BRUMMER & PARTNERS

Brummer multi

Sustainability Report

Brummer Multi-Strategy, 2024

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1. Brummer Multi-Strategy – generating alpha in a responsible way

The Brummer Multi-Strategy funds[1)] (the "BMS-funds") allocate to hedge fund strategies managed by investment teams in the Brummer & Partners group. By allocating to different investment strategies with exposure to a wide variety of asset classes, we aim to build a robust, diversified "all weather" portfolio engineered to generate sustainable alpha over time, irrespective of the market environment. Moreover, our partnership model positions us to align sustainability efforts from a multi-strategy, multi-manager perspective. By collaborating closely, we continuously advance our responsible investment practices. In short, risk management, including the management of sustainability related risks, is key for sustaining long-term alpha.

As a multi-strategy manager allocating to absolute return focused strategies, risk management is core to our DNA. Considering factors that may materially affect a portfolio's return is essential to making well-informed investment decisions and generating returns in a responsible way. Thanks to our Nordic heritage - with investors from the Nordic countries pioneering responsible investment - as well as client expectations and 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 Brummer Multi-Strategy AB's and Brummer & Partners Asset Management (UK) Ltd.'s (herein referred to as "the BMS teams") approach to sustainability and responsible investments, to illustrate the tools that the BMS-funds apply, to inform about activities performed in 2024, and to share some insights on how hedge fund strategies that the BMS-funds allocate to integrates sustainability risks and opportunities in ways suitable to their specific investment strategies.

1.1 OUR APPROACH

The BMS-funds allocate to various hedge fund strategies managed by separate investment teams within the Brummer group. The investment strategies include sector focused long-short equity strategies, as well as systematic macro and trend following strategies.

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.

The Brummer Multi-Strategy funds

	Investment team	Jurisdiction
BMS AIF	Stockholm, Sweden	Sweden
BMS UCITS	Stockholm, Sweden	Ireland
BMS Cayman	London, United Kingdom	Cayman Islands

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 sustainability 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 adverse impacts that the investment team considers relevant for the management of the fund.

Our approach to responsible investments is based on our partnership structure where i) Brummer & Partners holds a minority stake in the investment management company responsible for managing an investment strategy that the BMS-funds allocate to; 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 one or more of the BMS-funds. The ownership structure coupled with the asset allocation and investment management perspectives, facilitates close collaboration including on sustainability ambition and responsible investment practices.

Responsible Investment Committee

The Responsible investment committee[2)] ("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) 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) 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.

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 beyond those typically used by traditional "long-only" investment strategies. Hedge funds may employ leverage to increase exposure to certain asset classes and apply varying risk/volatility targets.

The term "long only" typically refers to investment strategies that buy and hold assets, such as equities, with the aim of benefiting from price increases in such assets. In contrast, hedge fund strategies also hold long positions but can additionally take short positions to profit from expected price declines, either by borrowing and selling assets or using financial derivatives.

1.2.1 Shorting

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. Companies that are considered top sustainability performers attract interest from asset owners and institutional investors that strive to make sustainable investments as defined in the SFDR or other regulatory frameworks. In case the "ESG[3]-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.

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 the BMS team evaluates new hedge fund strategies in advance of an initial allocation from the BMS-funds, the sustainability assessment includes alignment with the BMS-funds' Responsible investment policies ("RI-policy") on for example integration of sustainability risks in investment processes, the E&S characteristics that the BMS-funds strive to promote, relevant SDGs[4], and potential sustainability topics specific to that investment strategy.

In addition to the above, the monitoring of investment teams include other qualitative and quantitative indicators related to the E&S characteristics that the BMS-funds strive to promote, for example weighted average carbon intensity ("WACI"), 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 the BMS-funds avoid.

Further, the investment teams integrate sustainability in ways suitable to their respective investment strategies and the financial instruments that they trade.

Brummer's Sustainability team advises both the BMS team and the other investment teams 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 investment teams are assessed by the Sustainability Working Group (the "SWG")[5]. The SWG meets monthly and summarises its conclusions in an ESG matrix, which feeds into the BMS team's monthly allocation decisions. Consistently poor performance or failure to adhere to recommendations concerning responsible investment practices are factors considered in the investment decision-making process. This could result in the BMS-funds reducing or redeeming their allocations in any given investment strategy.

1.2.3 Engagement with the investment teams

When a new investment team joins Brummer & Partners, and before a BMS fund's initial investment, the Sustainability team and the new investment team work together to establish an RI-policy for the new investment strategy, and to implement responsible investment practices, as well as to ensure that the team has access to adequate sustainability related data/research.

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

1.2.4 Investment restrictions

The BMS-funds as well as the investment strategies that they allocate to, aim 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 reputation, 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.

3) Environmental, Social and Governance factors.
4) United Nations Sustainable Development Goals
5) The SWG consists of members from the Risk-, Sustainability-, and BMS teams.

