

Report date: 30 April 2018

Fund: Pareto Investment Fund

Inception: 1985

AUM: NOK 2 693 million

Benchmark: OSEFX

Category: equity fund

Legal structure: UCITS IV

Domicile: Norway

Dealing days: all Norwegian business days

Unit class B

NAV as at 30 April 2018: 20,661.71

NAV currency: NOK

Inception date: 29 November 2013

Minimum investment: NOK 10 million

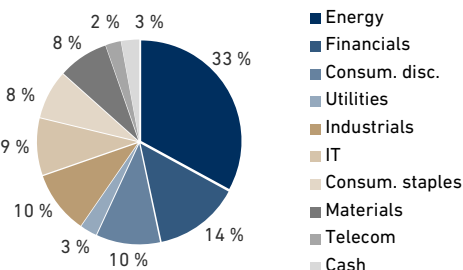
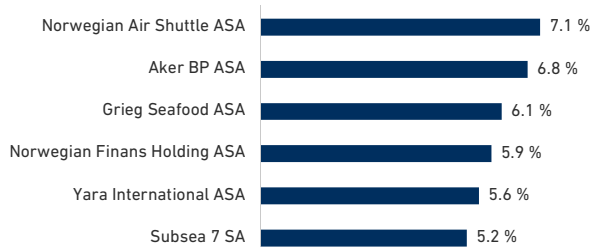
ISIN: NO0010694771

Bloomberg ticker: ORFINBB NO

Norwegian equity fund with quality bias and high active share

Stock selection criteria

- Capital allocation
- Management and ownership
- Strong competitive advantages
- Balance sheet quality and earnings growth capability

Top ten holdings and sector allocation**Risk figures since 01.01.2007***

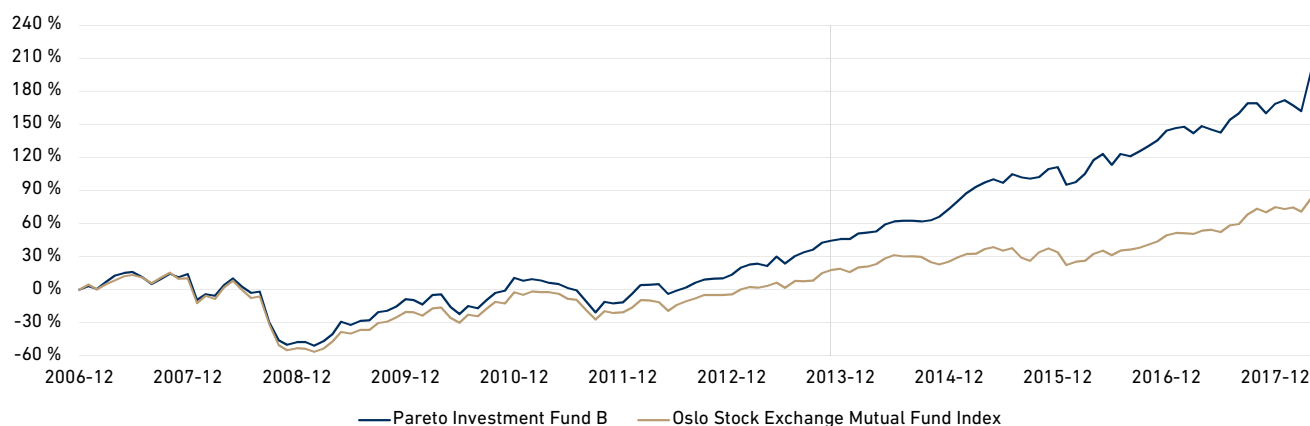
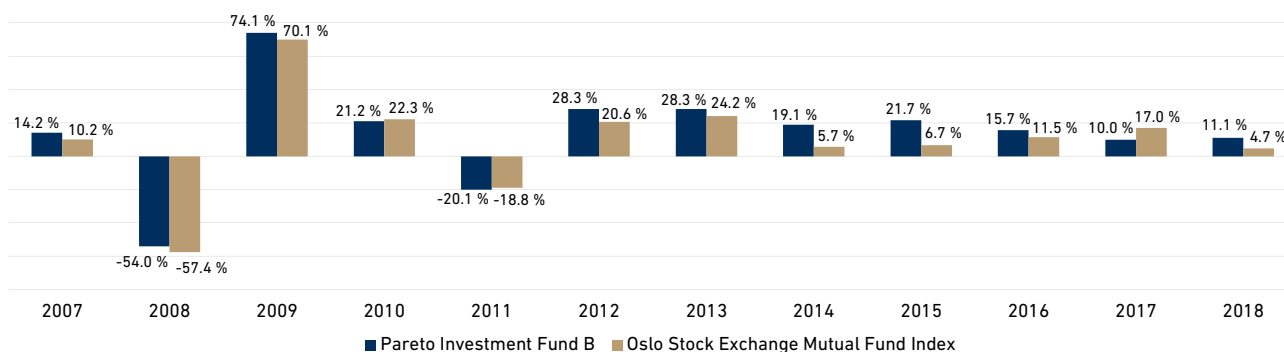
	Fund	Index
Accumulated returns	198.6 %	83.1 %
Annualised returns	10.1 %	5.5 %
Best month	18.8 %	16.5 %
Weakest month	-28.8 %	-27.2 %
Positive months	92	84
Negative months	44	52

