# Climate report 2022

Lannebo Fonder

Lannebo

# About this report

In June 2017, the Task Force on Climate-Related Financial Disclosures (TCFD) presented its recommendations on climate-related disclosures.  The framework contains eleven recommendations divided into four areas: Governance, Strategy, Risk Management, and Metrics and Targets.

This report is prepared in accordance with the recommendations of the TCFD. In the following section, we describe our activities in each area.

## Contents

# 1. Governance

## Board

Lannebo's Board oversees the risks and opportunities associated with climate-related factors. They hold the responsibility of establishing the sustainability strategy, which includes a dedicated focus on addressing climate change. They also hold the responsibility to establish the necessary organizational structure to execute this strategy.

The consideration of climate change is integrated into key decision-making processes, including the determination of the overall strategic direction, the formulation of annual business plans, and product development. The board conducts thorough reviews and provides approval for policy development. This includes the Policy for shareholder engagements and the Sustainability Policy, which governs all assets under Lannebo's management. These policies encompass specific criteria that address climate change, demonstrating our ambition to align our portfolios with the objectives outlined in the Paris Agreement. The board reviews the policies annually and receives annual updates on implementation of strategies, key performance indicators, milestones, and targets related to climate initiatives. These updates enable the board to assess progress, identify areas of improvement, and provide guidance and support as necessary.

The policies serve as guiding documents that outlines the strategic direction for climate integration in the decision making, our voting practices at Annual General Meetings (AGMs) and guides our work within the nomination committees. By incorporating climate considerations into these processes, we strive to reinforce our commitment to sustainable practices and responsible decision-making.

Furthermore, the board approves the principles governing any variable compensation or other incentives offered to employees in the fund company. These principles include sustainability-related goals, such as integrating sustainability into investment decisions and engagements with portfolio companies.

## Management

The Chief Executive Officer (CEO) is responsible for the execution of the sustainability strategy and the implementation of the governance framework established by the Board. The CEO ensures that the intentions set by the Board are effectively carried out.

The CEO and the whole management team, including Chief Investment Officer, Compliance and Legal, are members of Lannebo's Sustainability Council. The Sustainability Council meets bi-weekly to address sustainability matters, such as the strategic direction, practical measures, risks monitoring and mitigation, and the day-to-day operations of the company. This ensures that sustainability remains a priority at all levels of the organization and enables timely and informed actions to be taken. By staying informed and actively participating, the CEO and management team can collectively drive the organization towards its sustainability goals and effectively address emerging challenges and opportunities.