- Long exposure to companies that generate more than 5% of their revenues from production of:
  - Thermal coal
  - Oil sands
  - Arctic drilling
  - Pornography
  - Tobacco
  - Cannabis intended for recreational use, and
- Long exposure to companies that derive more than 30% of their revenues from energy production based on thermal coal, as well as;
- Long exposure to companies involved in:
  - Violations of international norms on human rights, environmental protection, labour standards, and anti-corruption; and
- Long and short exposure to companies involved in:
  - Controversial weapons[6)]

The investment restrictions list is updated quarterly and distributed to the investment teams along with their respective quarterly screening results. Unwanted exposure may be identified when the sustainability research and data provider issues new and/or updated 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 investment team 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 investment team.

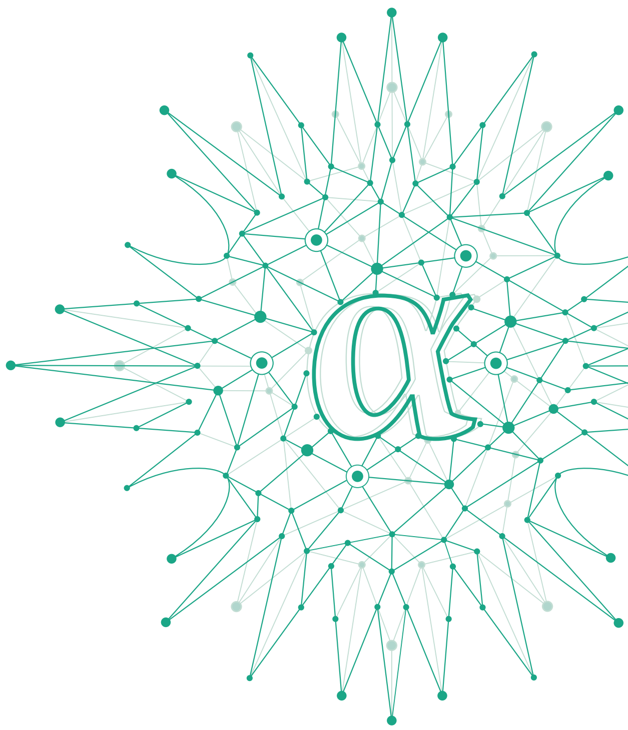
In case an exposure in the long book is identified to be in violation of international norms on human rights, labour rights, the environment or anti-corruption, the Sustainability team would engage with the investment team to understand the portfolio manager's investment rationale and the investment 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 sustainability 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 investment restrictions lists.

1.2.5 Proxy voting and engagement with investee companies

When allocating to investment strategies, and depending on the investment vehicle utilised, voting rights in underlying investee companies may not be retained by the BMS-funds but by the underlying investment team. For UCITS structures however, voting rights may be retained. Therefore, the BMS team only retains a limited number of voting rights. However, the Sustainability team subscribes 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 investment teams, to potentially inform voting decisions. The BMS team encourages the investment teams to be active owners and engage with investee companies on relevant sustainability topics.

Additionally, Brummer Multi-Strategy AB, and Brummer & Partners Asset Management (UK) Ltd., participate in collaborative engagements together with other capital owners and institutional investors, targeting companies that the investment teams may, or may not, have exposure to. The purpose of the collaborative engagements are 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 science-based targets and alignment with the Paris Agreement.[7)]



6) 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.
7) Ambitious corporate climate action - Science Based Targets Initiative, and The Paris Agreement | UNFCCC

1.2.6 Industry initiatives

SBAI

In 2008, Brummer & Partners was one of the initiators and founders of the Standards Board for Alternative Investments ("SBAI"), which develops best practices, guides and tools for corporate governance, business ethics, portfolio valuation, disclosure and responsible asset management (sustainability) for hedge funds and other alternative investment strategies.

