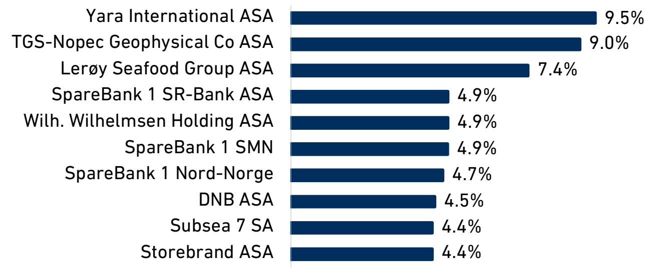
Report date: 31 May 2019

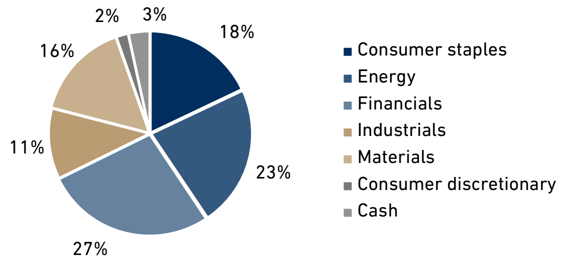
Fund: Pareto Aksje Norge	Category: equity fund	Unit class A	
Inception date: 6 September 2001	Legal structure: UCITS	NAV as at 31. May 2019: 6 681.1144	Minimum investment: NOK 500
AUM: NOK 4.9 billion	Domicile: Norway	NAV currency: NOK	ISIN: NO0010160575
Benchmark: Oslo Børs Mutual Fund Index (OSEFX)	Dealing days: all Norwegian business days	Inception date: 6. sept. 2001	Bloomberg ticker: POAKTNY NO

20–30 Norwegian companies with global competitive advantages

Investment criteria
• sound balance sheets
• strong historical returns on equity
• reasonable pricing

Top ten holdings and sector allocation





Key figures since inception

	Fund	Index
Accumulated returns	519.5%	363.8%
Annualised returns	10.8%	9.0%

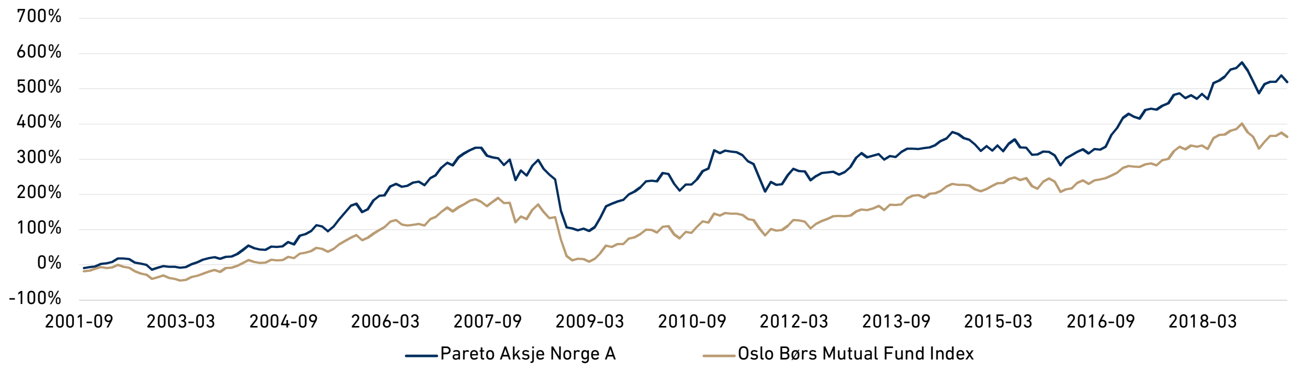
Risk figures since inception

	Fund	Index
Standard deviation (ann.)	18.2%	21.3%
Tracking error (annualised)	9.2%	n.a.
Information ratio	0.6	n.a.
Sharpe ratio (ST1X)	0.46	0.31
Beta	0.8	n.a.