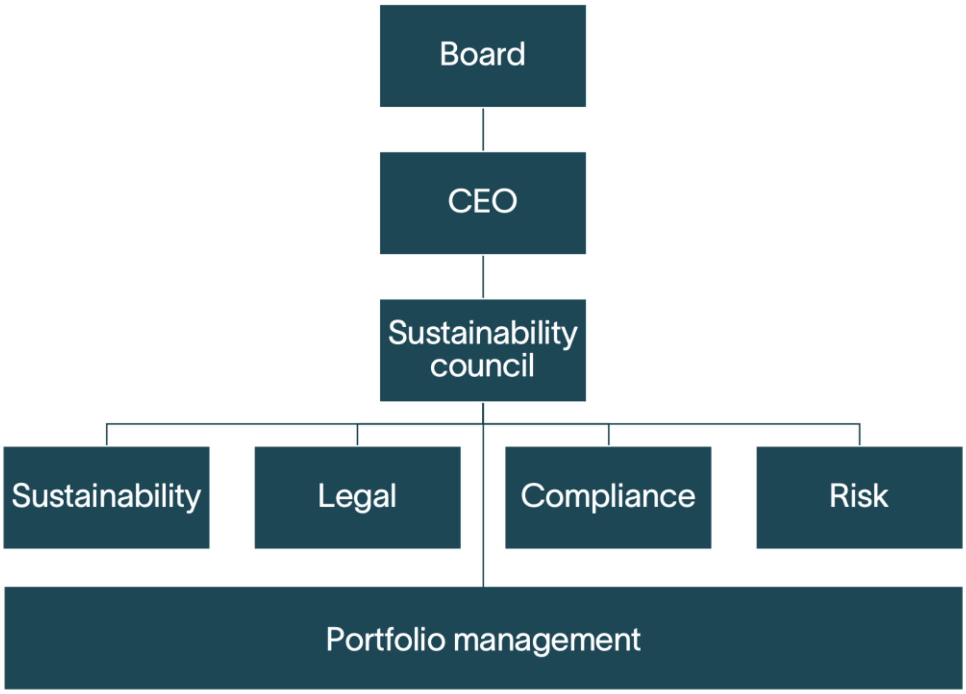


**Figure 1. ESG governance structure**

# 2. Strategy

## Overarching strategy

Specifically addressing climate change in our investment activities better positions us to make more informed long-term decisions. Climate-related risks refer to the financial risks associated with investments that may contribute to or be impacted by climate change. The Task Force categorizes climate-related risks into two main categories: 1) risks associated with the transition to a low-carbon economy, and 2) risks associated with the physical effects of climate change. Lannebo recognizes climate-related risks as financially significant across all its investments with an overweight on transition risks. These risks include government policy, legal, technology and market risks as the world shifts to a lower-carbon economy. Simultaneously, investment opportunities in sectors such as resource efficiency and renewable power will continue to emerge. In response, we have dedicated resources across Lannebo to understand, top-down and bottom-up, the financial risks and opportunities created by climate change.

To effectively address climate-related risks and capitalize on opportunities, we employ the following approaches:

1. Integration: Sustainability is integrated throughout Lannebo's comprehensive investment process. In identifying and assessing climate-related risks, we utilize our proprietary sustainability analysis, conducted for all investments. This tool enables us to conduct in-depth evaluations and assessments of the investments' potential identified risks and the likelihood and impacts of these risks. We prioritize our efforts towards addressing the most material sustainability issues where the funds can have the greatest impact and drive positive change.

2. Engagements: Lannebo actively encourages companies to align their practices with the fund company's expectations on sustainability issues. Through constructive dialogue and engagement, we aim to foster positive change within the companies we invest in. Through collaboration we broaden our reach and influence, engaging with a wider range of companies and expanding our impact across various geographical markets.

3. Exclusions: Lannebo applies an exclusion strategy for companies that are engaged in sectors and activities that we deem to cause significant adverse effects on environment or society, where an investment would be associated with substantial negative environmental or social consequences or associated with an undesirable sustainability risk.

## Targets

To mitigate climate-related risks, we have committed to aligning our investment practices with the objectives of the Paris Agreement, to achieve net-zero emissions by 2050. We have established the following climate-related targets on our investments:

— By the year 2040, our target is for 100 percent of the portfolio companies operating in sectors with significant climate impact to have established science-based targets (SBT). By 2030, we strive for at least 50 percent of our portfolio companies to have adopted science-based targets. By the end of 2022 the percentage of investments with SBT was 22%.

- Zero involvement in fossil fuel production: As part of our commitment to aligning with the objectives of the Paris Agreement, and minimizing adverse impacts, Lannebo refrains from engaging in any investments related to fossil fuel production. To ensure that our portfolio aligns with our sustainability objectives, we actively exclude companies operating in sectors and activities that we consider to have substantial detrimental effects on society. This exclusion encompasses industries such as coal, oil, and gas, among others, where investments would be associated with significant negative environmental or social consequences as well as undesirable sustainability risks.
- Zero involvement in companies that systematically breach international norms and conventions. Systematic breaches of international norms and conventions can have significant negative impact on environment and society. To achieve our target, we employ a rigorous screening and assessment process. Our investment team thoroughly evaluates companies' track records, governance structures, and compliance with international norms and conventions before investing and during the investment's lifecycle.

## Climate-related risks

The table below presents several climate-related risks that have been identified, along with their potential financial impact for portfolio companies and Lannebo. While we do not provide specific sectors alongside each risk due the complexity of climate-related risks and space limitations, it is important to note that many of the sectors facing heightened risks also offer significant opportunities in the transition to a low-carbon economy.