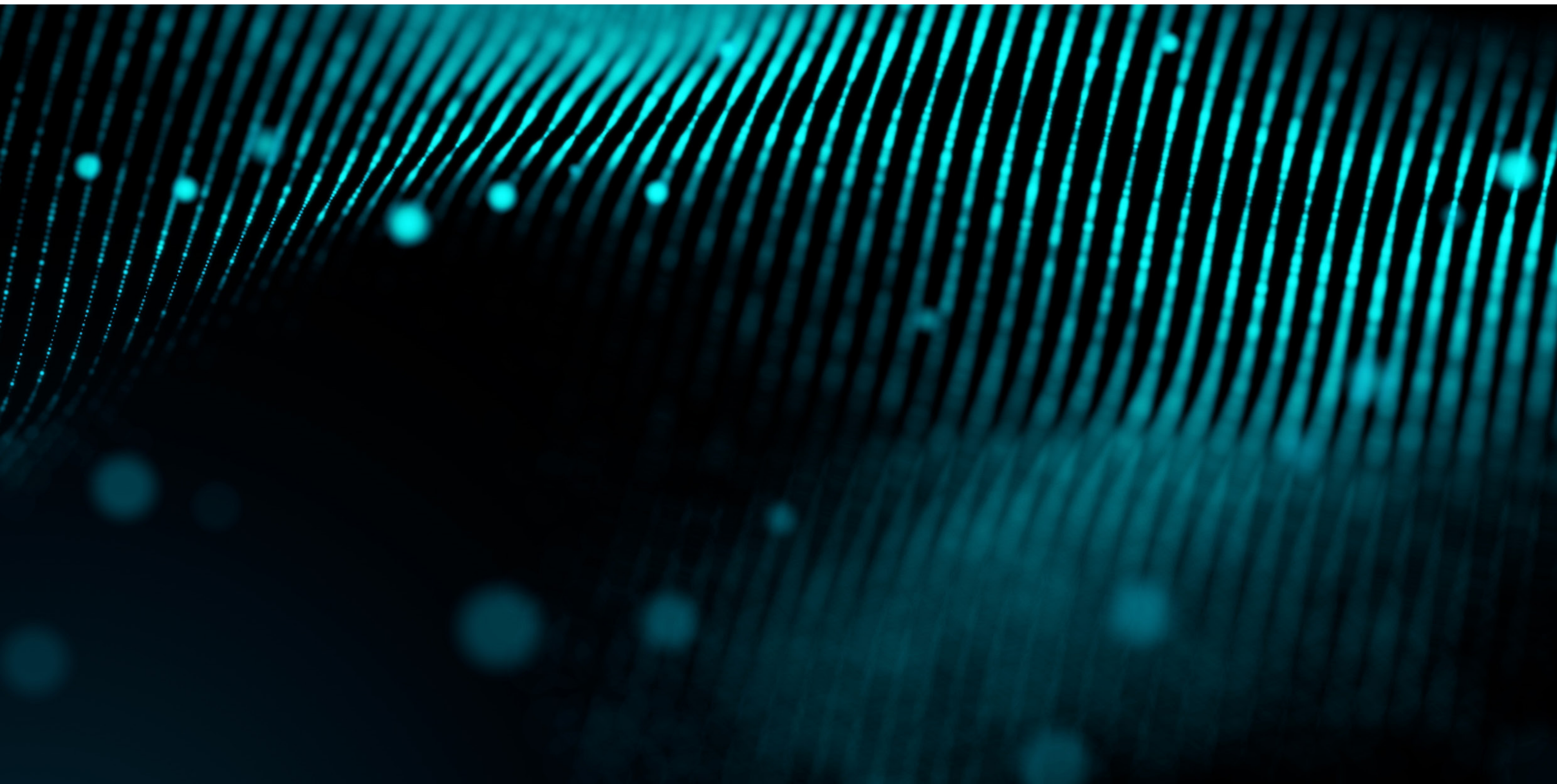
PRI

Since 2016, Brummer & Partners is a signatory to the UN Principles for Responsible Investment ("PRI") and has a representative on its Hedge Funds Advisory Committee. The PRI is a UN-supported initiative where asset owners and asset managers work together raise awareness of sustainability issues and the consideration of ESG factors from a risk/return perspective with the mission to achieve a sustainable global financial system that enables long-term value creation.

AIMA

Brummer & Partners are also members of the Alternative Investment Management Association ("AIMA"), that works to spread knowledge and expertise and develop best practices for the alternative investment industry, for example by publishing guides, organising working groups, arranging conferences and seminars, and representing the industry when new regulations are implemented.

In addition, Brummer & Partners are also members of SWESIF, Sweden's Sustainable Investment Forum.



2. Year 2024 in review

2.1 CONTINUOUS IMPROVEMENT

In 2024, and with the implementation of the SFDR behind us, at least for now as a review is planned for Q4 in 2025, we focused on evaluating our existing research and data sets to identify gaps and room for improvement. When evaluating and assessing our existing data sets and research against our current and future needs, based on what we can foresee today, we also benchmarked our current data/research provider against some of its competitors. When comparing our needs against available data/research solutions including the possibility to share data/research with the investment teams in the Brummer group, we arrived at the conclusion to keep our existing provider and add a couple of new data sets and new research. The new data sets/research were selected to replace or complement existing data and consist of i) National and multilateral sanctions regimes data to complement existing safeguards to ensure we comply with relevant sanctions regimes, ii) ESG corporate ratings, iii) ESG country ratings, and iv) Biodiversity impact assessment.

2.1.1 Sovereign related data

The country ratings will strengthen the Sustainability and Risk teams', and hence the BMS-funds', monitoring of the investment strategies as well as the investment strategies' own research and analysis, for example the sovereign fixed income and relative macro strategies that are planned to receive their initial allocations from the BMS-funds in the second half of 2025.

