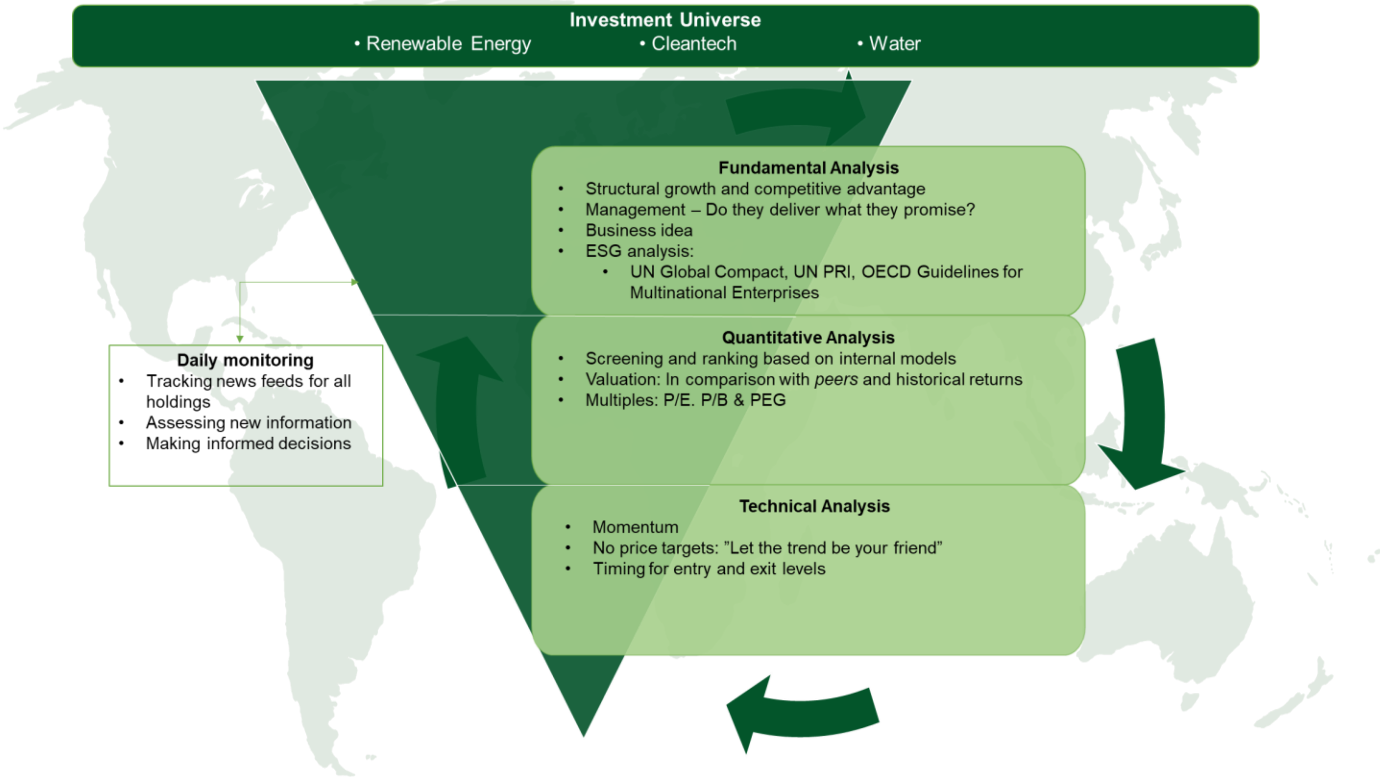


Fig 1. Investment process, the steps illustrated are covered and explained further down.

The Idea of Sustainable Investments

It is our belief that that long-term investing is synonymous with investing in sustainability and continued economic development depend on large scale investments in the following key areas: cleantech, renewable energy and water management. Expanding on this notion companies pioneering development of products within these areas provide structural growth and by extension higher profit growth and returns than the stock market average, for a foreseeable future. For CB Fonder it is important that we deliver a competitive return within the bounds of social responsibility and sustainability. We find matters of ESG very important for a company´s possibility of creating and maintaining a stable long-term return.