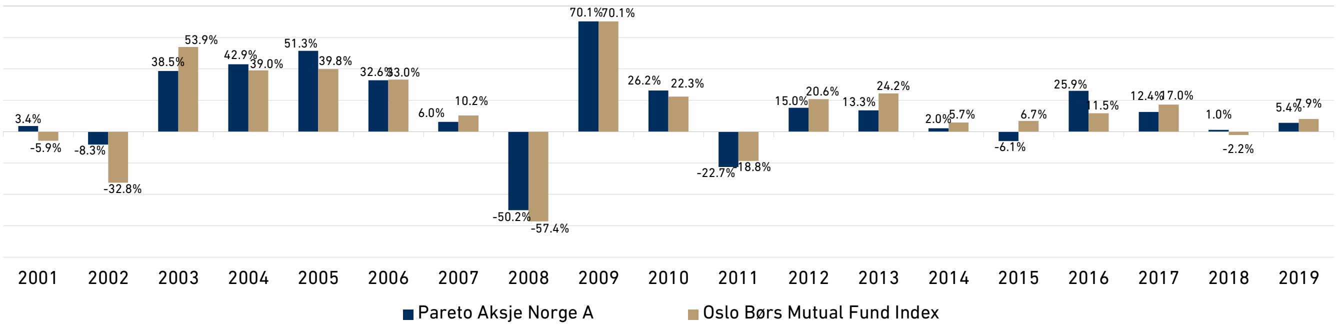
Performance by periods

	Fund	Index
Last month	-2.9%	-2.6%
Year to date	5.4%	7.9%
Last 12 months	-0.7%	-1.3%
Three years (annualised)	13.1%	10.9%
Five years (annualised)	6.2%	7.5%
Ten years (annualised)	8.6%	9.6%
Since inception (annualised)	10.8%	9.0%

Performance history



Annual returns



Monthly commentary – May 2019

By Torbjørn Frønningen

We often emphasise the importance for companies of having good operations and a strong balance sheet. These are assets that help secure investors a safe and sound return on their capital.

However, these assets also provide a value as an option: companies with solid balance sheets can use this asset to make structural changes when favourable opportunities arise. Furthermore, a well-run company is often an attractive partner for others, as added value can be created by gaining access to the well-run company's sales resources, its efficient operating methods, its low capital cost, etc.

This month provided two examples of our portfolio companies taking advantage of the opportunity to create value through structural moves: TGS Nopec is acquiring its competitor Spectrum, and Kid is buying Hemtex in Sweden. We will take a closer look at these two transactions.

The boards of **TGS** and **Spectrum** have proposed that TGS buy Spectrum with a settlement in shares. TGS is considerably larger than Spectrum, but the companies have quite similar business models and know each other well from e.g. ongoing collaborative projects.

TGS's solid cash position and hence financial muscle is an important reason why Spectrum has chosen TGS as a partner for an ongoing large-scale project outside Brazil. Furthermore, TGS is the largest multi-client operator globally and thus has a considerably larger sales force and processing capacity than Spectrum. Thus, there are good reasons why Spectrum's library will have a higher value as part of TGS.

A good example is provided by the world's largest 2D library, which Spectrum possesses. Simpler 2D data is an important basis for deciding where to invest for acquiring more advanced 3D data. The simple fact that the combined company is many times larger than a stand-alone Spectrum increases the value one can derive from such an investment-decision basis. Geographically, Spectrum is well represented in South America, which is an up and coming market, and where TGS is not as well positioned – but wants to invest. The transaction is estimated to provide USD 20 million in cost synergies.

Spectrum's shareholders will receive settlement in TGS shares, and the number of outstanding shares in TGS will increase by 14 per cent. Based on consensus estimates for 2019, TGS has a P/E of twice that of Spectrum, which means that the transaction is expected to be accretive on TGS's bottom line.

Spectrum is the last in a series of assets TGS has taken over from other companies in recent years. Libraries from companies such as Polarcus, Dolphin, MCG and Seabird have ended up in TGS's portfolio. Thus, TGS has singlehandedly ensured a significant consolidation of an industry having experienced its worst crisis in decades. As shareholders, moreover, we have been delighted that TGS has paid dividends throughout the downturn, and that the company has also kept its data collection at a record high. TGS is not only the largest in the world in an industry that is now improving, but is also the largest holding in our portfolio.

Kid Interiør has entered into an agreement to purchase Swedish **Hemtex** on a debt-free basis for SEK 226 million. Unlike Kid, Hemtex has struggled with profitability in recent years. In an industry with major challenges, Kid appears as an epitome, with a relatively stable and high operating profit and organic sales growth.

The last time Kid tried to expand in Sweden, it contributed to the company going bankrupt and was taken over by the main creditor DNB. No more than seven years have passed since Mr. Gjelsten bought Kid from DNB, and the previous Swedish expansion is well known both for today's main shareholder and for Kid management. We believe Kid has good opportunities to succeed in their plan for raising profitability in Hemtex. The fact that the purchase price is low and that management and the main shareholder have a clear plan for the careful transfer of "best practice" from Kid to Hemtex, we see as reducing risk. If they succeed, there is great potential!

If we use some approximate figures and assume that Hemtex achieves a ten per cent operating margin, net profit will increase from the current level of zero to approximately NOK 100 million. Applying the same P/E as for Kid (about 12), the value for Kid's shareholders will have increased by exactly NOK one billion, or just over 50 per cent.

Portfolio management team: Einar Løvoll, Torbjørn Frønningen and Besim Zekiri