2.1.2 Corporate ratings

Corporate ratings may serve as a benchmark for the investment teams and as a reminder of factors that may be worth considering however, the investment teams are by no means obliged to consider the corporate ratings, or to integrate them into their investment decisions as they are the experts on the industry and companies that they cover, and do their own research and analysis, and arrives at their own conclusions and decisions. Corporate ratings are based on the research provider's methodology which may not be aligned with the investment teams' view on how to best evaluate and assess a company's sustainability performance, and it is ultimately the investment teams that decide what data and research they consider in their investment decision making process.

For the Sustainability team, corporate ratings may add value as a second opinion, or to highlight issues or factors that may have been overlooked by an investment team, for example when engaging with the investment teams on potential outliers in their portfolios with the purpose of better understanding their investment rationale. The Sustainability team however, would never overrule an investment team's judgement unless it relates to a company on the investment restrictions list, where a potential investment would violate BMS's, and probably also the investment team's, Responsible investment policy.

2.1.3 Biodiversity impact assessment

As mentioned in last year's Sustainability Report, the awareness of the strong interlinkage between the climate and biodiversity and nature degradation is increasing and is on top of policy makers' as well as asset owners' and institutional investors' agendas. Environmental (nature and climate related) risks also dominate in the World Economic Forum's Global Risk Perception Survey ranking risks by severity, as illustrated in the graphs below. As a multi-strategy hedge fund manager, risk management is imprinted in our DNA, and to strengthen our understanding of the BMS-funds' exposure to nature risks, we added the Biodiversity impact assessment data set.

Global risks ranked by severity over the short and long term

"Please estimate the likely impact (severity) of the following risks over a 2-year and 10-year period"
(Page 8, WEF Global Risks Report 2025)

Risk categories: Economic, Environmental, Geopolitical, Societal, Technological

	2 years	10 years
1st	Misinformation and disinformation	Extreme weather events
2nd	Extreme weather events	Biodiversity loss and ecosystem collapse
3rd	State-based armed conflict	Critical change to Earth systems
4th	Societal polarization	Natural resource shortages
5th	Cyber espionage and warfare	Misinformation and disinformation
6th	Pollution	Adverse outcomes of AI technologies
7th	Inequality	Inequality
8th	Involuntary migration or displacement	Societal polarization
9th	Geoeconomic confrontation	Cyber espionage and warfare
10th	Erosion of human rights and/or civic freedoms	Pollution

Global risks over the long term (10 years), by stakeholder groups

(Page 46, WEF Global Risks Report 2025)

	Civil society	International organizations	Academia	Government	Private sector
1st	Extreme weather events	Extreme weather events	Extreme weather events	Extreme weather events	Extreme weather events
2nd	Biodiversity loss and ecosystem collapse	Biodiversity loss and ecosystem collapse	Critical change to Earth systems	Critical change to Earth systems	Biodiversity loss and ecosystem collapse
3rd	Critical change to Earth systems	Critical change to Earth systems	Biodiversity loss and ecosystem collapse	Biodiversity loss and ecosystem collapse	Critical change to Earth systems
4th	Natural resource shortages	Natural resource shortages	Misinformation and disinformation	Inequality	Cyber espionage and warfare
5th	Adverse outcomes of AI technologies	Adverse outcomes of AI technologies	Pollution	Misinformation and disinformation	Misinformation and disinformation
6th	Pollution	Concentration of strategic resources	Involuntary migration or displacement	Natural resource shortages	Adverse outcomes of AI technologies
7th	Involuntary migration or displacement	Cyber espionage and warfare	Societal polarization	Cyber espionage and warfare	Societal polarization
8th	Misinformation and disinformation	Societal polarization	Inequality	Adverse outcomes of AI technologies	Natural resource shortages
9th	Societal polarization	Inequality	Natural resource shortages	Pollution	State-based armed conflict
10th	Inequality	Misinformation and disinformation	State-based armed conflict	Concentration of strategic resources	Involuntary migration or displacement

Risk categories: Economic, Environmental, Geopolitical, Societal, Technological

Source
World Economic Forum Global Risks
Perception Survery 2024-2025

2.2 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 10 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.	39 meetings were held with 10 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.	The new investment restrictions on oil sands, arctic drilling, tobacco, pornography and cannabis (for recreational use) were implemented and RI policies were updated accordingly.[8)] For quarterly screening results, see the table below.[9)]
Collaborative engagement and proxy voting	Collaborative engagement on compliance with international norms (human rights, labour rights, the environment, and anti-corruption).	124 companies were subject to engagement dialogues on approximately 189 separate ESG topics. Approximately 71% were responsive. Breakdown of topics discussed: Human rights: 40% Environment: 31% Labour rights: 26% Corruption: 3%
	Proxy voting*	BMS UCITS's retained voting rights for nearly 30 meetings and voted on all of them. The number of voting rights is limited as equity exposure is typically attained through equity swaps and other derivatives, which do not allow for voting. The BMS team subscribes to proxy voting research to help inform discussions with the investment teams, however, the main contributor to voting decisions are the investment teams' insights and rationale as well as the E&S characteristics that the BMS-funds promote, 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. Source: ISS ESG Net Zero thematic engagement annual progress report 2024

8) Long exposure to companies that generate more than 5% of their revenues from production of goods relating to the sectors/activities.
9) 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.

