Pareto Aksje Norge I

Pareto
Asset Management

Report date: 31 August 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

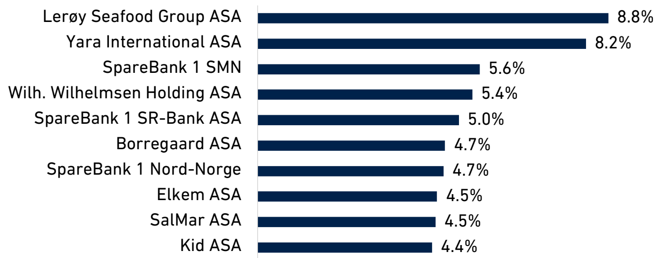
Unit class I
NAV as at 31 Aug 2021: 10 725.48
NAV currency: NOK
Launch date: 6 September 2001

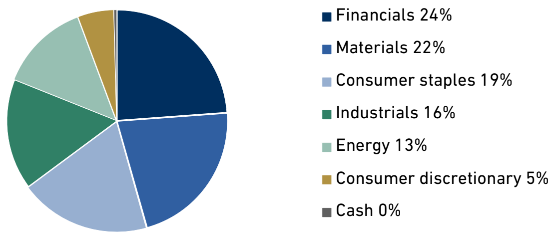
Minimum investment: NOK 100 000 000
ISIN: NO0010110968
Bloomberg ticker: POAKTIV NO

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	973 %	547 %
Annualised returns	12.6 %	9.8 %

Risk figures since inception*

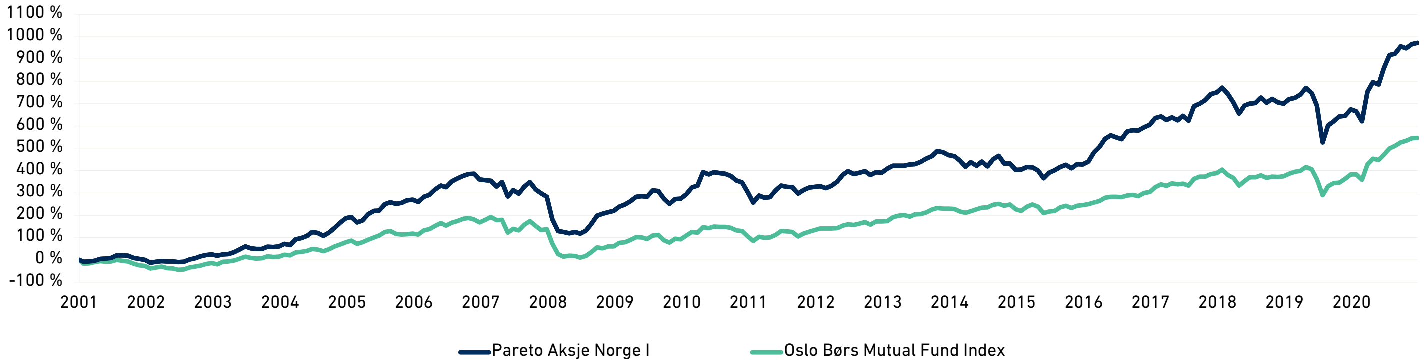
	Fund	Index
Standard deviation (annualised)	19.3%	21.0%
Tracking error (annualised)	8.9%	n.a.
Information ratio	0.3	n.a.
Sharpe ratio (SOL1X)**	0.5	0.35
Beta	0.8	n.a.