As one of the very few independent investment management firms with a strictly environmental strategy, CB Fonder pioneers the discussion on the ongoing change in the energy sector and on environmental and sustainable investments. This is evident through the many interviews that CEO Alexander Jansson has participated in over the years.

CB Save Earth Fund holds investments mainly in equities represented in either of the following indices: Cleantech Index, WilderHill New Energy Global Innovation Index and S&P Global Water Index. The geographical exposure is mainly towards Europe and North America. The fund is actively managed with a concentrated portfolio and investments are made on a long-term basis.

The fund seeks to limit the exposure to companies with nascent technologies and weak or no profitability, where future winners are difficult to predict. The water sector is the most developed and mature sector with volatility and risk below market average. Many companies are large and generate stable revenue and profit growth over an economic cycle.

As previously mentioned, it is the managers´ belief that long-term investing is synonymous with investing in sustainability. The fund management is subject to an ethical framework as well as the UN principles for Responsible Investments, UN PRI. Additionally, the fund is connected to SWESIF Hållbarhetsprofilen and exclude all controversial products and services mentioned by SWESIF such as weapons, alcohol, uranium, and pornography.

As an acknowledgement of the fund's dedication to sustainable investments, CB Save Earth Fund was in 2017 awarded as one of the few funds in the world, with the Nordic Swan Ecolabel which is one of the most recognized ecolabels in Sweden.

Investment case

Cleantech, renewable energy and water are three megatrends that are crucial for the transition into a more sustainable future. As growth investors it is essential to find investment opportunities for CB Save Earth Fund in companies with exposure to structural growth themes that can deliver stable growth independent of the volatile business cycle – characteristics shared by many companies active within these three sectors.

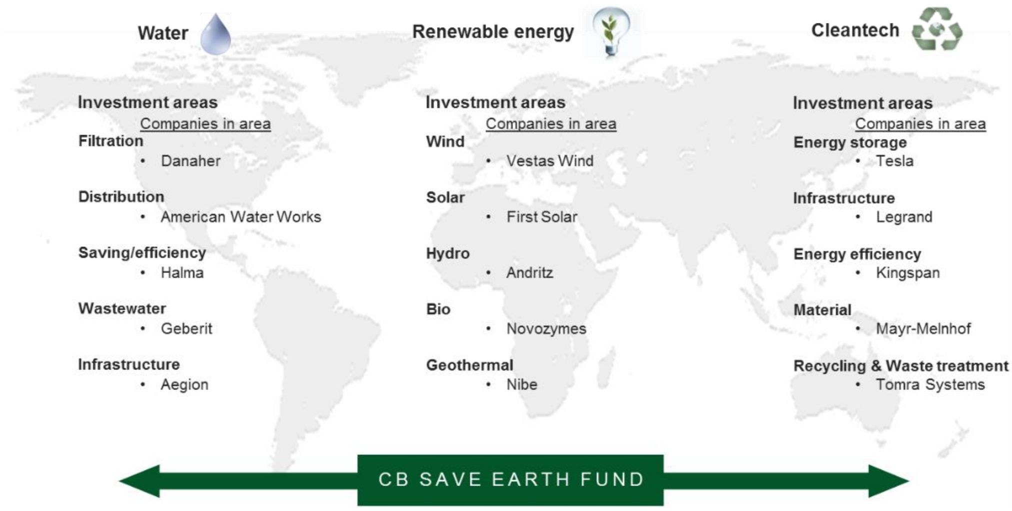


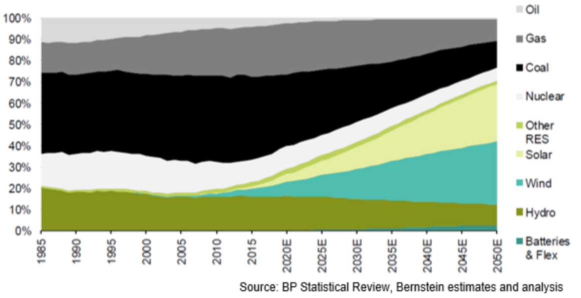
Fig 2. Investment universe, the three key areas for CB Save Earth Fund. Companies mentioned are examples and may or may not be included in the portfolio.

