



# Responsible Investment Policy

June 2023

## INTRODUCTION

NCP's Responsible Investment Policy outlines the organisation's strategy covering all AUM with the conviction that companies that have integrated a sustainability strategy into their business strategy is better equipped to create long-term value, and thus will be more attractive investments.

As a Nordic asset manager, understanding sustainability factors allows NCP to maximise the risk-adjusted return. Incorporating sustainability analysis into the investment decision-making process supports NCP's core business model and strategies as well as ensures optimisation of investment opportunities. By analysing investments from a sustainability perspective, NCP extends its understanding of risks and seizes potential business opportunities for the benefit of its investors and for the development of sustainability in society at large.

NCP has a thorough Due Diligence process and ESG factors have the same significance in investment decisions as the credit analysis.

NCP's definition of Responsible Investment is aligned with PRI's definition, namely "an approach to investing that incorporates environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns".

The policy is developed by NCP's Sustainability Council and has been approved by the Company Management.

## INVESTMENT OBJECTIVES

The aim of our business is to create long-term value from an economic, social, and environmental perspective through integrating sustainability analysis into the investment process. Our intention is also to uphold international Norms and Standards, safeguard the environment for future generations and to contribute to reaching the Paris agreement.

Nordic Credit Partners' objective is to generate attractive risk-adjusted return through investing in the Nordic corporate high yield bond market. We focus on mature issuers in well-established industries with good cash flows, strong balance sheets, experienced management teams and professional owners. Our funds are structured to match the liquidity profile of the market and we selectively apply leverage to the funds in order to further improve returns.



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We invest across most sectors in the Nordic region but refrain from investing in companies that are dependent on one single exogenous factor such as oil & gas.

Investment decisions are taken based on a thorough due diligence process including sustainability factors. Strict investment criteria and continuous portfolio monitoring minimises the default risk of each investment and broad diversification across industries, regions and risk levels reduces risk in overall portfolio. Sustainability factors have the same significance as financial analysis throughout the investment process and unanimous approval is required by the Investment Committee for all investment decisions.

## SUSTAINABILITY INTEGRATION

NCP has a thorough due diligence process for integrating sustainability into the investment decision-making process. The Portfolio Management team conducts an evaluation of the company through publicly available information, the investor presentation and management interview as well as the industry and the market in which the company operates. NCP applies company specific sustainability disclosure requirements focusing on the management of material sustainability factors.

The industry specific sustainability factors are partly based on SASB's Industry Standards and the company specific sustainability factors are identified through in-depth research by our sustainability lead. These material sustainability factors or characteristics also constitute the main sustainability risks for each company. Please find a list of sustainability characteristics in the Appendix. The company needs to be able to demonstrate that it has a strong understanding of its exposure to these risks and its impact on the environment and society. This includes having a solid approach to identifying, managing, and monitoring the company's specific material sustainability factors as well as setting clear and ambitious targets to reduce negative impact on the environment and society. The company also needs to agree to provide sustainability reporting during the tenor of the bond.

NCP has two strategies when investing responsibly. The first strategy involves targeting issuers that have a mature sustainability strategy that is aligned with their business model. Under this strategy, we will not invest in issuers that do not meet our minimum sustainability thresholds, regardless of their financial performance. The second strategy entails investing in issuers with a less mature sustainability strategy but with a commitment to develop a transparent and ambitious action plan to transition into a sustainable company. This strategy involves NCP as an active partner and a support to the company in their advancement.

NCP develops a Sustainability Evaluation Report on every investment including a description of the company's management of material sustainability factors, commitments and targets, improvement areas, external commitments as well as a list of general sustainability data points. We apply an internal evaluation signal where companies are appointed a light green, medium green or dark green signal depending on the management level of its material sustainability factors. Please find a description of the evaluation signals in the Appendix.



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All NCP funds comply with our basic sustainability criteria and therefore do not invest in companies that are active within oil and gas, the weapon industry, pornography, tobacco, gambling, or have more than 10 percent from alcohol sales.

If we learn that a company does not live up to our expectations, our ambition is to encourage and support the company to develop measures to meet our expectations. In that way we can impact the market to become more sustainable.

We see an exit as a last resort and is only an option when a company repeatedly and for a longer period of time shows inability or unwillingness to change the procedures contrasting with the NCP sustainability strategy.

NCP has been a signatory of the United Nations-backed Principles for Responsible Investment since May 2017. As a signatory, NCP engages to promote the principles within the Group and amongst industry peers. All investment related ESG integration activities by NCP entities are in line with commitments to the Principles.

We adhere to the UN Global Compact principles in our investment process and do not invest in companies breaching international norms. To ensure compliance with UN Global Compact and other international conventions we use an external research provider. The same provider also conducts screens for a range of sectors on our portfolio companies, based on coverage. For sectors with limited sector coverage, we also do manual research.