**ST1X was used until 29.01.21

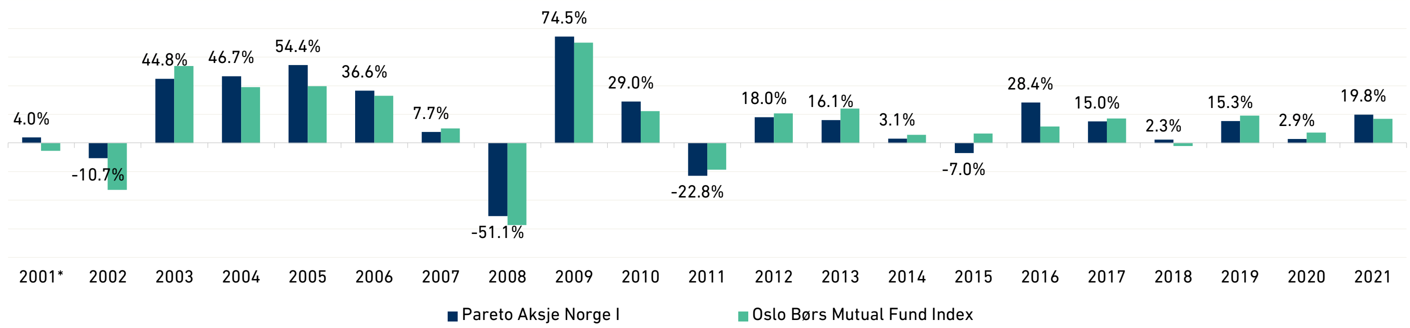
Performance by periods

	Fund	Index
Last month	0.6%	0.3%
Year to date	19.8%	16.9%
Last 12 months	38.6%	33.9%
Three years (annualised)	8.1%	9.8%
Five years (annualised)	15.2%	13.4%
Ten years (annualised)	10.3%	12.1%
Since inception* (annualised)	12.6%	9.8%

Performance history*



Annual returns*



Fund prospectus, KIID, annual and semi-annual reports are available at paretoam.com/en/fund-documents. Other information is available at paretoam.com/en/important-documents.

Monthly commentary – August 2021

By Eirik Osberg Andresen

The portfolio continues its positive trend, gaining around one per cent in August. All our holdings have now reported for the second quarter, and the upturn can largely be attributed to their solid performance. When reviewing the quarter, we see that just under 80 per cent of the portfolio delivered as expected or better, of which more than 50 percentage points were better.

Covid-19 hit our holding companies in different ways last year, where energy was punished particularly hard and the consumer sector got away somewhat cheaper. Regardless of what effect the pandemic has had, it is very gratifying to see a broad-based improvement in the first half of this year.

Our financial companies have consistently delivered solidly throughout the first half of the year. **Storebrand** and **Sparebank 1 SMN** stand out, while **DNB** reports slightly weaker earnings. Nevertheless, the share has strengthened significantly, and we have thus used the opportunity to sell DNB shares. In our savings banks, we have the pleasure of observing both solid lending growth and losses at almost normal levels. The companies' underlying earnings have improved, which, together with reduced losses, leads to a solid increase in after tax profits. Dividend capacity is thus high, and we will see attractive payments when the imposed dividend restriction is terminated.

The consumer sector continues to deliver good figures. **Kid** impresses us especially with a top line growth of seven per cent. Together with a healthy operating focus, this has given us an increase in the EBITDA margin of more than two percentage points. The synergy effects of Kid and Hemtex are significant and will continue contributing to solid margins in the future. **Austevoll Seafood** also shows a solid improvement from the first half of last year with an increase in operating profit before depreciation and write-downs of as much as 16 per cent. It is clear that the strong performance of the pelagic business has not been priced in, and we see a significant upside in the share.

The energy companies had a tough first half of last year, with all delivering negative adjusted free cash flow. This half year, things have turned around, and **Equinor** in particular has had a big improvement. The oil price naturally helps a lot, but costs and investments have also been reduced. This results in an underlying free cash flow of over eight billion dollars, which annualised accounts for over 20 per cent of the market value. **Bonheur** also delivered strong Q2 figures, with an operating profit before depreciation and write-downs well above market expectations. The share has risen by around 30 per cent since the presentation.

Our industrial companies have started the year well and can point to a top line growth of over seven per cent. Operating profit before depreciation and amortisation is up by as much as 28 per cent. Much of this growth can be attributed to our raw material companies, as we discussed in the previous report, but **Veidekke** is also very impressive. After the sale of the real estate business, they have become a pure construction company, and their announced operating focus can be read directly from the second quarter report. The underlying free cash flow has more than tripled, aided by both margin expansion and reduced investment.

In order to be able to see the portfolio as a whole, we weight the figures according to our ownership interest in the companies. Overall, we see a top line growth measured in kroner of as much as seven per cent and an increase in operating profit before depreciation and amortisation of 37 per cent. The profit before tax is somewhat misleading, as the energy sector took large write-downs last year, but this is consequently also sharply up. Furthermore, underlying free cash flow has more than quadrupled, and our companies thus have a significant dividend capacity. The portfolio is attractively priced at around 12 times this year's earnings and around 11 times next year's expected earnings. This indicates a current earnings yield of 8 and 9 per cent, respectively.

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