## Time horizons

Lannebo considers risks and opportunities across different time horizons. Climate-related issues often manifest themselves in the medium to long term, but certain risks, such as reputational effects, extreme weather conditions like floods, or developments stemming from public policy are identified to often materialize in the short to medium term. Lannebo identifies time horizons as follows:

- Short term: < 3 years
- Medium term: 3-10 years
- Long term: > 10 years

**Table 1. Climate-related risks**

| Transition Risks | Climate-Related Risks | Potential Financial Impacts on Companies | Potential Financial Impacts on Lannebo Fonder |
|---|---|---|---|
| Policy and Legal | Increased pricing of GHG emissions.<br><br>Enhanced reporting obligations.<br><br>Mandates and regulations of existing products and services.<br><br>Exposure to litigation. | Increased operating costs prom higher price on emissions.<br><br>Increased cost from greater requirements on measurement, tracking, and disclosure of greenhouse gas emissions generated by their operations and supply chains.<br><br>Increased cost of making adjustments to product design.<br><br>Companies may experience financial implications and decreased market demand for their products and services as a result of fines and judgments imposed on them. These penalties can arise from non-compliance with regulations, violations of consumer protection laws, environmental harm, or other legal infringements. | Increased pricing of GHG emissions and regulatory reporting requirements provide financial incentives for companies to reduce their carbon footprint and encourages companies to improve their energy efficiency and optimize resource usage. By reducing their carbon emissions, companies can lower their operating costs, improve their resource efficiency, and enhance their overall operational performance. This can lead to increased profitability and returns for investors as companies become more resilient, cost-effective, and competitive in a low-carbon economy. Lannebo's challenge is to identify which companies are winners and losers in terms of regulatory risks.<br><br>Breaches and violations in companies leading to litigations can have significant impact on shareholder value. Therefore, at Lannebo, we prioritize ensuring that all our investments comply with local laws, international norms, and conventions. Compliance with local laws and international norms is not only a legal obligation but also a reflection of responsible business conduct. It promotes sustainable growth, strengthens stakeholder trust, and helps companies avoid potential legal entanglements. By investing in companies that adhere to these standards, we seek to protect shareholder value and contribute to a sustainable and responsible investment ecosystem. |
| Techno-logy | Costs to transition to lower | Research and development (R&D) | The pace of the transition is crucial for the financial valuation of companies, |

| | | | |
|---|---|---|---|
| | emissions technology.<br><br>Unsuccessful investments in new technologies. | expenditures in new and alternative technologies.<br><br>Capital investments in technology development.<br><br>Write-offs and early retirement of existing assets.<br><br>Costs to adopt/deploy new practices and processes. | particularly those with assets reliant on fossil energy for their products and services. Lannebo's challenge is to assess which technologies will contribute to the transition, the pace and determine the extent to which sectors and companies will be affected. |
| Market | Change in consumer preferences.<br><br>Increased cost of raw materials.<br><br>Uncertainty in market signals. | Companies may face a decline in demand for their goods and services due to a shift in consumer preferences. As consumers increasingly prioritize sustainable and ethically sourced products, companies that fail to meet these expectations may experience a decrease in sales and market share.<br><br>Changing input prices and output requirements can result in higher production costs for companies.<br><br>Abrupt and unexpected shifts in energy costs can have significant implications for companies. | Changes in consumer preferences can significantly impact investments. If consumers shift their preferences towards sustainable or socially responsible products and services, companies that fail to adapt may experience reduced demand and potential financial losses. Conversely, investments in companies that align with changing consumer preferences can benefit from increased market share and revenue growth.<br><br>Rising costs of raw materials can reduce profit margins, leading a negative impact on investment value.<br><br>Uncertainty in market signals can have significant repercussions, including increased volatility, diminished investor confidence, and the potential for declines in investment returns. |
| Reputation | Change in consumer preferences.<br><br>Stigmatization of sectors. | Not adequately addressing climate change and thereby failing to meet consumers' demands and expectations will | Loss of reputation can have significant consequences for companies, affecting their business operations and ability to sustain demand for their products. This, in turn, can result in a decrease in revenue, |