Collaborative engagement on climate action

First cycle: Q1 2022 – Q1 2024 (30 companies)

Selection criteria
- high market capitalisation
- highest emitters (GHG emissions intensity data scope 1, 2 & 3
- climate laggards
- no or only partial fulfilment of objectives and KPIs

Objective 1
- 2050 Net Zero GHG emission target for
  - at least 95% of scope 1 & 2 emissions
  - most relevant scope 3 emissions categories for the relevant sector

Objective 2
- Medium term (2025-2030) GHG reduction targets aligned with the goal of limiting global warming to 1.5'C for:
  - at least 95% of scope 1 & 2 emissions
  - most relevant scope 3 emissions

Objective 3
- Decarbonisation strategy
  - define a strategy to meet its medium-term GHG reduction targets incl. intended actions

First cycle: Q1 2022 – Q1 2024

Outcomes
40% of the companies were assessed as having “Achieved” or “Partly achieved” the objectives, while 17% showed no progress.

Objective 1
- 43% committed to achieving Net Zero emissions by 2050
  - 37% covered 95% of scope 1 & 2
  - 0% covered the most relevant scope 3 emissions

Objective 2
- 57% set a medium-term target
  - 35% of them covered at least of scope 1 & 2, and 17% most relevant scope 3 emissions
  - 10% aligned their targets with a 1.5°C scenario

Objective 3
- 58% quantified their decarbonization efforts and 60% disclosed qualitative actions

Second cycle: Q2 2024 – Q1 2027 (50 companies)

Selection criteria
- high market capitalisation
- highest emitters in high impact sectors (absolute GHG emissions scope 1, 2 & 3; Oil & Gas Equipment & Services, and Oil & Gas Storage & Transportation, were excluded)
- implied temperature rise >/= 2°C
- no or only partial fulfilment of objectives and KPIs

Objective 1
- 2050 Net Zero GHG emission ambition statement for
  - vast majority of scope 1 & 2 emissions
  - material scope 3 emissions categories

Objective 2
- Medium term (2025-2030) GHG reduction targets aligned with the goal of limiting global warming to 1.5'C for:
  - vast majority of scope 1 & 2 emissions
  - material scope 3 emissions

Objective 3
- Decarbonisation strategy
  - define a strategy to meet its medium-term GHG reduction targets incl. intended actions

Second cycle: Q2 2024 – Q1 2027

Outcomes Q1 2024 to Q3 2024
For each of the engagement objectives, a positive trend was observed in the progress towards all three engagement objectives, however, for objective 1 & 2, 50% showed no progress, and for objective 3, 89% showed no progress.

Objective 1
- Improvements were noted for all requirements for this objective, with the largest improvements in
  - the share of companies committing to achieving Net Zero emissions by 2050 and
  - the share of pledges covering the majority (95%) of scope 1 & 2 emissions

Objective 2
- The greatest improvements were for medium-term targets that
  - covered at least 95% of scope 1 & 2 emissions, and most relevant scope 3 emissions
  - 0% aligned their targets with a 1.5'C scenario

Objective 3
- No improvements

2.3 SUSTAINABILITY INDICATORS

BMS adopted its inaugural RI policy in 2016 and the screening criteria, based on sustainability risks and potential adverse impacts that BMS aims to avoid, already included sustainability indicators relating to some of the so called Principal Adverse Impact Indicators in the Sustainable Finance Disclosure Regulation when it came into effect in 2021.

2.3.1 Screening

As mentioned in Section 1.2.4 , the investment restrictions list is constructed, and updated quarterly, by applying the BMS team's exclusions criteria to data sets acquired from a research provider. A company that meets the BMS team's exclusions criteria is automatically added to the restrictions list. However, as service providers' research and methodologies may sometimes come to unclear conclusions on, for example, potential sector involvement or the severity of a potential controversy, the RI Committee can add or remove companies to the investment restrictions list following further research and analysis. When the research provider downgrades a portfolio company mid-quarterly, an extra quarter may be added before the same procedure applies.

The Sustainability and Risk teams review screening results and engage with investment teams on potential violations of the investment restrictions. If a violation is identified, the investment team is requested to divest unless there is a clear rationale for why the exposure should not be restricted, and the investment team provides an action plan in compliance with the investment team's policies and procedures.

If it is finally determined that a company, state or other entity is involved in a business activity and/or a violation of international norms, the BMS team will require the investment team to divest.

