

Report date: 27 March 2024

Fund: Pareto Global
 Inception date: 12 August 2005
 AUM: NOK 5.7 billion
 Benchmark: MSCI World, dividend adjusted
 UCITS KIID risk score from 1 (low) to 7 (high): 6

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

Unit class C
 NAV as at 27 Mar 2024: 4 826.81
 NAV currency: NOK
 Launch date: 1 November 2012

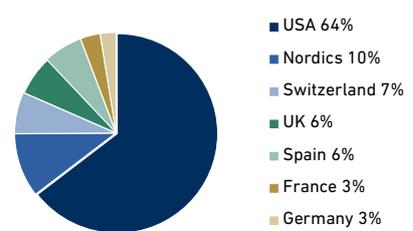
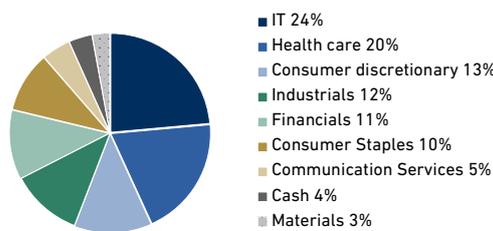
Minimum investment: NOK 20 000 000
 ISIN: NO0010660459
 Bloomberg ticker: PAAKTGC NO

Global equity fund that invests in companies with a solid market position and stable strong earnings ability.

- Investment criteria:
- High returns on equity
 - Strong balance sheets
 - Stable earnings power

Top ten holdings, sector allocation and geographical distribution

Microsoft	8.5%
Boston Scientific	5.2%
ResMed	5.1%
Adobe Systems	5.0%
Visa	4.9%
Elevance Health	4.9%
AFRY	4.8%
Oracle	4.7%
Alphabet	4.7%
Centene	4.6%



Key figures since inception*

	Fund	Index
Accumulated returns	467 %	490 %
Annualised returns	11.3%	11.5%

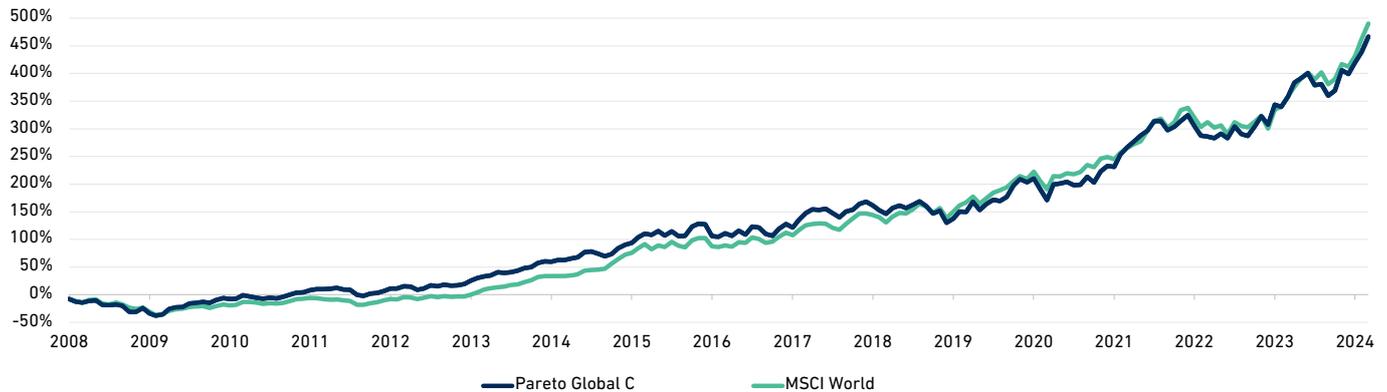
Risk figures since inception*

	Fund	Index
Standard deviation (annualised)	14.3%	12.1%
Tracking error (annualised)	6.0%	n.a.
Information ratio	0.0	n.a.
Beta	1.1	n.a.

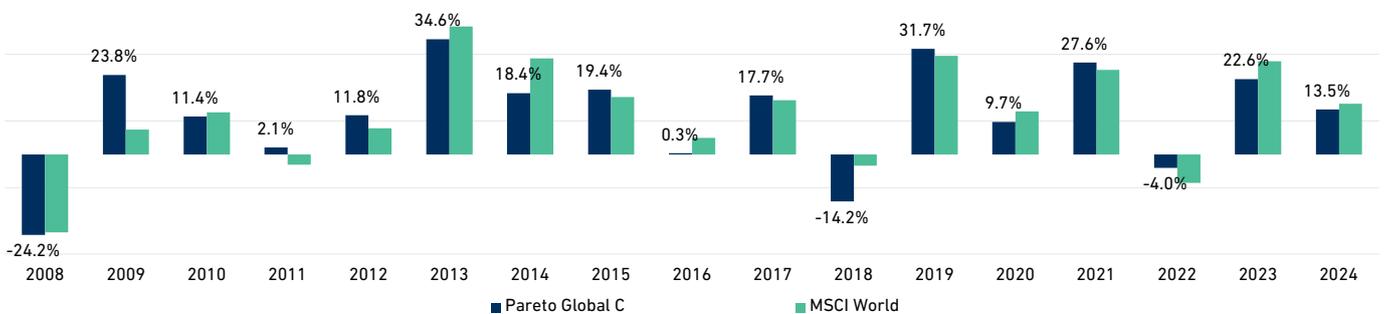
Performance by periods

	Fund	Index
Last month	5.2%	5.0%
Year to date	13.5%	15.2%
Last 12 months	23.7%	28.8%
Three years (annualised)	15.7%	17.4%
Five years (annualised)	17.8%	17.2%
Ten years (annualised)	13.3%	16.0%
Since inception* (annualised)	11.3%	11.5%