| | | | |
|---|---|---|---|
| | Increased stakeholder concerns or negative stakeholder feedback. | negatively impact the brand value, customer loyalty, and investor confidence, leading to financial repercussions.<br><br>Reduced revenue from decreased demand on products and services.<br><br>Reduced revenue from negative impacts on workforce, management, and planning. | ultimately leading to a decline in shareholder value.<br><br>Loss in reputation will most likely affect the companies' business and ability to uphold demand for their products. This can result in decreased revenue, which will lead to decreased shareholder value.<br>By strengthening its' reputation, companies can create increased shareholder value.<br><br>It is important for Lannebo that the portfolio holdings remain in line with evolving consumer preferences and actively engage in stakeholder dialogue. |
| **Physical Risks** | | | |
| Acute | Increased risk of extreme weather events, rising sea levels, heatwaves, and droughts. | Write-offs and early retirement of existing assets (e.g., damage to property and assets in high-risk locations).<br><br>Reduced revenue and higher costs from negative impacts on workforce (e.g., health, safety, absenteeism). | Physical climate risks have the potential to impact all sectors and companies, making it crucial to gain a deep understanding of each company and its operations. To properly evaluate these risks, it is essential to comprehensively understand a company's specific vulnerabilities and exposure to climate-related hazards. This involves conducting thorough assessments of the company's physical assets, geographic locations, and dependencies on critical resources. Through thorough company analysis and engagement with company management, we strive to gain insights into their risk exposure, climate-related strategies, and long-term resilience plans. This enables us to make informed investment decisions that consider the potential impacts of physical climate risks. |
| Chronic | Rising mean temperatures.<br><br>Changes in precipitation patterns and | Write-offs and early retirement of existing assets.<br><br>Increased operating and capital costs. | The financial impacts of chronic climate-related risks can be significant for investments. This can lead to reduced profitability and potential disruptions in supply chains. |

| | | | |
|---|---|---|---|
| | extreme variability in weather patterns.<br><br>Rising sea levels. | Reduced revenues from lower sales.<br>Increased insurance premiums and potential for reduced availability of insurance on assets in high-risk locations. | It is important to note that the financial impacts of climate change are complex and can vary across industries, regions, and specific investments. Some companies may face challenges, while others may find opportunities in developing and deploying climate adaptation and mitigation technologies. |

## Climate-related opportunities

The table below highlights some of the climate-related opportunities that have been identified. Additionally, it presents potential financial impacts of these opportunities for both portfolio companies and Lannebo. These opportunities can have standalone impacts or interact and influence each other, leading to synergistic benefits. It is important to recognize that climate-related opportunities can offer significant financial benefits for portfolio companies and investors. These opportunities can lead to cost savings, revenue growth, market differentiation, and enhanced competitiveness. Furthermore, they contribute to environmental sustainability and support the transition to a low-carbon economy.

By actively identifying and capitalizing on climate-related opportunities, portfolio companies can position themselves for long-term success, adapt to changing market demands, and attract sustainable investment. For Lannebo, integrating these opportunities into our investment strategies can generate attractive financial returns while supporting the transition to a more sustainable and resilient global economy.

**Table 2. Climate-related opportunities**

| Opportunities | Climate-Related Opportunities | Potential Financial Impacts (holding companies) | Potential Financial Impacts (Lannebo Fonder) |
|---|---|---|---|
| Resource Efficiency | Use of more efficient production and distribution processes.<br><br>Use of recycling.<br><br>More efficient buildings.<br><br>Reduced water usage and consumption. | Increased production capacity, resulting in increased revenues.<br><br>Reduced operating costs (e.g., through efficiency gains and cost reductions).<br><br>Increased value of fixed assets (e.g., highly rated energy-efficient buildings). | Lannebo benefits when companies leverage climate opportunities in a way that increase shareholder value.<br><br>By incorporating sustainability considerations, our portfolio managers can identify companies that demonstrate strong resource efficiency and a proactive approach to addressing climate-related challenges. |
| Energy Source | Use of lower-emission sources of energy.<br><br>Use of new technologies. | Reduced exposure to future fossil fuel price increases.<br><br>Returns on investment in low emission technology.<br><br>Reduced operational costs (e.g., through use of lowest cost abatement).<br><br>Increased capital availability (e.g., as more investors favor lower-emissions producers). | Lannebo benefits when companies leverage climate opportunities in a way that increase shareholder value.<br><br>By incorporating sustainability considerations, our portfolio managers can identify companies that demonstrate strong resource efficiency and a proactive approach to addressing climate-related challenges. |
| Products and Services | Development and/or expansion of low emission products and services.<br><br>Shift in consumer preferences. | Increased revenue through demand for lower emissions products and services.<br><br>Increased revenue through new solutions to adaptation | Lannebo benefits when companies leverage climate opportunities in a way that increase shareholder value.<br><br>By incorporating sustainability considerations, our portfolio managers can identify companies that demonstrate strong resource |

