Pareto Aksje Norge B

Pareto Asset Management

Report date: 30 September 2021

Fund: Pareto Aksje Norge
Inception date: 6 September 2001
AUM: NOK 6.4 billion
Benchmark: Oslo Børs Mutual Fund Index

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

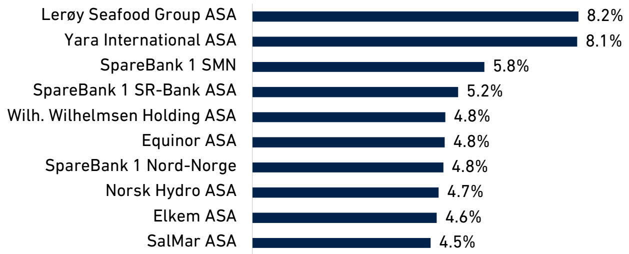
Unit class B
NAV as at 30 Sep 2021: 2 842.21
NAV currency: NOK
Launch date: 31 December 2005

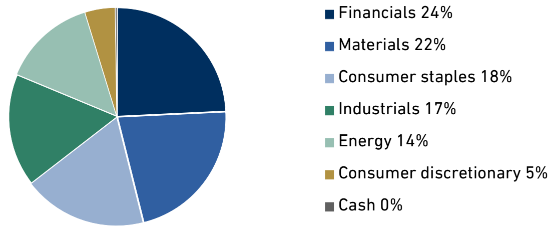
Minimum investment: NOK 500
ISIN: NO0010297898
Bloomberg ticker: PRVERDI NO

Norwegian equity fund focused on sectors where Norwegian companies have 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	712 %	550 %
Annualised returns	11.0 %	9.8 %

Risk figures since inception*

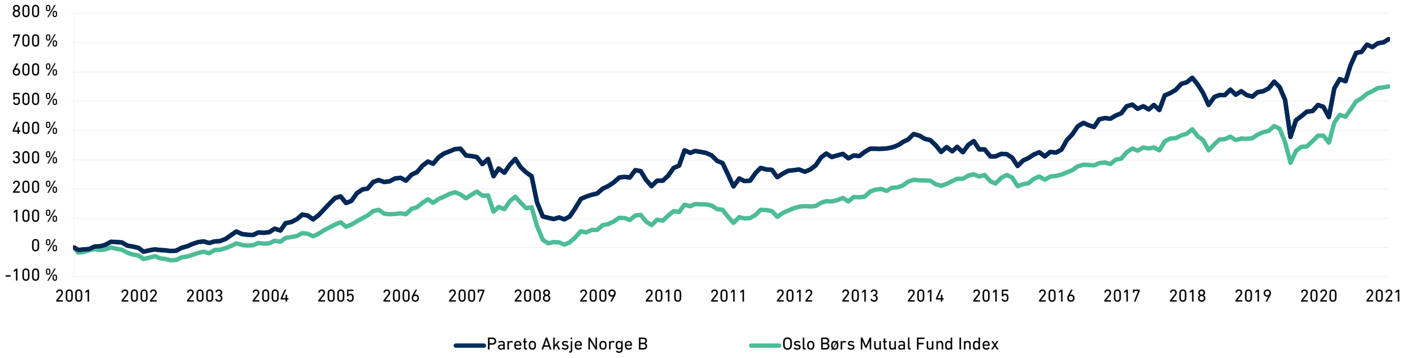
	Fund	Index
Standard deviation (annualised)	19.2%	21.0%
Tracking error (annualised)	8.8%	n.a.
Information ratio	0.1	n.a.
Sharpe ratio (SOL1X)**	0.5	0.35
Beta	0.8	n.a.