Risk figures five years*

	Fund	Index
Standard deviation (ann.)	10.9 %	10.3 %
Tracking error (ann.)	7.1 %	n.a.
Information ratio	0.97	n.a.
Sharpe ratio (ST1X)	1.78	1.13

Performance by periods*

	Fund	Index
Last month	13.9 %	7.2 %
Year to date	11.1 %	4.7 %
One year	20.2 %	19.3 %
Three years (annualised)	14.8 %	10.2 %
Five years (annualised)	19.3 %	12.5 %
Since 01.01.2007 (ann.)	10.1 %	5.5 %

Performance history***Annual returns***

*Simulated returns from 1 January 2007 to 29 November 2013 are based on the historical performance of Pareto Investment Fund A (inception in 1985) adjusted for the management fee rate in unit class B. Simulated performance and risk figures are given for illustrative purposes only. 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 – April 2018

by Tore Været and Patrick Meum

With a 14 per cent increase in value, seven percentage points ahead of the Oslo Børs Mutual Fund Index, April was a historic month for the investors in Pareto Investment Fund. Relative to the index, April was the best month in history, or at least the past 25 years.

The value of **Norwegian Air Shuttle** increased by close to 80 per cent during the month, but this explains less than half of the outperformance. Other significant contributors were **Grieg Seafood**, **DNO**, **Aker BP** and **Aker Solutions**. At the other end of the scale we find **Protector Forsikring** and **Royal Caribbean Cruises**, which declined by 13 and five per cent, respectively.

Norwegian Air Shuttle presented quarterly results at the end of April. The first quarter is low season for airlines in general and Norwegian presented its weakest quarter ever. Costs have run awild during the last 18 months, following strong fleet growth as well as increasing fuel prices. In addition, the company has been forced to reduce airfares in order to fill a sufficient number of seats.

We have had a long-term perspective of the share, assuming that profitability is currently at its lowest and fleet growth at its highest. When this turns, sometime during the second half this year, we expect profitability to improve. The quarterly report was a positive surprise regarding costs excluding fuel, as the numbers were five per cent better than expected.

The Norwegian Air Shuttle share skyrocketed in April due to a major shareholding notification from the London-based holding company IAG, which owns, among others, British Airways. They have acquired close to five per cent of the shares in Norwegian and are contemplating placing a bid on the entire company. We are by no means surprised by their interest. With Norwegian's fleet, IAG will own by far the largest fleet in Europe and strengthen their position in several important regions. IAG launched its own low cost long distance airline under the brand Level in 2017, but is currently lacking scale to its business. By the end of 2018, it is expected that their fleet will count only five aircraft.

IAG is making a healthy profit on its operations. Assuming that they will be able to achieve the same profitability with Norwegian Air Shuttle, IAG should be able to pay well above today's share price of 300 kroner. Initially we thought it unlikely that there would be a transaction in the short run, given the large difference between the share price and the underlying value in Norwegian, even after its recent share price jump. However, Norwegian has received several inquiries after IAG announced its interest in the company. Norwegian has appointed financial advisers and set up an internal task force to handle the incoming inquiries, and the majority shareholder has said he won't be standing in the way of a possible transaction.

We believe IAG shares our view of profitability currently being low and growth being high, and sees this as a good timing to acquire Norwegian Air Shuttle. Furthermore, they share this assessment with other industry players. If a transaction does not happen now, the stock will decline in the short term, but we are determined not to sell on the back of this month's share increase. We are waiting for the operations and earnings per share to improve to higher levels than what we have seen in 2017 and 2018. This way, as long-term investors, we will get better paid than if there were to be an acquisition with a traditional takeover premium to today's share price.

Portfolio management team: Tore Været and Patrick Meum