Pareto Global I

Pareto
Asset Management

Report date: 30 September 2021

Fund: Pareto Global
Inception date: 12 August 2005
AUM: NOK 3.61 billion
Benchmark: MSCI World, dividend adjusted

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

Unit class I
NAV as at 30 Sep 2021: 1 955.37
NAV currency: NOK
Launch date: 13 July 2015

Minimum investment: NOK 100 000 000
ISIN: NO0010740624
Bloomberg ticker: PAAKTGI NO

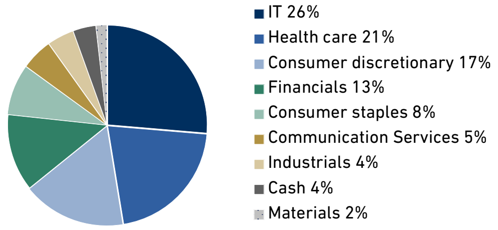
Global equtiy fund that invests in companies with a solid market position and stable strong earnings ability.

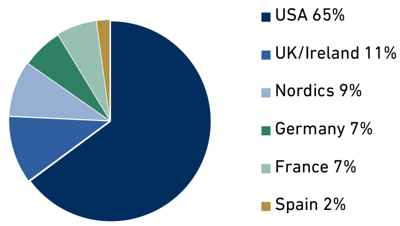
Investment criteria:

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

Top ten holdings, sector allocation and geographical distribution

Microsoft Corp	6.7%
Prudential Plc	5.2%
Alphabet Inc	5.1%
Boston Scientific Corp	5.1%
SAP SE	4.8%
ÅF AB	4.4%
Centene Corp	4.2%
EssilorLuxottica SA	4.1%
Oracle Corp	4.1%
Keysight Technologies Inc	4.1%





Key figures since inception*

	Fund	Index
Accumulated returns	339 %	302 %
Annualised returns	11.4%	10.6%

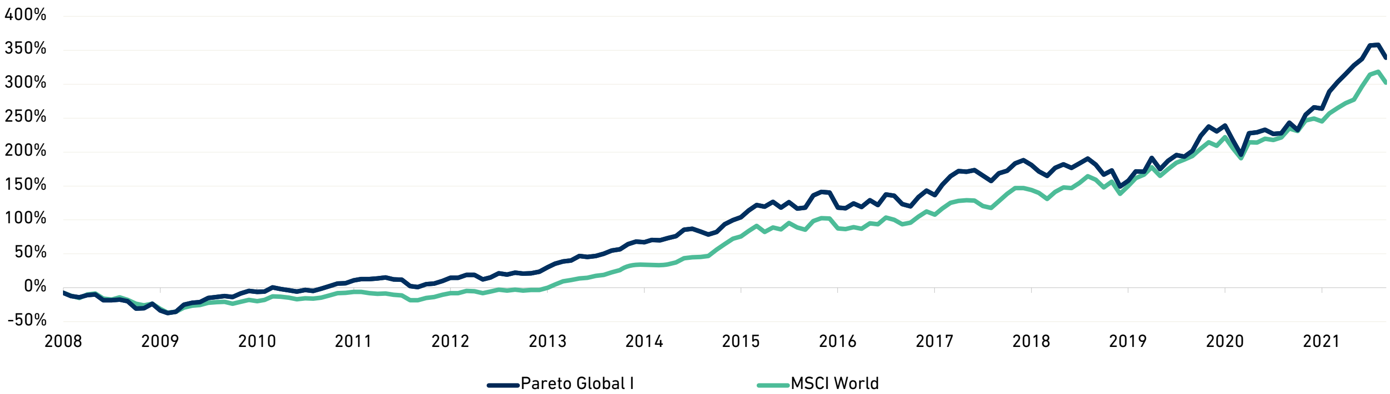
Risk figures since inception*

	Fund	Index
Standard deviation (annualised)	14.5%	12.0%
Tracking error (annualised)	6.2%	n.a.
Information ratio	0.1	n.a.
Beta	1.1	n.a.

