

Report date: 29 February 2024

Fund: Pareto Global

Inception date: 12 August 2005

AUM: NOK 5.3 billion

Benchmark: MSCI World, dividend adjusted

UCITS KIID risk score from 1 (low) to 7 (high): 5

Category: equity fund

Legal structure: UCITS

Domicile: Norway

Dealing days: all Norwegian business days

Unit class I

NAV as at 29. feb 2024: 2 698.64

NAV currency: NOK

Launch date: 13 July 2015

Minimum investment: NOK 100 000 000

ISIN: NO0010740624

Bloomberg ticker: PAAKTI NO

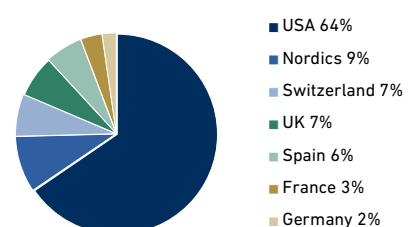
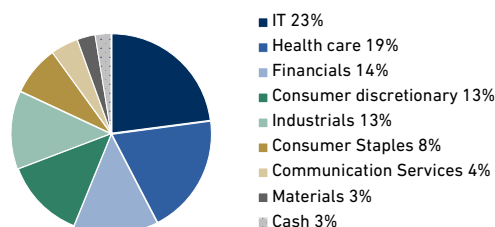
Global equity fund that invests in companies with a solid market position and stable strong earnings ability.

Investment criteria:

- High returns on equity
- Strong balance sheets
- Stable earnings power

Top ten holdings, sector allocation and geographical distribution

Microsoft 8.6%
Visa 5.2%
Boston Scientific 5.2%
AFRY 5.0%
Elevance Health 4.9%
Centene 4.7%
ResMed Inc 4.6%
Alphabet 4.5%
Oracle 4.3%
McCormick & Company 4.3%



Key figures since inception*

	Fund	Index
Accumulated returns	506 %	462 %
Annualised returns	11.8 %	11.3 %

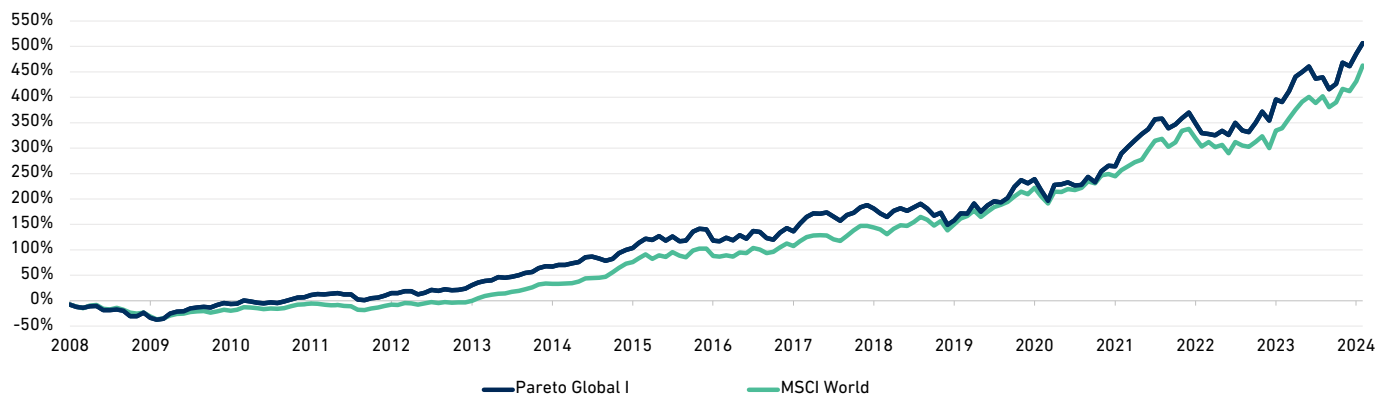
Risk figures since inception*

	Fund	Index
Standard deviation (annualised)	14.3%	12.1%
Tracking error (annualised)	6.1%	n.a.
Information ratio	0.1	n.a.
Beta	1.1	n.a.