BMS AIF's and BMS UCITS's sustainability indicators for the year 2024, 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 2024 (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: 34 Short: 45 BMS UCITS: Long: 34 Short: 45	WACI is calculated for monitoring and screening processes and is included in the ESG matrix, as well as a topic of discussion with relevant investment teams. However, WACI's meaningfulness and relevance for evaluating climate action can be discussed and questioned and we are planning on assessing other, more forward-looking metrics, for meaningfulness and relevance during 2025.
Violations of UNGC's principles and OECD's guidelines (violations of international norms)[10] Share of NAV Long/Short Verified violations of international norms on human rights, labour rights, the environment, and anti-corruption.	BMS AIF: Long: 0% Short: -0.05% BMS UCITS: Long: 0% Short: -0.07%	Long exposure to companies involved in violations of international norms is avoided however, certain cases require further analysis and follow-up to determine whether a violation that motivates exclusion has occurred. If a potential violation is identified when the portfolio is screened, BMS engages with the investment team to understand their view on the issue, their investment rationale, and to agree on an action plan.

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

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: -0.15% BMS UCITS: Long: 0% Short: 0%	Long and short exposure to companies involved in controversial weapons is restricted. However, approaching year end 2024 a limited short exposure was flagged in one of the investment strategies that BMS AIF allocates to. The relevant investment team, in cooperation with BMS's portfolio managers, will resolve the issue during the first half of 2025.
Thermal coal Share of NAV Long/Short More than 5% of revenue is generated from the production of thermal coal, or more than 30% from energy (electricity) production based on coal.	BMS AIF: Long: 0% Short: -0.01% BMS UCITS: Long: 0% Short: -0.01%	Long exposure to companies involved in thermal coal is excluded unless the investment team is of the opinion that a company is, or will, contribute significantly to the transition, in which case long exposure may be approved.
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: 0.13% Short: -0.07% BMS UCITS: Long: 0.29% Short: -0.19%	Apart from long exposure to thermal coal, oil sands, and arctic drilling, exposure to fossil fuels is allowed, however, exposure is monitored for information purposes to inform dialogues with the investment teams.

2.4 NEW INVESTMENT STRATEGIES

In 2024 we welcomed three new long/short equity strategies to the Brummer group and to the BMS-funds; one specialising in healthcare, one in real estate, and one that invests across all sectors (excluding pharma and biotech) with an expected bias towards consumers, capital goods, medical technology, and TMT. The latter will be presented in more detail in Section 4.

2.5 INDUSTRY INITIATIVES

As outlined in Section 1.2.6, we participate in responsible investment related working groups at industry initiatives to contribute to the development of best practice standards and guidance. Through our representation on the PRI's Hedge Funds Advisory Committee[11] we have provided feedback on PRI's new strategy "The Progression Pathways", the new hedge fund due diligence questionnaire, and GHG emissions accounting. GHG emissions accounting was also a topic of discussion in the SBAI's responsible investment working group, which resulted in the guide "Responsible investment and GHG-emission accounting in direct commodity investments"[12]. At SBAI's 2024 Stockholm Institutional Investor Roundtable in December, we were presented with the celebratory Founder plaque as Brummer & Partners were one of the founders of the SBAI in 2008 (and the Hedge Fund Standards Board, its predecessor, in 2007). Through AIMA, we provided feedback to the European Commission's Call for evidence for a review of the SFDR, for example on the inconsistent treatment of derivatives and misleading treatment of shorting currently stipulated in the disclosure regulation.

2.5.1 Next step (2025 sneak peek)

The first half of the year is largely dedicated to finalising mandatory and voluntary reporting, for example the annex with sustainability disclosures in the BMS funds' annual reports, the Principle Adverse Impact Indicators, and the PRI Transparency Report, and last but not the least – this Sustainability Report, hence, improvements and development are mainly considered during the second half of the year. Over the summer weeks, and more intensified during the autumn, we will work on implementing and integrating the new data sets and evaluate potential sustainability indicators for meaningfulness and relevance.

11) Advisory committees and working groups | PRI
12) Responsible Investment and GHG-Emission Accounting in Direct Commodity Investments

3. Short selling and the image of hedge funds

3.1 THE EVOLVING IMAGE OF SHORT SELLING BY HEDGE FUNDS

The image and media coverage of hedge funds and short selling have historically been impacted by the financial crisis and high-profile fraud cases such as Bernie Madoff. While fraudulent people can be found across all parts of the financial industry (and elsewhere), identifying the "culprits" of the financial crises in 2008 is less straightforward. Also, and as more recent media coverage conveys, short selling may help identify and uncover fraudulent business practices and therefore contribute to market integrity. More recent high-profile short selling cases, for example Wirecard, have influenced the perception of hedge funds and have illustrated how short selling may serve as a tool for responsible investment.

3.2 THE ROLE OF HEDGE FUNDS IN THE FINANCIAL CRISIS

Some hedge funds were significant players in the financial crisis as investors in the high-risk subprime mortgage-backed securities issued by banks, and had, in some cases, used significant leverage (borrowed money) to increase their exposure and hence, expected returns. When the value of the mortgage-backed securities started to deteriorate, they failed to meet their margin calls and were therefore forced to liquidate assets, which exacerbated market volatility and contributed to the financial crisis.

