Pareto Global I

Pareto Asset Management

Report date: 31 October 2019

Fund: Pareto Global
Inception date: 12 August 2005
AUM: NOK 4.7 billion
Benchmark: MSCI World, dividend adjusted

Category: equity fund
Legal structure: UCITS
Domicile: Norway
Dealing days: all Norwegian business days

Unit class I
NAV as at 31 October 2019: 1 442.5021
NAV currency: NOK
Inception date: 13 July 2015

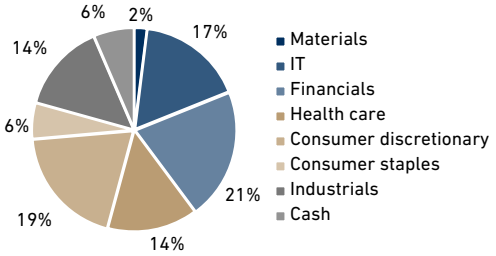
Minimum investment: NOK 100 million
ISIN: NO0010740624
Bloomberg ticker: PAAKTGI NO

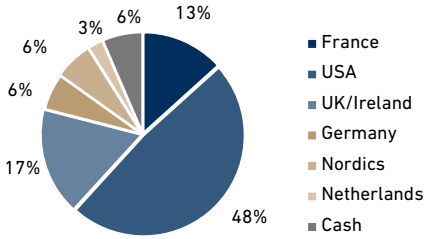
20–30 well-run businesses which operate within high barriers to entry and maintain strong positions internationally

Investment criteria
- high returns on equity
- strong balance sheets
- stable earnings power

Top ten holdings, sector allocation and geographical distribution

Microsoft Corp	6.6 %
Prudential Plc	6.4 %
Schneider Electric SE	5.0 %
Polaris Industries Inc	4.6 %
Ryanair Holdings Plc	4.6 %
EssilorLuxottica SA	4.6 %
ÅF AB	4.6 %
Ralph Lauren Corp	4.1 %
CVS Health Corp	4.0 %
SAP SE	3.8 %





Key figures since 01.01.2008*

	Fund	Index
Accumulated returns	224.1%	205.1%
Annualised returns	10.4%	9.9%

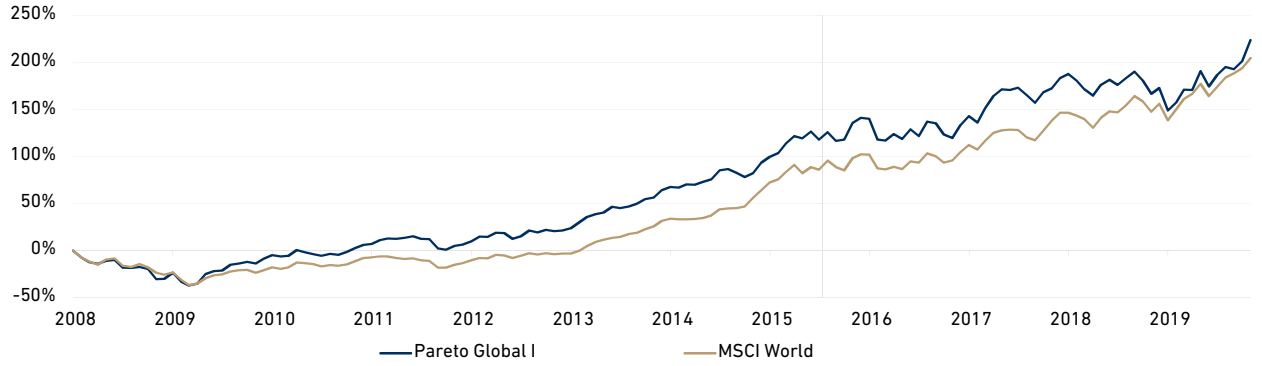
Risk figures since 01.01.2008*

	Fund	Index
Standard deviation (ann.)	14.5%	12.1%
Tracking error (annualised)	6.3%	n.a.
Information ratio	0.2	n.a.
Beta	1.1	n.a.

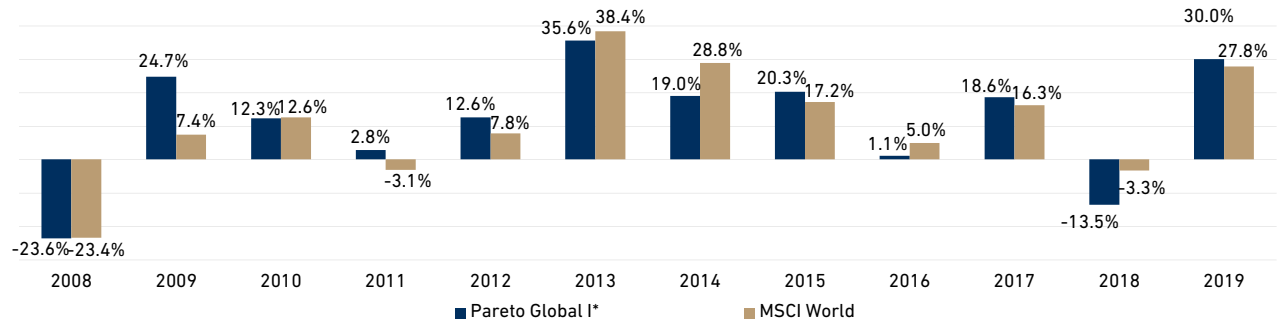
Performance by periods*

	Fund	Index
Last month	7.4%	3.6%
Year to date	30.0%	27.8%
Last 12 months	21.4%	23.1%
Three years (annualised)	13.8%	15.9%
Five years (annualised)	12.2%	14.3%
Since 01.01.2008 (annualised)	10.4%	9.9%