## ASSESSING GOOD GOVERNANCE PRACTICES IN INVESTMENT OBJECTS

NCP's policy for assessing good governance practices includes an obligation to ensure that potential investment objects have sound management structures and sound relationships with their employees. Furthermore, we review compensation structures for affected staff and compliance with tax regulations.

NCP continuously reviews the management structure of all active investment objects, including whether the investment object complies with the OECD's guidelines for multinational companies and the UN's guiding principles for business and human rights.

## ACTIVE OWNERSHIP

We believe in active ownership and view every investment as a partnership. As a credit investor we contribute to the development of leading and sustainable enterprises and act as a constructive partner to shareholders, management and employees.

Through our role as an active investor, we strive to influence companies in their sustainability work, thereby encouraging change and safeguarding the interests of our investors as well as promoting sustainable business.

The companies we invest in are typically in the small to midcap segment. As a result, we can have a direct access to management, and we choose to limit the number of holdings as much as possible without increasing the concentration risk significantly. This allows us to spend



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more time analysing each credit, both before investment and through the monitoring phase and gives us a better chance of staying one step ahead of the rest of the market.

As an active manager, NCP takes a position on sustainability factors. This is done partly in the portfolio managers' ongoing work, partly in the Board and Investment Committee and in the dialogue with our industry advisors. The Board, the Investment Committee as well as the Sustainability Council regularly discusses sustainability factors and quality assures the managers' sustainability analysis. It is the responsibility of the sustainability council to keep the managers well educated on these matters.

NCP has quarterly management meetings with all portfolio companies as well as semi-annual in-depth screening to identify any issues from a sustainability perspective.

If we receive signals that the company does not live up to our expectations, the following process is initiated:

1. Portfolio manager search for more information
2. Portfolio manager contacts the company to gain further information
3. ESG lead person analyses the information to determine if formal engagement should be initiated
4. Portfolio manager discusses the holding with the investment committee
5. Portfolio manager makes a formal contact with the company's CEO or chairman of the board
6. Consult with other owners for a joint ownership dialogue

Engagement thresholds:

- Beyond the continuous dialogue with portfolio companies, a formal engagement is to be defined as step 5
- Formal engagement should be initiated if NCP determines that the company; has failed to deliver on promised development, is alleged to have violated international norms and standards or, is involved in any of the activities on our exclusion list
- The ambition with the engagement is to influence and support the company to take measures to meet our expectations

We see an exit as a last resort when the company repeatedly and for a longer period of time shows inability or unwillingness to change its procedures.

## FRAMEWORK FOR SUSTAINABLE INVESTMENTS

Nordic Credit Partners AB ("NCP") has established this framework for sustainable investments in accordance with the definition of a sustainable investment as set out in Article 2.17 of Regulation 2019/2088/EU ("SFDR").

In order for an investment to be labelled as a sustainable investment by NCP, the investment company is required to consider environmental and social sustainability as part of its business operations as well as having adopted a well-developed strategy to reduce the investment's negative impact on sustainable development.



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The sustainable investments in NCP's funds contribute, among other factors, to the following sustainability-related goals:

- Reduction of greenhouse gas emissions
- Improvement of air quality
- Energy management
- Water management
- Waste management
- Sustainable material supply
- Limitation of the product's life cycle
- Reduced impact on biological diversity
- Adaptation to climate change
- Diversity and integration
- Good labour practices
- Human Rights
- Employee health and safety
- Customers' health and safety
- Animal protection

The investment's potential contribution to a sustainability goal is assessed by NCP through a company specific ESG analysis prior to investment. All sustainable investments need to meet certain criteria, but which criteria that are relevant to measure is assessed using the materiality principle.

The investments that make up NCP's sustainable investments have a business model that is based on long-termism and that takes into account possible negative consequences also for factors other than those directly linked to their core business. The investments that make up NCP's sustainable investments are expected to have their own internal frameworks to comply with and follow up on relevant criteria, these are followed up through NCP's internal ESG monitoring.

In addition, NCP's sustainable investments follow good governance practices and NCP has adopted a policy to assess practices for good governance in the investment objects. This means that the management structure of all of NCP's investment objects is reviewed on an ongoing basis in terms of whether the investment follows the UN Global Compact's 10 principles, the OECD's guidelines for multinational companies and the UN's guiding principles for business and human rights.



## APPENDIX

### SUSTAINABILITY FACTORS

A description of the environmental, social and governance characteristics promoted in the Nordic Credit Opportunities Sustainable Return fund can be found below as well as the indicators used to measure the attainment of each characteristic. All characteristics are not applicable for all investment opportunities. Instead, the characteristics applicable for a certain investment are selected using the materiality-principle. We are constantly developing our approach and adding characteristics to the list.