However, other hedge funds were the first to raise awareness of the systemic risks involved in the mortgage-backed securities market and they expressed their negative views by taking short exposure to mortgage-backed securities and collateral debt obligations backed by sub-prime mortgages (and, as a result, gained when the housing bubble inflated).

Hedge funds thus both contributed to the financial crisis as investors in the sub-prime mortgage-backed securities, and helped reveal the vulnerabilities involved in the sub-prime mortgage market by shorting the same instruments.

3.3 THE ROLE OF OTHER MARKET PARTICIPANTS

The securities involved in the financial crisis were structured and issued by banks that had bundled together large numbers of high-risk subprime mortgages and packaged them into different mortgage-backed securities. In addition, these securities were often given inflated credit ratings by rating agencies despite their sub-prime nature and the high risk involved in these sub-prime mortgage loans. The misrepresentation of risk also led to mis-selling and the securities attracted large amounts of investments, including pensions funds and insurance companies. In addition, regulators failed to properly identify the risks involved in relation to new "innovative" financial instruments such as the mortgage-backed securities due to lack of transparency and regulation.

Although hedge funds were unfairly blamed for having caused and triggered the financial crisis, a more nuanced picture is that it was caused by an interplay of several actors.

3.4 SHORT SQUEEZES AND THE RISE OF RETAIL-DRIVEN MARKET VOLATILITY

Since then, significant steps have been taken to increase the governance of the financial markets including regulatory measures and voluntary frameworks such as the Standards Board for Alternative Investment, SBAI, co-founded by Brummer & Partners in 2007-2008 as a response to growing concerns from policy makers over financial stability. The regulatory measures and voluntary governance frameworks apply to financial institutions such as asset owners, asset managers, and institutional investors. However, retail trading has increased substantially over the recent years, enabled by commission free trading tools and social media platforms, and lately also by financial influencers, and it is apparent that retail investors, when coordinating their investment activities on platforms such as Reddit, can influence market behaviour and drive share prices, as demonstrated by the GameStop episode in 2021.

The rapid rise in GameStop's share price was largely disconnected from company fundamentals and future earnings potential, driven instead by momentum and behavioural dynamics.

While some hedge funds with short positions suffered losses, so too did retail investors who entered at the peak, as well as pension funds indirectly exposed to GameStop.

As is evident by the financial crisis and the GameStop; adequate risk management practices are paramount and non-negotiable. And despite the good intentions with regulatory measures aimed at increasing transparency in the hope of achieving increased market efficiency, public disclosures of short sellers' exposures may also help enable short squeezes such as GameStop. Public disclosures may also affect short sellers' ability to pursue shareholder engagement (or similar) for research and analysis purposes, hence, making short sellers less well-informed and thus, the markets less efficient.

3.5 THE STRATEGIC VALUE OF SHORT SELLING

By combining long and short positions, investors can build market-neutral portfolios that are protected from broad market movements and volatility. Apart from the hedging purpose, short selling may also be used for alpha generation purposes by expressing a negative view of an asset (a company for example) and then gaining as the expected decline in the assets value (share price), plays out; or by generating returns on the relative mispricing of assets.

Moreover, detailed research and analysis by differentiated fundamental or activist short sellers can identify corporate misconduct and help deflate speculative bubbles before they burst, thereby protecting investors and the broader market and contributing to financial stability and market integrity.

For more information on short selling and its implications, please see the academic research paper "The long-term effects of short selling and negative activism"[13]. When Copilot AI was prompted to summarise the key take aways, it generated the following reply:

"Negative activism, while controversial, plays a critical role in uncovering overvaluation and misconduct. Its long-term effects are substantial and often beneficial to market integrity. The authors recommend embracing rather than restricting this form of market participation."

For further information on responsible short selling in relation to responsible investment, SBAI and AIMA have developed guidance and insights which may be found on their respective websites.

To see how short selling is applied as both a risk management and alpha generation tool within the BMS-funds' portfolios, please turn to Section 4 for a presentation of Borealis – a European equity strategy pod with a differentiated forensic research approach that joined the Brummer group and received its initial allocation from the BMS-funds in 2024.

13) The Long-Term Effects of Short Selling and Negative Activism by Peter Molk, Frank Partnoy :: SSRN. Last visited on 7 June 2025.

4. Short selling with a forensic approach

4.1 INTRODUCTION

This chapter sheds light on how rigorous and proprietary forensic research is a core component of the short selling process in a concentrated fundamental equity strategy managed for the BMS-funds. Portfolio Manager Mattias Thärn explains:

"Corporate misrepresentation – whether intentional or accidental – remains a persistent feature of capital markets. This includes false or unsubstantiated technical claims by management, creative or misleading accounting, concealment of critical information from stakeholders, and outright fraud. History is full of examples: Ivar Krueger, Enron, Bernie Madoff, Theranos to Wirecard, and more recently, cryptocurrency exchange FTX. These episodes demonstrate the recurring nature of corporate misconduct despite the growing oversight by regulators and policy makers."