Performance history*



Annual returns*



**Simulated returns from 1 January 2008 to 13 July 2015 are based on the historical performance of Pareto Global D (inception date 22 November 2006) adjusted for the management fee of unit class I. Simulated performance information and risk measures are given for illustrative purposes only.* The fund continues as unit class D in Pareto Global. All figures are based on internationally recognised standards for publishing performance data. Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the portfolio manager's skill, the fund's risk profile, as well as fees for subscription, management and redemption. Returns may become negative as a result of negative price developments. The performance data do not take account of the fees incurred on subscription and redemption of units/shares. Pareto Asset Management seeks to the best of its ability to ensure that all information given in this report is correct, however, makes reservations regarding possible errors and omissions. Statements in the report may reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. The distribution of this information may be restricted by law in certain jurisdictions and this information is not intended for distribution to any person or entity in such jurisdiction. The report should not be perceived as an offer or recommendation to buy or sell financial instruments. Pareto Asset Management does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of the report. Fund prospectus, KIID, annual and semi-annual reports are available at www.paretoam.com/en/fund-reports. Other information is available at www.paretoam.com/en/client-information.

Monthly commentary - October 2019

By Andreas Sørbye, Johnar Håland and Ole Jørgen Grøneng Nilsen

October was a very pleasant month for Pareto Global. The vast majority of companies in the portfolio contributed to the sharp rise, led by Prudential, Centene, Ryanair, Polaris, SAP, Lennar and Michelin. We are now being rewarded for having been patient owners of solid companies with strong momentum in their underlying value creation, and not least for having been true to our value-oriented philosophy and increased our holdings in periods when companies have traded at attractive price levels. Examples of weighting up in 2019 are plenty: Prudential, Center, Ralph Lauren, Wells Fargo, Alphabet, Keysight, Polaris, EssilorLuxottica, Michelin and ÅF Pöyry.

Polaris increased its guidance for the year when reporting in July, despite the tariff having been raised from 10 to 25 per cent. Shortly thereafter, Trump raised tariffs further to 30 per cent, and it was expected that the company would eventually have to adjust expectations downwards. Amazingly, Polaris again increased its guidance in October. The share rose 11 per cent on the report and has been a significant contributor to the fund's solid return so far this year. Earnings per share are expected to fall by six per cent from last year, but without tariffs it would have been up 17 per cent. Counter-measures and price increases allow the guidance to be lifted, which speaks of a strong company that can control its own destiny. Significant investment in research and innovative product development helped Polaris increase prices by seven per cent in the third quarter. The company is now in a dialogue with the Trump administration about exemption from some tariffs and a clarification is expected before year-end.

Unresolved Brexit and constantly delayed deliveries of the 737-MAX aircraft have weighed on the Ryanair stock in 2019. Both factors, however, must be said to be beyond the company's control. Ryanair increases revenues by 8-10 per cent annually, is the industry's undisputed cost leader and takes market share from weak competitors. In recent years, we have seen that investors tend to price such companies at high multiples and show a willingness to look through periods of short-term profit declines. Nevertheless, at times Ryanair has been priced at a P/E below 10, which we believe is too low for a growth company that for all practical purposes is also debt free. It may appear that the market seems to agree, as Ryanair is up nearly 50 per cent since mid-August.

French industrial company **Schneider Electric** beat expectations in the third quarter. They have delivered over six per cent revenue growth so far in 2019, of which over four percentage points are organic. The company has resolutely communicated that the margin will increase by two percentage points until 2021, driven by price, portfolio optimisation and increased productivity. This indicates a margin of more than 17 per cent in 2021, well above consensus expectations of 16 per cent.

In October, **Prudential** demerged its UK operations while retaining operations in Asia, the United States and Africa. **M&G** is the name of the new listed company, which consists of pension products and the asset management company M&G. The market value is 15 per cent of the original company. The UK business used to be a source of funding for growth in Asia and the US, but today these businesses are strong enough to stand on their own. Furthermore, this part is characterised by lower growth and more capital-intensive products. The demerger brings value by reducing the need for a group discount, and we believe this contributed to the price increase in October. M&G will provide a nice dividend of nine per cent.

Health insurance companies **Centene** and **Anthem** more than reversed the weak price trend in September after reporting solid quarterly figures and being allocated new Medicaid contracts in Texas. The companies are well positioned to take part in the expected growth in American government health insurance programmes.

Despite good returns so far this year, there are many companies in the portfolio that we believe have significant potential. We can highlight our well-capitalised finance companies, which are trading at record lows despite good earnings growth. We also have significant exposure to US health insurance, which is still trading at low price levels compared to earlier this year. ▸

Pareto Asset Management AS
A company in the Pareto group

Dronning Mauds gate 3
P.O. Box 1810 Vika
N-0123 Oslo Norway

t: +47 22 87 87 00
f: +47 22 01 58 50
e: post@paretoam.com

www.paretoam.com
Org.nr.: 977 287 677

Monthly commentary cont.

The price gap between growth and value stocks is now at the highest level since the financial crisis. Over time, value stocks have yielded better returns than growth stocks. Our significant exposure to value stocks makes us very positive about the outlook for returns, not least because we see emerging signs that the trend once again is turning in favour of value stocks.

Portfolio management team: Andreas Sørbye, Ole Jørgen Grøneng Nilsen and Johnar Håland

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Dronning Mauds gate 3
P.O. Box 1810 Vika
N-0123 OSLO, Norway

t: +47 22 87 87 00
f: +47 22 01 58 50
e: post@paretoam.com

www.paretoam.com
Org. no.: 977 287 677