The energy sector is undergoing a paradigm shift where technology is taking over as the driving force, leaving natural resources behind. On the basis of technology being unlimited in contrast to natural resources, the sector should see a reduction in price with increasing demand instead of the opposite effect taking place. As seen in the IT sector the cost of technology will steadily continue to decrease. As the sector matures and growth slows down, additional profitable companies will emerge within renewable technology while still maintaining growth rates above world GDP growth.

The decarbonization of the energy sector is expected to be primarily driven by solar PV and wind, as they are leading the cost reduction journey. Because of the cost reduction within renewable energy, upfront cost of passenger electric battery vehicles (BEVs) with 400-500km range are expected to reach crossover with internal combustion engines in 2023 (for leaders) and 2024 (for mainstream).

Power mix estimated to reach 70% zero carbon by 2050

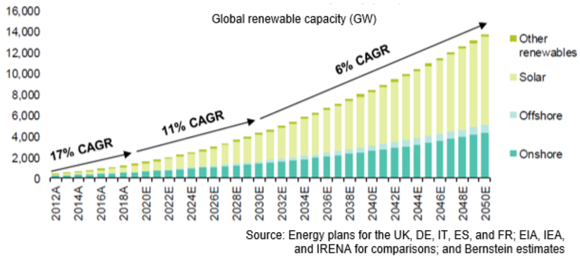
Global power generation mix (%)



- **Global power generation mix will decarbonize significantly.**
- Renewables represent the **most established and cost-effective** decarbonization option for the power sector, and will therefore play an outsized role in its decarbonization.
- Electric vehicles (EVs) economics improvement powered by larger scale, better efficiency, lower material price, and **renewable technology improvements**.
- Internal combustion engines (ICEs) costs continue to increase due to more stringent compliance requirements and regulations.

Strong growth in renewable energy driving down costs

Structural growth, independent of the business cycle



BEVs upfront cost expected to reach crossover with ICEs in 2023

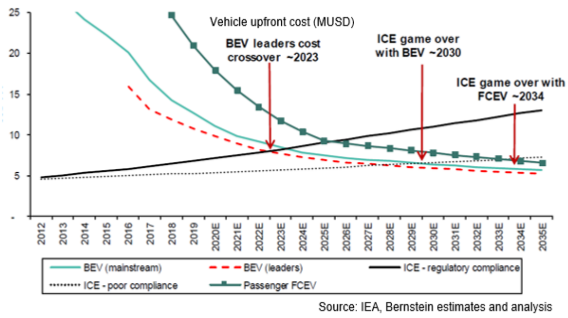
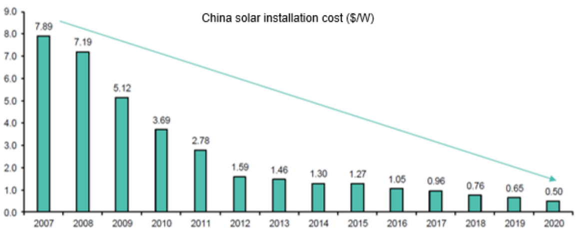


Fig 3. Analysis: Renewable energy and electric vehicles

The solar power sector is still growing at a very high rate, forcing capex and costs to be high while prices decline. In the managers´ viewpoint this sector is commoditized and dominated by Chinese (state-backed) companies making it difficult to invest. All the while, the solar power sector will be crucial for China's road to net zero emissions.

Clear trend for solar PV installation costs…

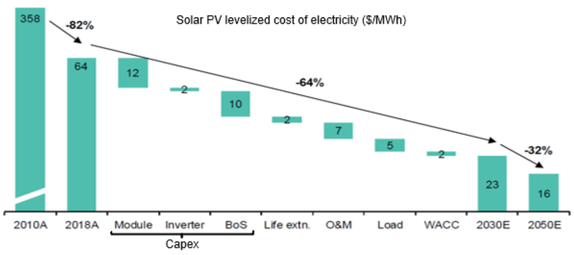
Solar PV installation costs falling rapidly in China