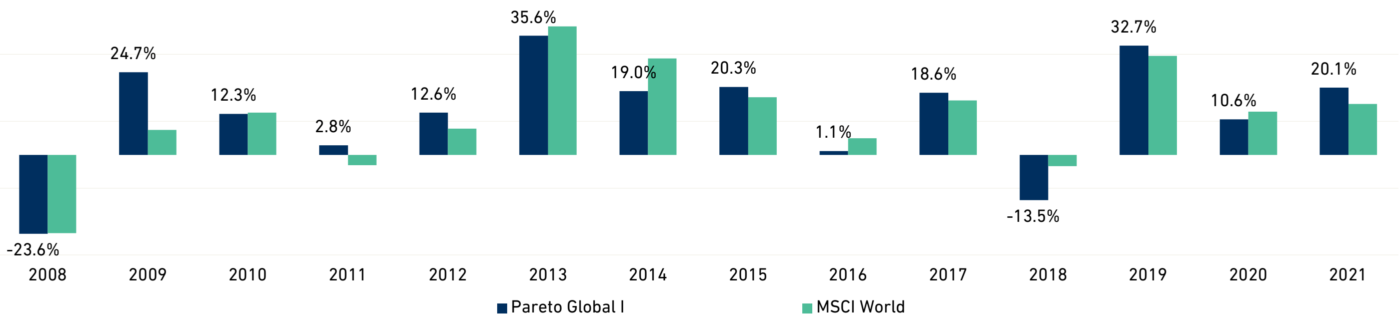
Performance by periods

	Fund	Index
Last month	-4.0%	-3.8%
Year to date	20.1%	15.2%
Last 12 months	27.9%	20.2%
Three years (annualised)	16.0%	15.8%
Five years (annualised)	14.5%	15.7%
Ten years (annualised)	15.8%	17.3%
Since inception* (annualised)	11.4%	10.6%

Performance history*



Annual returns*



*Reporting start date: 31.12.2007. Simulated returns from 31.12.2007–13.07.2015 are based on historical returns for unit class D (inception date 22.11.2006), adjusted for management fees for unit class I. 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. 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. This is an advertising document. 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 paretoam.com/en/fund-documents. Other information is available at paretoam.com/en/important-documents.

Monthly commentary - September 2021

By Andreas Sørbye og Andreas Kamvissis

After an almost uninterrupted rise since the turn of the year, the fund fell somewhat in September. In the absence of company news, the focus was on inflation, rising interest rates, bottlenecks in the world's value chains and the housing market in China. The main contributors this month were Inditex, Anthem and Oracle, while Afry, SAP and Microsoft pulled in the opposite direction. The fund invested in two new companies in September: Kroger and Visa.

Inditex ended the portfolio companies' reporting season for the second quarter. The reports show that earnings in the quarter were among the highest in the fund's history. Measured against analysts' expectations, 22 were better, four neutral and two weaker than expected. Inditex, which operates the clothing chains Zara and Massimo Dutti, among others, benefitted from the reopening of the community with 99 per cent of the stores now open. Turnover was up 22 per cent compared with last year and up seven per cent compared with the corresponding period in 2019, i.e before the pandemic. Although the stores are open again, internet sales continue to grow at a rapid pace. The company's flexible business model with short lead times, low inventory, little sales campaigns, and negative working capital ensured a high free cash flow.

With its 140 years of history, **Kroger** is the largest supermarket in the United States, operating 2,800 grocery stores across 35 states. There are many aspects of the company that we like. First, it has a great market position within fresh and high-quality products through its vertically integrated manufacturing and distribution network. This is difficult to replicate and puts the company in a good position to pass on the increasing price inflation. The company itself has expressed that it operates best under an environment of 3-4% inflation. Second, it has an exclusive partnership with Ocado in the US. Earlier this year, they started establishing together highly automated consumer fulfilment centres, speeding up growth in new areas and accelerating digitalisation to increase productivity. Last but not least, the company has a proven track record of being shareholder friendly.

Kroger has a high return on its equity and a very strong free cash-flow generation. During the last 10 years it has bought back 40% of its outstanding shares while at the same time increasing its dividend from 21 cents to 84 cents per share, an increase of 400%. We buy the share at an estimated 2021 P/E of 12, giving us a good margin of safety. Companies with the same quality characteristics trade at significantly higher multiples. Perhaps this is also the reason why Warren Buffett likes the company, Berkshire Hathaway being its third largest shareholder with 8.3% of the shares.

Together with Mastercard, **Visa** is the cornerstone of the complex global payment system. The company serves 15,000 financial institutions, 70 million stores and four billion cardholders in more than 200 countries. The large number of participants in the network makes it difficult for new players to copy the business model. Visa possesses important financial characteristics that Pareto Global is looking for, such as a large share of current income, high and increasing margins and a low need for investment, which ensures a high free cash flow.

As cash is still widespread in many countries, we expect that the transition to cards will ensure double-digit growth for a long time to come. In the United States, only 65 per cent of personal consumption is paid by card. More online shopping will help speed up this trend. Within payment solutions, there is a rapid technological development from especially new players. Common to these is that they have not had success in creating their own parallel ecosystems and have finally entered into a partnership with the duopoly Visa and Mastercard. Today, they are actually among the company's most important customers.

The reason why we chose to invest in Visa now is that the share price has remained stable this year, while the fund's other IT investments have risen sharply. Therefore, we chose to move some capital from Microsoft to Visa. The explanation for Visa's lagging behind the stock market this year is that card transactions from foreign travel, which account for 20 per cent of revenues, fell by 40 per cent during the pandemic. In addition, new payment solutions with consumer loans, such as Klarna, have gained a better foothold. However, we believe that the long-term, underlying growth drivers have accelerated in a positive direction for Visa during the pandemic. Fewer people want to pay with cash due to the risk of infection and would rather use contactless cards, and the growth in online shopping will continue. Travel abroad will return, and when the consumer loans are to be repaid, this is usually done through the Visa card.

Portfolio management team: Andreas Sørbye and Andreas Kamvissis