| | | | |
|---|---|---|---|
| | Development of climate adaptation and insurance risk solutions.<br><br>Development of new products or services through R&D and innovation.<br><br>Ability to diversify business activities. | needs (e.g., insurance risk transfer products and services).<br><br>Better competitive position to reflect shifting consumer preferences, resulting in increased revenues. | efficiency and a proactive approach to addressing climate-related challenges. |
| Markets | Access to new markets.<br><br>Use of public-sector incentives. | Increased revenues through access to new and emerging markets (e.g., partnerships with governments, development banks).<br><br>Increased diversification of financial assets (e.g., green bonds and infrastructure). | Lannebo benefits when companies leverage climate opportunities in a way that increase shareholder value.<br><br>By incorporating sustainability considerations, our portfolio managers can identify companies that demonstrate strong resource efficiency and a proactive approach to addressing climate-related challenges. |
| Resilience | Resource substitutes/ diversification. | Increased reliability of supply chain and ability to operate under various conditions.<br><br>Increased market valuation through resilience planning (e.g., infrastructure, land, buildings).<br><br>Increased revenue through new products and services related to ensuring resiliency. | Lannebo benefits when companies leverage climate opportunities in a way that increase shareholder value.<br><br>By incorporating sustainability considerations, our portfolio managers can identify companies that demonstrate strong resource efficiency and a proactive approach to addressing climate-related challenges. |

# 3. Risk Management

The Head of Sustainability plays a central role in the implementation of the Board's and CEO's directives regarding the integration of climate-related risks and opportunities. The Head of Sustainability also leads the efforts of the Sustainability Council.

The portfolio managers have the primary responsibility for managing risks related to their investments throughout the lifetime of the portfolio. To effectively carry out management of sustainability risks Lannebo has developed a proprietary sustainability analysis tool where risks are being identified and assessed. The portfolio managers serve as the first line of defense where the Chief Investment Officer is ultimately responsible.

The Risk Management function is the second line of defense and is responsible for ensuring proper risk controls regarding all risks including sustainability-related risks.

The Compliance and Legal function actively contribute to and ensure the alignment of Lannebo's activities with regulatory requirements. This includes monitoring and addressing sustainability regulatory aspects as well as adherence to our internal policies. Moreover, the functions hold a key responsibility in conducting periodic reviews of Lannebo's products. This encompasses products that promote environmental or social characteristics, as well as funds with sustainable investment objectives. As part of these reviews, the functions verify whether the fund remains consistent with any relevant ESG preferences of the target market, where applicable. This ensures that our offerings remain in line with the evolving needs and expectations of our investors in terms of sustainability.

## Metrics

Within our sustainability analysis, conducted on all portfolio holdings, we consider various factors to evaluate climate-related risks. For example, we assess companies' greenhouse gas (GHG) emissions across scope 1, 2, and 3, as well as their GHG intensity. We also evaluate whether a company operates in biodiversity-sensitive areas and examine its exposure to fossil fuels. As part of our climate strategy Lannebo has implemented a policy that guides our investment decisions. According to this policy, we do not invest in companies that we consider having substantial climate-related risks. Specifically, we identify these risks in companies involved in coal, oil, and gas production. Our commitment to avoiding investments in high-risk industries aligns with our climate strategy and reinforces our dedication to sustainable investing practices.

To evaluate our portfolios climate-related risks, we monitor the above as well as the portfolios' weighted average carbon intensity.