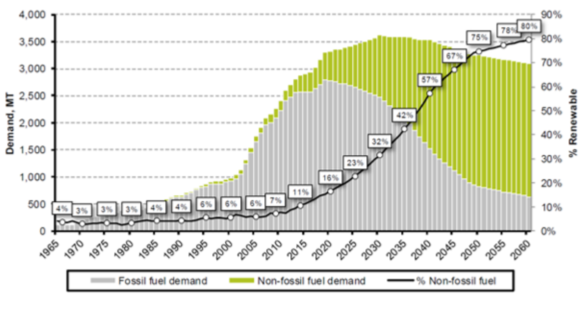
- Chinas road to net zero emissions is **highly dependent** on cost reductions for **solar energy**.
- If China wants to target net zero emissions by 2060, then **renewable energy** (mainly solar and wind power) will **need to displace coal-fired power** over the next 30 years.
- Adoption of EVs for passenger vehicles and fuel cell for CVs will also have to accelerate which will require stringent policy support.
- Hydrogen will also play a key role in displacing fossil fuels used in industrial sectors.

… which is expected to continue far into the future.

Cost reductions of solar PV and future potential



80% of China's energy demand will be met by renewables in 2060



Source: Bernstein Energy: Investing in China net zero 2060

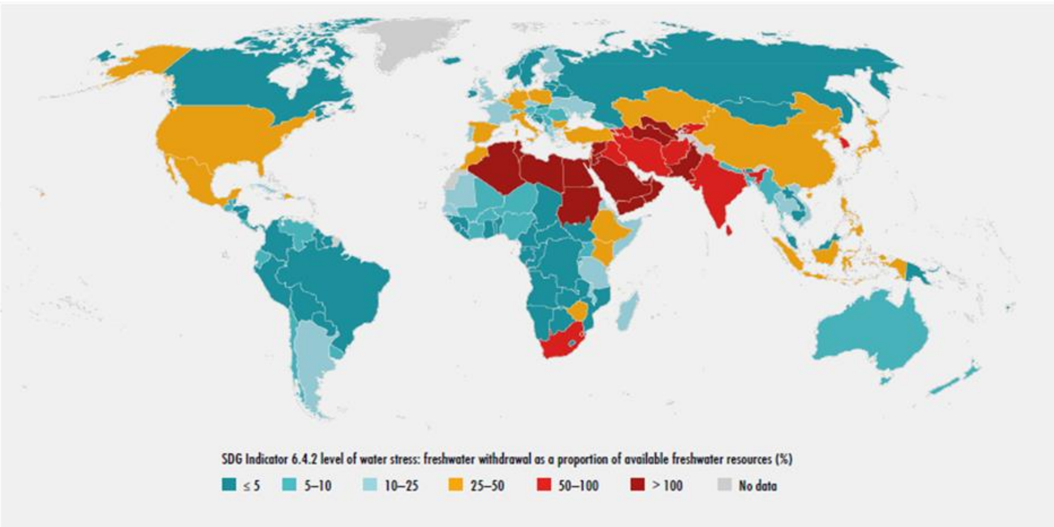
Fig 4. Analysis: China's road to net zero emissions

Water has been said to be the new oil, but that is not quite true: water is a vital resource with no substitute! Water contamination coupled with water scarcity and an increase in demand means that we are heading towards a scenario where demand for water will be 40% higher than supply over the next 20 years.

To meet the increased demand, the water sector is in desperate need of development in all areas. Firstly, global water supply needs to be heavily expanded, as 2.2 billion people already have inadequate access to water. Secondly, increasing the water-supply efficiency is vital to meet the demand, as approximately 45 million cubic meters of treated water is leaked from water supply systems every day. Finally, the water quality also needs to improve. For example, 80% of China's rivers are too toxic for fish – let alone human consumption.

Thus, there is an apparent call for innovation within the sector, and with it comes opportunities for existing companies or challengers to solve these issues and create value.

Levels of Water Stress by Country



Source: Food and Agriculture Organization (United Nations) 2020. SDG 6.4.2 measures the level of water stress as follows: less than 25% no water stress, 25-50% medium, 50-100% high, 100+ very high.

Fig 5. Water scarcity

Fundamental Analysis

The fund is actively managed with a concentrated portfolio and investments are made on a long-term basis. The fund invests in companies with exposure to structural growth themes that can deliver stable growth independent of the volatile business cycle. The fund also prefers to invest in companies with protected growth, often characterized by industries with high barriers of entry.