Area	Characteristics	Indicator
Environmental	Mitigation of Overall Environmental Impact	The company's approach to incorporating environmental factors in investment processes and strategies
	Reduction of Greenhouse Gas Emissions	Short term approach to manage Scope 1 emissions
		Long term approach to manage Scope 1 emissions
		Measurement, monitoring and reporting on scope 2 and/or 3 emissions
	Improvement of Air quality	Measurement, management and mitigation of air emissions of industry specific pollutants
	Energy Management	Percentage of energy used in industry specific process that are derived from renewable sources.  Targets regarding increasing energy derived from renewable sources
		Targets regarding reduction of energy consumption
	Water management	The company's approach to water management risks and practices to mitigate those risks
		the company's approach to sustainable water management and any strategies and practices to conserve water as a quality resource
	Waste Management	Industry Specific Management of Waste Management
		Reduction of Waste



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	Sustainable Materials Sourcing	Percentage of industry specific material that is Certified as Sustainable
		Procurement Process includes Sustainability Aspects
		The company's approach to optimize materials efficiency
	Mitigation of Product Lifecycle Environmental impacts	Industry Specific Management Systems of Product Lifecycle Environmental impacts
		Integration of Environmental Impacts in the User Phase
		The company's approach to manage the impact of the product at end-of-life, including reference to recovered, reused, recycled material or material that were landfilled
	Reduction of Impacts on Biodiversity	Industry Specific approach to Manage and Mitigate their Ecological Impacts
		processes to integrate environmental considerations into the company's operations and strategies
		The company's environmental management policies and practices to preserve ecosystem service
	Climate Change Adaptation	The company's approach to identify and mitigate Climate Change risk exposure
The company's integration of climate change related impacts into operational strategy		
Social	Mitigation of Overall Social Impacts	The company's approach to incorporating Social factors in investment processes and strategies
	Diversity and inclusion	Company policy that supports anti-discrimination
		Company policy that supports diversity and equal opportunity
		Percentage of gender representation for (1) management, (2) professionals, and (3) all other employees



	Labour Rights	The company's processes to ensure compliance with international norms and standards relating to labour practices
		Workforce covered by Collective Bargaining Agreement
		The Company's approach to prevent Worker Harassment
	Human Rights	Company Code of Conduct applicable to suppliers
		Audits and follow-ups on supplier compliance with Code of Conduct
		Management and mitigation of Company Operations' Effect on Society
	Employee Health and Safety	Company Health and Safety Policy
		Industry Specific Safety Management System
	Customer Health and Safety	Industry Specific processes to identify and manage safety risks associated with the use of the company's products
		Industry Specific processes to assess and manage risks and/or hazards associated with chemicals in products
		Industry specific approach to managing addiction associated with the use of the company's product or services
	Data Privacy	The Company's approach to ensure customer privacy
	Data Security	The Company's approach to identifying and addressing data security risks
		The company's approach to ensuring intellectual property (IP) protection
	Ethical Marketing and Selling Practices	The company's approach to informing customers about products and services
Animal Welfare	The Company's Approach to Ensuring Animal Welfare in their Operations and/or Supply Chain	





Governance	Overall Good Governance	The company's approach to incorporating good governance factors in investment processes and strategies
	Anti-corruption	Company policy on anti-corruption
		Whistle-blower function
	Anti-competitive Behaviour	Company policy on anti-competitive behaviour
	Diverse Board Structure	Processes for determining the composition of the board
		Independence of Chair of the Board
		Independence of Members of the Board
	ESG Promoting Executive Pay	ESG metrics linked to executive pay
	Fair Tax	Policy on tax and tax planning
		Countries where the company operates/countries where the company pays tax
Transparency	Reporting	

## SUSTAINABILITY SCREENING AND EVALUATION

### Acceptable ESG integration

The company has a sufficient sustainability strategy and integration of all material ESG factors. The company must have identified and developed a management approach to all material ESG factors (or commit to doing so during a set timeframe: transition strategy) but the material factors could still be identified as improvement areas. The company's strategy could also include all material ESG factors as well as general ESG factors, but the approach is assessed as needing a general development on all or some factors.

### Well developed ESG integration

The company has a well-developed sustainability strategy and integration of all material ESG factors as well as general ESG factors, but improvement areas have been identified. A company can not receive a medium green signal if a material ESG factor is considered to be an improvement area.

### Comprehensive ESG integration

The company has a comprehensive sustainability strategy and integration of all material ESG factors as well as general ESG factors. A company can does not obtain a dark green signal if a material ESG factors ha been identified as an improvement area or if there are several improvement areas for general ESG factors. A company can, however, receive a dark green signal if there are minor improvement areas for general ESG factors.



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