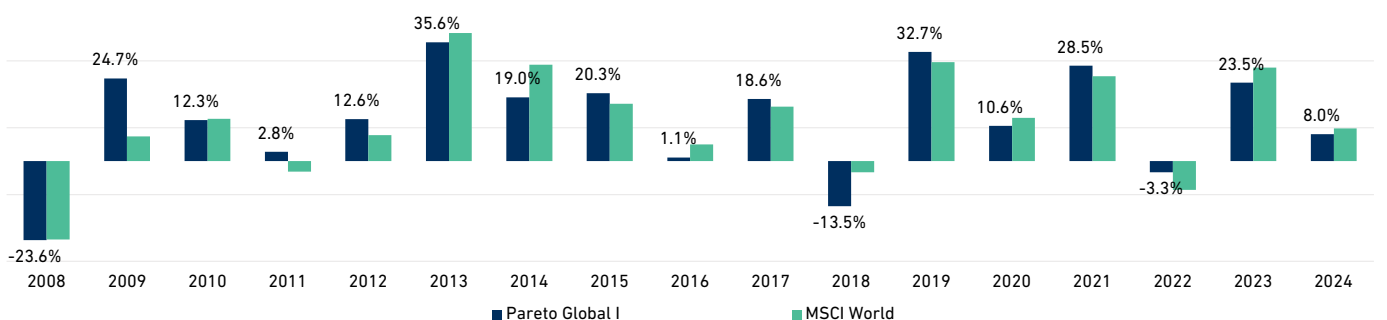
Performance by periods

	Fund	Index
Last month	3.6%	5.8%
Year to date	8.0%	9.8%
Last 12 months	23.5%	28.0%
Three years (annualised)	15.9%	16.4%
Five years (annualised)	17.4%	16.6%
Ten years (annualised)	13.5%	15.5%
Since inception* (annualised)	11.8%	11.3%

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/prospectus annex/prospectus supplement] 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 B. 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.

By the portfolio management team: Andreas Sørbye and Andreas Kamvissis

For Pareto Global, the appreciation continued in February. This is an important reporting month, with almost half of the portfolio companies submitting annual reports. The figures confirm that 2023 was a good year of revenue growth. A full 70 per cent of the reports submitted were better than expected. The main contributors this month were Discover Financial Services, Afry and Kering. The biggest detractors were Adobe, ResMed and Nestlé.

Credit card company Capital One made a bid of USD 35 billion for Discover Financial Services. They will pay 1.0192 Capital One shares for each Discover share. Relative to the closing prices before the bid, this translates to an acquisition premium of 27 per cent. While the transaction has been approved by Discover's board of directors, it must also be approved by the authorities and shareholders of both companies. Capital One shareholders will own approximately 60 per cent of the combined company, while Discover shareholders will own the remainder.

Discover is one of the leading online banks in the USA, headquartered outside Chicago. Efficient operations without branches ensures very low costs. The cost ratio is a modest 40 per cent. The bank only offers selected products with high profitability and moderate credit risk, with credit cards as the main product. Here they have an interest margin of over 10 per cent. Over time, loan losses have been between two and four per cent, which is low compared with competitors. The combination of profitable products and low operating costs has resulted in a return on equity of over 20 per cent, which is very high compared with ordinary banks.

The company owns the world's fourth largest western payment network after Visa, Mastercard and American Express, called Discover in the US and Diners Club outside the US. This gives them low payment transaction costs, allowing them to offer competitive bonuses on card usage and to customise promotions for retail chains.

Capital One is the fourth largest credit card issuer in the US. The merged company will have the largest credit card lending volume in the US, overtaking competitors JPMorgan and Citigroup. Capital One currently relies on the Visa and Mastercard payment networks. It expects to realise USD 1.3 billion in cost synergies, of which USD 1.2 billion will come from moving card customers to Discover's payment network. Owning your own payment network gives you the flexibility to design new products for both stores and customers.

Although the competition authorities have become stricter under the Biden government, we believe that the merger will be approved. The key is the payment network. Visa and Mastercard have a duopoly in payment networks, which a number of new entrants have given up on breaking due to the huge set-up costs. The merger will actually increase competition here, and the authorities are unlikely to be seen as protectors of the Visa/Mastercard duopoly.

The fund first invested in Discover on 13 June 2017. This has been a profitable journey, with a total return of 194 per cent measured in Norwegian kroner, although the journey has been somewhat more volatile than expected.

We believe that Capital One and Discover complement each other in a good way, and we will vote in favour of the acquisition. Capital One expects the acquisition to increase earnings per share by 15 per cent in 2027, which bodes well for the further journey of the combined company.

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