**Table 3. Weighted Average Carbon Intensity 2022 (tCO2e / MEUR )**

| 2022-12-31 | Fund | Benchmark |
|---|---:|---:|
| Europa Småbolag | 23 | 103 |
| Europe Green Transition | 58 | 103 |
| Fastighetsfond | 28 | 22 |
| Fastighetsfond Select | 29 | 30 |
| High Yield | - | - |
| MicroCap | 23 | 38 |
| Mixfond | 33 | 37 |
| Mixfond Offensiv | 34 | 37 |
| NanoCap | 23 | 38 |
| Norden Hållbar | 56 | 91 |
| Räntefond Kort | - | - |
| Småbolag | 28 | 57 |
| Småbolag Select | 28 | 57 |
| Sustainable Corporate Bond | - | - |
| Sverige | 53 | 37 |
| Sverige Hållbar | 29 | 37 |
| Sverige Plus | 54 | 37 |
| Teknik | 16 | 61 |
| Teknik Småbolag | 12 | 61 |

To assess climate-related opportunities within our portfolios, we actively monitor the alignment of the companies we invest in with the objectives outlined in the Paris Agreement. A key criterion we utilize for this evaluation is whether the invested companies have established science-based targets. By setting science-based targets, companies demonstrate their commitment to reducing greenhouse gas emissions in line with the latest climate science. This metric enables us to identify and prioritize climate-related opportunities that arise from investing in companies that are actively addressing climate change and contributing to the transition to a low-carbon economy. We acknowledge that the establishment of targets does not automatically guarantee their achievement or full alignment with climate goals. We understand that setting targets is merely the initial step in a broader process of implementation and ongoing commitment.

**Table 4. Share of invested companies with established science-based targets (SBT)**

| Fund | Share of investments with SBT 2022-12-31 |
|---|---|
| Europa Småbolag | 23 |
| Europe Green Transition | 58 |
| Fastighetsfond | 28 |
| Fastighetsfond Select | 29 |
| High Yield | - |
| MicroCap | 23 |
| Mixfond | 33 |
| Mixfond Offensiv | 34 |
| NanoCap | 23 |
| Norden Hållbar | 56 |
| Räntefond Kort | - |
| Småbolag | 28 |
| Småbolag Select | 28 |
| Sustainable Corporate Bond | - |
| Sverige | 53 |
| Sverige Hållbar | 29 |
| Sverige Plus | 54 |
| Teknik | 16 |
| Teknik Småbolag | 12 |

In our pursuit to promote investments in companies with climate-related opportunities, we place significant emphasis on monitoring the contributions of our investments towards the UN Sustainable Development Goals (SDGs) and the EU Taxonomy. The SDGs provide a globally recognized framework for addressing the world's most pressing social and environmental challenges. By aligning our investments with the SDGs, we aim to support companies that are actively working towards achieving these goals, including those directly related to climate action. Additionally, we closely monitor our investments' alignment with the EU Taxonomy, which provides a comprehensive classification system for environmentally sustainable economic activities. By adhering to the EU Taxonomy, we ensure that our investments contribute to the transition to a low-carbon and sustainable economy, while avoiding activities that are deemed environmentally harmful. Through ongoing monitoring and evaluation, we assess the extent to which our investments align with these frameworks. This includes evaluating companies' products, services, and operations to determine their positive contributions towards climate-related opportunities, as well as their overall alignment with sustainable development objectives.

## Engagements

Long-term investors, such as Lannebo, play an important role in encouraging companies to identify and manage environmental, social and governance factors, as they are fundamental to enhancing long-term returns. Lannebo is committed to actively engaging with investee companies to promote better disclosure and practices concerning climate-related risks. This engagement activity aims to enhance data availability and enable asset managers, like ourselves, to effectively assess and manage climate-related risks.

We engage with investee companies through various channels, including direct dialogue and collaborations. Our approach involves fostering open and constructive discussions to encourage companies to enhance their disclosure on climate-related risks. We emphasize the importance of transparent and comprehensive reporting, which provides us with the necessary data to assess and address climate-related risks. We aim to strengthen our ability as asset managers to make informed investment decisions and effectively manage climate-related risks on behalf of our clients. We also encourage companies to establish climate-related KPIs in the remuneration to executives, which aligns the interests of management with the long-term sustainability of the company.

During 2022 we have:

— Continued the integration of climate-related risks and opportunities in the investment decisions and risk management.

— Implemented new processes and solutions to address increasing complexity and data requirements, including building technical solutions where required to support assessment, oversight, management, and reporting processes. This work will continue during 2023.
— Expanded climate-related financial disclosures in line with the recommendations of the TCFD's recommendations.