4.1.1 Market integrity

Even with advancements in regulatory frameworks and surveillance tools, market participants engaging in misconduct – from audit irregularities and pyramid schemes to environmental fraud and stakeholder deception – have continually adapted. This underscores a critical gap in the financial system that fundamental or activist short sellers are uniquely positioned to address.

Unlike policymakers, who often respond to misconduct retrospectively by closing loopholes or revising legislation, short sellers applying fundamental analysis focus on identifying questionable practices in real time. Their work can pre-empt broader market damage by highlighting emerging risks and uncovering unsustainable business models or ethical breaches. This proactive stance adds a layer of accountability that regulation alone cannot achieve.

Fundamental short sellers also differ from regulators in their timing, approach, and objectives. They may detect early signals – accounting red flags, deteriorating fundamentals, or cultural warning signs – well before these issues become apparent to the broader market. The ex-ante perspective allows for a deeper, more nuanced understanding of a company's operations, governance, and leadership over time.

Fundamental short sellers are furthermore capable of influencing corporate behaviour through both direct and indirect means. Direct interventions may take the form of public reports, whistleblower actions, or activist campaigns (activist short sellers). Indirect influence, however, often manifests when the market begins to price in concerns uncovered through diligent analysis – often prior to any public acknowledgment or regulatory action. Such concerns are not always associated with headline grabbing scandals. In the healthcare sector, for example, short-seller scrutiny and concerns about potential misrepresentation of clinical testing data has resulted in delays in the commercial launches of medical devices that may otherwise have put their users at risk of harm.

4.1.2 Governance issues – a key part of the investment strategy

Forensic accounting and investigation of governance aspects are significant aspects of the strategy's investment process. Two examples are provided below:

"Infrastructure Equipment Co" – A short position was preceded by an extensive and global review of fiscal and legal filings made by a subsidiaries of an entitiy acquired by Infrastructure Equipment Co. Forensic accounting and governance analysis of the subsidiaries then revealed what seemed to be phony related-party transactions that had occured prior to the acquisition of the entity, a clear indicator of potential embezzlement.

"Swedish Serial Acquirer" – An opaque corporate structure and anomalies in its financial reports raised possibility of misrepresented earnings quality and mispriced growth by the market (stock being overvalued). Research by the strategy included discovery of a legal complaint filed against the company in 2020 which laid out an alleged practice of re-shuffling assets from an acquired entity through a web of shell companies belonging to the group. Former shareholders of the entity acquired by the company argued such a scheme was put in place to obscure revenue contribution from the acquired entity, and by such means circumvent payment of performance based earn-outs (contingent liabilities). Irrespective of legal outcome of the case in question (the case has not been disclosed to the market by the company) its discovery provided plausible tell-tale signs for more comprehensive implications. A systematic practice of alleged methods – effectively implying bargain acquisitions- would have facilitated its act to roll-up (acquire) more and larger acquisitions in earlier times than otherwise would have been possible. Disguising revenue contribution from acquired entities would further have overstated its reported figures of organic growth, favouring perception of its capital allocation and thus facilitate further opportunities for acquisitions of such kind.

5. Concluding remarks

Parts of the concluding remarks last year hold true, if not even more so, also for 2024:

The sustainability space is developing in a tremendously fast pace and although we have made progress in 2024, 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.

In addition, policy makers in the US and in Europe are adding to the uncertainty following the re-election of President Donald Trump in the US and the Draghi report and the resulting Omnibus package in Europe. The so called ESG backlash in the US may actually present an opportunity for European based asset managers that better align their responsible investment activities with those of asset owners', it has been argued, and the result of the Omnibus-related negotiations and resulting regulatory changes are yet to unfold.

Further, the geopolitical tensions and the wars in Ukraine and Gaza have put defense spending and funding on the agenda, as has the expansion of NATO combined with the change of administration in the US, and we have seen quite a few investment restrictions and exclusion lists being updated to reflect the changing attitude to defense investments from having been viewed mainly as a deterrent to being considered as safeguarding democratic values and human rights. The BMS-funds have never restricted exposure to conventional defense companies but exclude both long and short exposure to controversial weapons including nuclear weapons. As NATO includes nuclear weapons as part of its military strategy (albeit simultaneously promotes disarmament and non-proliferation), we would not be too surprised to see a change in investor sentiment in a not-too-distant future, and consequently updated investment restrictions to allow for investments in companies involved in nuclear weapons inside the Non-Proliferation Treaty. We are actively monitoring the development and continuously evaluating and reassessing our own approach, not only in terms of defense but as a business as usual.

Speaking of uncertainty and a fast-paced environment, the AI (r-)evolution has just begun, and it's already disrupting the way we learn, work, and interact. Trying to infer its effects on companies, businesses, and societies is like asking GenAI to predict the future – it's a wild guess at best.

And just like some concluding remarks hold true also for this year's report, so does the very last sentence from last year's Sustainability report:

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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