Performance history*



Annual returns*



The Fund is exposed to the following materially risks: liquidity risk, operational risk and sustainability risk. Please refer to the Fund's prospectus for further information about the fund's risk exposure. The Fund promotes environmental and/or social characteristics within the meaning of Article 8 of SFDR. The decision to invest in the Fund should take into account all the characteristics or objectives of the Fund as described in its prospectus. Further information about the sustainability-related aspects of the Fund is available in the SFDR pre-contractual disclosures in the Fund's prospectus and the SFDR website disclosure available on <https://paretoam.com/en/our-funds/>.

*Reporting start date: 31.12.2007. Simulated returns from 31.12.2007–01.11.2012 are based on historical returns for unit class D (inception date 22.11.2006), adjusted for management fees for unit class C. Simulated returns and risk figures are provided 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.

Monthly commentary - March 2024

By Andreas Sørbye and Andreas Kamvissis

For Pareto Global, this year's appreciation continued in March. The main contributors to the return were ResMed, Oracle, and Inditex. Kering, Adobe, and Prudential were the biggest detractors.

In March last year, we took advantage of the rise in **Essity's** share price to sell out completely. Since then, the share price has fallen, while the company has developed favourably. This March, we brought the company back into the fund. In fact, the share price was at the same level as when the company was listed in 2017 after being spun off from SCA, even though the company has met its targets of higher margins, increased return on invested capital and more dividends. The margin increase is a result of the company's shift towards health-related products, such as wound care, and cost savings.

Essity owns 52 per cent of China-based Vinda. Profitability in the partly owned subsidiary is low, as it mainly sells low-margin tissue and toilet paper. These products also make the company more exposed to fluctuating raw material prices. In March, Essity announced that the sale of Vinda was finalised. The agreed sales price is SEK 19 billion, with settlement in cash. The sale is expected to increase Essity's operating margin by 1.7 percentage points. Essity has strong brands, such as Tena in incontinence, Leukoplast in wound care, Jobst in compression, Libero in baby nappies, Libresse and Tom Organic in sanitary towels and Knix and Modibodi in leak-proof clothing. In professional hygiene, they are global leaders with the Tork brand.

For the current year, we expect a free cash flow of SEK 12 billion. Combined with the proceeds from the sale of Vinda, this represents as much as 17 per cent of the market capitalisation. We expect this to be spent on share buybacks, increased dividends, and new acquisitions of health-related companies. Still, Essity is valued at a modest 12.5 times next year's earnings.

Amadeus is also a newcomer to the fund. The company has its origins in European airlines and has developed into a global leader in IT systems for the distribution of airline tickets between travel agencies and airlines, as well as internal IT systems at airlines and airports. Revenues from these two business areas are roughly equal.

In distribution, the network effects are significant, as access to as many travel options as possible is crucial for travel agents, while they prefer to work with a single system for reasons of efficiency. The industry has developed into an oligopoly between Amadeus and Sabre, while the third player, Travelport, has been sidelined. Amadeus books airline tickets for over 1.6 billion people in 190 countries every year. Revenue calculation is based on the number of tickets sold and how valuable the tickets are to the airlines. On average, this amounts to about two per cent of the ticket price. In comparison, the airlines' sales and marketing costs account for twice as much.

Today, most airlines have stopped developing their own internal IT systems. Airlines are fighting a relentless battle to cut costs, and outsourcing IT systems will provide better cost control. At the same time, airlines are dependent on filling their aeroplanes with passengers at the highest possible prices. This requires a complete overview of everything from reservations to departure control. Implementing these systems is extensive, and the switching cost of choosing another system is high. Amadeus is also expanding into neighbouring industries, such as hotels, railways, and airports. For example, it has signed an agreement with the world's largest hotel chain, Marriott, which will implement Amadeus' system for all its hotels in 2024 and 2025.

Pareto Global's management strategy is to follow companies that have created significant shareholder value over time, and then wait for a good buying opportunity. The companies' temporary challenges often provide this opportunity. The challenge for Amadeus is that a new industry data exchange standard has been created for the distribution of airline tickets between airlines and travel agencies. The new standard is called NDC, which stands for New Distribution Capability, and will contain more information about the journeys. This will make it easier to differentiate tickets and provide increased personalisation, dynamic pricing and upselling of additional products. ▶

The risk is that travel agencies can use NDC to connect directly to the airlines. The stock market is risk-averse, and, at the current price, it is priced in that all distribution of airline tickets will disappear. We disagree.

Firstly, Amadeus has invested in the NDC technology for a long time, so they can actually compensate with increased market share for those travel agencies that connect directly to the airlines. Secondly, direct connection will only be relevant for connecting the largest travel agencies to a few airlines in a few markets, as this system will be costly to implement and operate. By the way, this is already happening today through other solutions. And thirdly, Amadeus' margins on the largest travel agencies are very low, so the impact on earnings will be relatively minor. We see this as a good buying opportunity.

Portfolio management team: Andreas Sørbye and Andreas Kamvissis

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