In analyzing companies, a lot of investors set the growth rate to the market growth rate for all securities, when the fact is that some grow at a pace higher than the market, while some grow at a slower pace. This can create discrepancies in the valuation of companies growing at a high pace, due to cash flows not being discounted at the appropriate rate. Our aim is to find these companies. Oftentimes, they are high quality companies that are both undervalued given their future outlooks, while they also grow faster than the market in general. This generates the alpha that makes the fund perform well in both falling and rising markets.

Additionally, a stable growth rate is a prerequisite for us to be able to meet the fund's objective of keeping a lower risk (standard deviation) than the benchmark - the standard deviation of the companies' profit growth is of course highly correlated with the standard deviation of the companies' share price. Furthermore, a stable earnings growth "guarantees" better visibility and less surprises for us as investors. That, combined with a credible management, makes us more comfortable listening to the companies' forecasts than listening to those who take on the role of making the forecasts for the companies.

We are long-term investors, but companies cannot deliver above average growth rates in perpetuity. However, good quality companies have proved that they can deliver high growth rates for a longer period than the market thinks. By identifying quality companies and market leaders in markets with a structural growth we can find the companies with the best prerequisites to continue to deliver above average growth rates in the long run. If, however, the fundamental story surrounding a holding change, which seldom happens, that can trigger us to sell, otherwise we just fine-tune our holding to maintain “ideal” portfolio weights.

The fundamental analysis restricts the investment universe accounting for:

- Structural growth driven by secular trends, technical leadership and leading business models. As opposed to cyclic components that are purely driven my macroeconomic factors (see Fig 6)
- The competitive situation analyzed through Porter´s five forces (see Fig 7)
- Has management delivered on their promises historically?
- Is the business idea strong enough to deliver a solid return over an entire business cycle?
- Value companies in comparison to their peers and through historical returns
- Assess key valuation multiples