**ST1X was used until 29.01.21

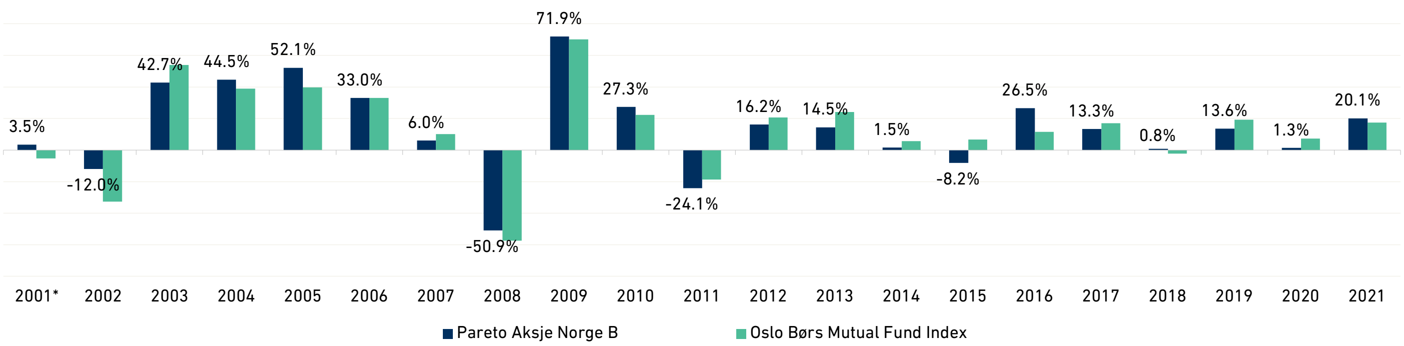
Performance by periods

	Fund	Index
Last month	1.3%	0.5%
Year to date	20.1%	17.5%
Last 12 months	39.9%	34.7%
Three years (annualised)	6.1%	8.8%
Five years (annualised)	13.3%	13.2%
Ten years (annualised)	10.2%	13.4%
Since inception* (annualised)	11.0%	9.8%

Performance history*



Annual returns*



Monthly commentary – September 2021

By Besim Zekiri

September was another good stock month for the portfolio with an increase of over one per cent. The return so far this year has been good and well above the market return. We note that the upturn is broadly based across sectors and companies.

The reopening of Norway means that we are gradually returning to social normalcy. This provides a basis for optimism. Some of this optimism has probably also spread to the stock market.

The rate hike from Norges Bank is justified by the fact that the level of activity is now higher than before the pandemic occurred. Expectations of another three interest rate hikes within one year provide a basis for optimism for our savings banks and **Storebrand**. All of our banks were quick to adjust the lending rate for retail customers by up to 0.25 percentage points. We assume that the banks will be hesitant in making a similar adjustment to the deposit rate, so that the net interest margin will increase somewhat. All of our investments in banking and finance have developed strongly throughout the year, led by **Sparebank 1 SR-Bank** with an increase of 41 per cent. Our banking and financial investments have contributed eight percentage points to this year's portfolio return.

Our consumer companies will benefit from the reopening, with a particularly positive effect on our seafood investments. The operational improvements in **Lerøy**, combined with a tight market balance for Atlantic salmon, speak in favour of a further boost in earnings. The collaboration between **SalMar** and **Aker** illustrates how two leading players in two large Norwegian export industries can come together to further develop the seafood production of the future. **Orkla** is the only one of our consumer stocks that has not kept up with this upswing; the share is down nearly five per cent so far this year. The main reason is strong inflation in commodity prices, which has not yet been offset against the end customer. The contribution from our consumer shares has been just over four percentage points.

Equinor is experiencing a sharp improvement in business conditions with a record high gas price and a record high oil price measured in Norwegian kroner. This has contributed to very positive price effects for Equinor. Our service companies have leading positions in their niches but have had somewhat more demanding business conditions. Overall, the contribution from our energy investments is approximately one per cent.

Our industrial companies experience very good business conditions and are well positioned to take a leading role in the "green shift". Both **Yara** and **Hydro** are experiencing the tightest markets in over a decade, after having cut costs for a number of years to improve their competitiveness. The cyclical promise we see for a number of commodity-based companies is partly due to a few bottlenecks caused by the pandemic. How long it will take to settle these, however, is uncertain. Meanwhile, we note that the spotlight on sustainability and taxation of emissions has increased. If we are to succeed with the "green shift", our companies will play a key role. **Norsk Hydro** and **Borregaard** can point to an increase of 67 and 52 per cent respectively this year, while the industrial companies in total have contributed eight percentage points.

Value creation and return are closely linked. At the beginning of the year, we expected a return on equity for the portfolio of approximately nine per cent. As we now round off the third quarter, it is clear that business conditions were far better than anticipated. This means that we now expect a return on equity of just over 12 per cent for the current year. With the facts in hand for the first half of the year, we are relatively confident that the companies will be able to deliver on this.

At the end of 2020, the portfolio was priced at 1.4 times book equity. For the current year, the pricing is identical. This means that the portfolio has not become more expensive, based on the pricing of the companies' equity, despite a slightly more than 20 per cent increase in the portfolio.

The dividend yield for the current year is 3.9 per cent (most has been announced and paid out), and for next year this is expected to increase to 4.6 per cent. The portfolio is priced at just over 12 times this year's earnings and approximately 11 times next year's expected earnings. This indicates a current earnings yield of 8.2 per cent and 8.9 per cent, respectively.

Portfolio management team: Einar Løvoll, Besim Zekiri and Eirik Osberg Andresen (analyst)