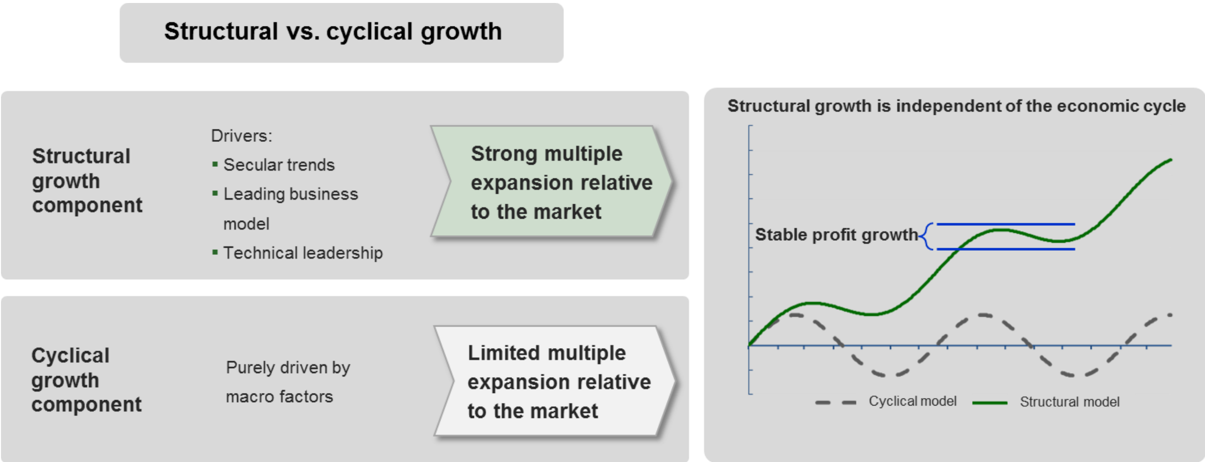


Fig 6. Structural vs. cyclical growth

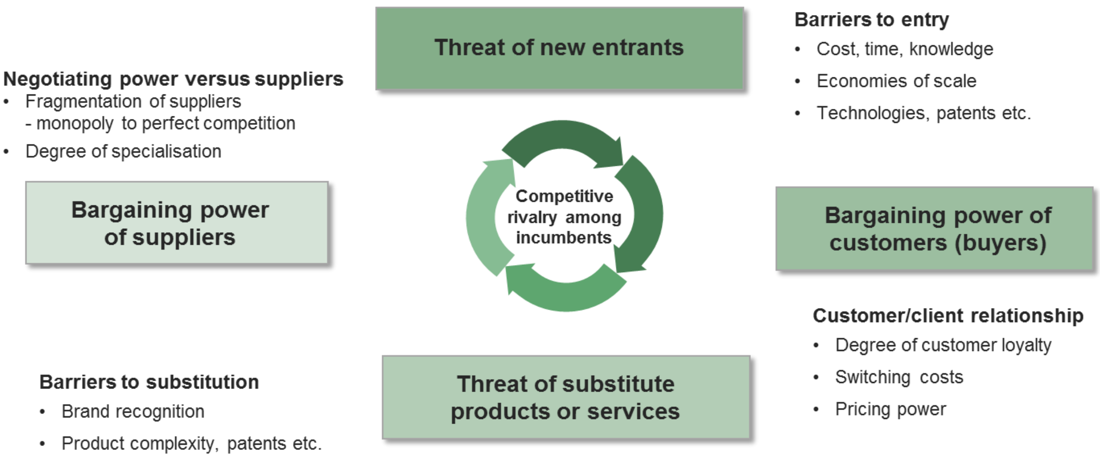


Fig 7. Porter´s five competitive forces

The analysis is not per se focused on finding inefficiencies or arbitraging. Of course, any type of investing is, per definition, about finding some type of mispricing/inefficiencies. What we do seek to find is long term opportunities in companies that we find well managed, reflected in a superior history – attributes not seldom overlooked by the market.

ESG Analysis

Strong Sustainability Practices

As a cosignatory of the UN PRI, the six Principles of Responsible Investments are the foundation for investment decisions made by CB Save Earth Fund. We believe that environmental, social and governance (ESG) issues can affect the performance of our investments. We also recognize that applying the principles makes us better aligned with broader objectives of society, something we value greatly. We commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together with others to enhance our effectiveness in implementing the Principles.
6. We will report on our activities and progress towards implementing the Principles.

CB Fonder aims to invest in companies which promote human rights and should therefore show diligence in the management of funds with investments that pose a risk of contributing to:

- Harmful forms of child labour and forced labour or unreasonable working environment (defined in the UN Rights of the Child Convention and ILO Conventions nr 29, 87, 98, 105, 138 and 182)
- Deliberate discrimination of employees due to gender, race or religion (defined in the UN Declaration of Human Rights and ILO Conventions nr 100 and 111)
- Deliberate crimes against central international agreements in the environmental area (defined in the UN Climate Convention and the Kyoto protocol)
- Corruption, extortion and / or bribery (defined in the UN Convention against Corruption)

CB Fonder aims to invest in companies supporting the conservation of biodiversity and to refrain from investing in companies active within deforestation. CB Fonder only invest in companies which integrate strong sustainable practices within their operations, thus invests only in companies that:

- Either have a significant share of the business within any of, or a combination of, the areas cleantech, water management and/or renewable energy or a smaller part today that the fund managers believe will grow going forward and by that be a significant driver for the share price. Remaining operations must not be within a controversial sector.
- Produce pioneering products in environmental technology, water management and/or renewable energy that fund managers judge to be highly innovative, sustainable as well potential market leaders.
- Historically lived up to the high sustainability goals the companies previously set and be a market leader in terms of ESG. CB Fonder aims for companies with ESG rating of A or higher. The ratings CB Fonder relates to/rely on is issued by MSCI (scale ranging from CCC to AAA).
- Align well with the EU-taxonomy, preferably above 20% unless there are good reasons as to why it has not been achieved and the fund managers conclude that the company is a leader in sustainability through other achievements.

Exclusion

The funds managed by CB Fonder invest in companies with a stable profit growth and a long-term sustainable business model, which is why the funds do not have any holdings in companies with, e.g., fossil assets. The funds managed by CB Fonder also do not invest in companies active in:

- Production or sales of tobacco, alcohol and cannabis
- Weapons manufacturing
- Weapons sales
- Sales and manufacturing of civilian hand-held weapons
- Gambling
- Pornography
- Mining or refining of coal, natural gas, crude oil or uranium for fuel
- Production or sales of white phosphor for weapon manufacturing
- Mining or sales of uranium for weapon manufacturing
- Companies in the energy sector that extract energy from coal, natural gas, crude oil or uranium, i.e., companies mining/pumping the fuels or generating energy from the fuels
- Production of genetically modified seeds used by others in agriculture
- Nuclear weapons
- Chemical weapons
- Biological weapons
- Cluster munition
- Landmines

Inclusion

For a company to be included in the fund, it must have a significant share of the business within any of, or a combination of, the areas cleantech, water treatment and/or renewable energy or a smaller part today that the fund managers believe will grow going forward and by that be a significant driver for the share price. If the company has this, it needs to pass the screening process. After the company has been tested against the strict exclusion and inclusion requirements (can be found in the annual sustainability report) through the ESG-Research Manager and passed these, we normally undergo an in-depth analysis of our own to ensure that the company fits into the fund. We do this by looking at several softer factors, including but not limited to:

- Alignment with the EU Taxonomy
- Established guidelines and ESG targets
- Previous history regarding ESG

CB Fonder aims to deliver the best possible risk-adjusted return possible to its investors, we believe we can do this by investing in companies that are far ahead in the areas we focus on. We typically, but not exclusively, invest in companies that are included in one of the following sustainability-oriented indexes: Cleantech Index, WilderHill New Energy Global Innovation Index and S&P Global Water Index. Companies outside these Indexes can be included if they are well managed and demonstrate strong ESG commitment in the past.

Screening process

CB Save Earth Fund is continuously screened by MSCI ESG Research to ensure that all holdings meet the high standards set by CB Fonder on matters of ESG. The companies are screened by using the UN global Compact principles as the underlying framework. Furthermore we also screen the companies for involvement in specific sectors deemed as controversial in our sustainability policy. CB Fonder controls for reported incidents of violations against the UN Global Compact, OECD guidelines and conventions regarding human rights, labour rights, discrimination, corruption, the environment, and those related to weapons.

The screening process extends to all holdings in CB Save Earth Fund. Indirect holdings are screened with the same criteria with regards to all holdings in their portfolios. This is to ensure that any indirect holding in CB Save Earth Fund meets the same requirements that are put on the fund's direct holdings. Any potential investment is screened prior to the investment being made. This ensures at all times that all holdings in the fund have gone through ESG screening.

We publish a detailed report annually which outlines the ESG practices of our holdings, see the [CB Asset Management sustainability report](#).

Fig 8. CB Asset Management ESG-process, how we define strong ESG practices

Quantitative Analysis

The quantitative analysis is also a part of restricting the investment universe, it aims to screen and rank investments using internal models based on quantitative variables such as:

- Growth
- Style
- Momentum
- Risk metrics
- Drawdowns
- Broader macro
- Sector themes

Technical Analysis

The technical analysis is part of determining the portfolio weights with regards to an investment. The analysis covers:

- Momentum factors – does the short term trend promote the sector/style?
- No price targets are set: “Let the trend be your friend”
- “Timing” for entry and exit levels

We do not calculate price targets for our holdings, and therefore do not have a pre-defined level at which we will sell all or part of our holdings. We are supporters of the “ride your winners, cut your losers”-strategy, meaning that we have no problems holding on to stocks that have outperformed MSCI World, relevant sector indices as well as relevant peers, even if the company - which they tend to do - start to look richly valued. More of a concern is stocks with lacking momentum, underperforming the mentioned indices and peers – and with what at first glance looks like an attractive valuation (value trap).

Daily monitoring

The fund managers monitor all holdings daily through:

- MSCI ESG screening reports
- News feeds
- Bloomberg
- Infront
- External research providers/Contact with brokers
- Relations with other investors
- Ongoing dialogue with companies

This is an ongoing process in the daily work of the managers to ensure that no holdings violate any exclusion criteria in the CB Fonder sustainability policy post-trade. Pre-trade the same screening is applied to any potential new holding along with the rigorous ESG-process and the previous steps in the investment process.