

Report date: 30 September 2019

Inception date: 25 July 2001*

AUM: NOK 1.8 billion

Benchmark: ST3X - 1 year

Category: fixed income fund

Legal structure: UCITS

Domicile: Norway

Dealing days: all Norwegian business days

ISIN: NO0010106230

Bloomberg ticker: POHYLD NO

NAV as at 30 September 2019: 1 076.4527

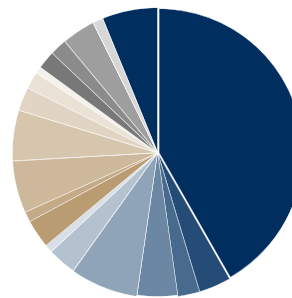
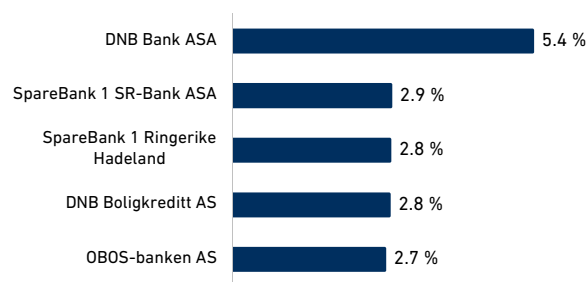
NAV currency: NOK

Minimum investment: NOK 100 000

A short duration bond fund with higher expected returns than money market funds

The fund invests primarily in interest bearing securities issued by Norwegian companies, governments and institutions. The securities primarily include corporate bonds, bonds issued by financial institutions, subordinated loans and covered bonds. The fund only invests in financial instruments denominated in NOK. Average interest-duration should normally be between 0 and 2 years.

Top five issuers and sector allocation



- Commercial banks 42 %
- Div. financial services 4 %
- Consumer finance 2 %
- Insurance 5 %
- Energy equipment & services 8 %
- Oil, gas & consumable fuels 3 %
- Multiline retail 1 %
- Consumer services 3 %
- Media 1 %
- Marine 6 %
- Real estate management & development 6 %
- Food products 3 %
- IT 2 %
- Health care 1 %
- Distributors 2 %
- Construction & engineering 2 %
- Utilities 4 %
- Capital Markets %
- Airlines %

Key figures since 30.04.2004

| | Fund | Index |
|---------------------|-------|-------|
| Accumulated returns | 57.8% | 39.7% |
| Annualised returns | 3.0% | 2.2% |

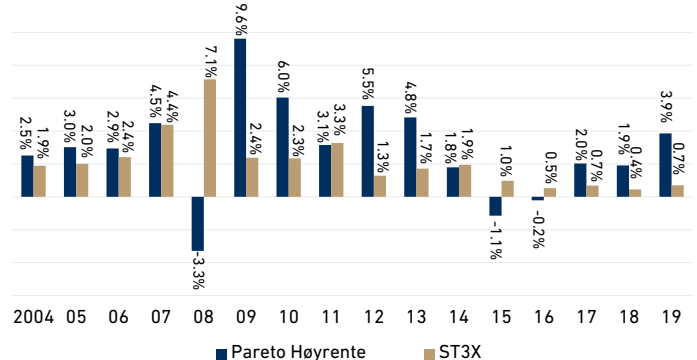
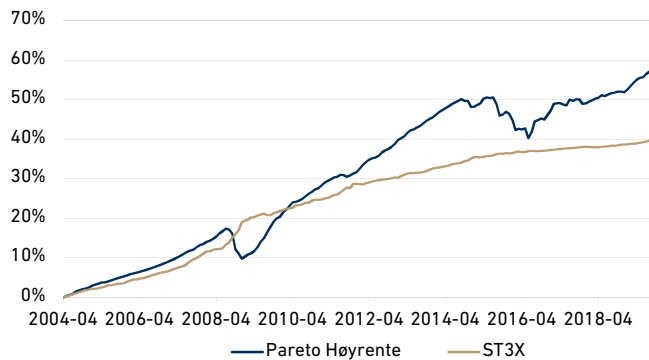
Risk figures since 30.04.2004

| | Fund | Index |
|---------------------------|------|-------|
| Standard deviation (ann.) | 1.9% | 0.8% |
| Time to maturity | 2.1 | n.a. |
| Interest rate duration | 0.2 | n.a. |

Performance by periods

| | Fund | Index |
|-------------------------------|------|-------|
| Last month | 0.4% | 0.0% |
| Year to date | 3.9% | 0.7% |
| Six months | 2.3% | 0.6% |
| Last 12 months | 3.9% | 1.0% |
| Three years (annualised) | 2.9% | 0.6% |
| Five years (annualised) | 1.0% | 0.8% |
| Since 30.04.2004 (annualised) | 3.0% | 2.2% |

Performance history



Monthly net returns in per cent

| | Jan. | Feb. | Mar. | Apr. | May | Jun. | Jul. | Aug. | Sep. | Oct. | Nov. | Dec. | YTD |
|------|-------|-------|------|-------|-------|-------|------|-------|-------|-------|-------|-------|-------|
| 2019 | 0.42 | 0.54 | 0.54 | 0.55 | 0.33 | 0.10 | 0.49 | 0.39 | 0.44 | | | | 3.85 |
| 2018 | 0.30 | 0.22 | 0.25 | 0.16 | 0.45 | -0.15 | 0.25 | 0.25 | 0.10 | 0.16 | 0.00 | -0.10 | 1.90 |
| 2017 | 0.80 | 1.09 | 0.14 | 0.03 | -0.24 | -0.17 | 0.97 | -0.19 | 0.29 | -0.02 | -0.78 | 0.10 | 2.02 |
| 2016 | -1.19 | -1.66 | 0.26 | -0.15 | 0.16 | -1.70 | 1.07 | 1.91 | 0.22 | 0.30 | -0.19 | 0.78 | -0.22 |
| 2015 | 0.07 | 0.25 | 0.35 | 0.74 | 0.23 | -0.12 | 0.09 | -1.19 | -1.86 | 0.18 | 0.48 | -0.36 | -1.15 |
| 2014 | 0.42 | 0.48 | 0.32 | 0.35 | 0.30 | 0.38 | 0.29 | 0.26 | 0.31 | -0.33 | 0.03 | -1.04 | 2.82 |
| 2013 | 0.66 | 0.31 | 0.32 | 0.64 | 0.46 | 0.17 | 0.35 | 0.31 | 0.44 | 0.46 | 0.33 | 0.27 | 4.20 |

*New benchmark from 30 April 2004. 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 and subscription and management fees. The return may become negative as a result of negative price developments. Inflation, subscription and redemption fees are not taken into account in the historical performance given for our funds; this could affect the return adversely. Pareto Asset Management AS 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. Pareto Asset Management AS 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 here www.paretoam.com/en/fund-reports. Other information is available at www.paretoam.com/en/client-information.

Monthly commentary - September 2019

By Eric von Koss Torkildsen

September was a good month for Pareto Høyrente. Thus, we have now completed three of the year's four quarters with good returns for our unitholders.

Market activity was high in September. Many new bond issues were made in the primary market, and Pareto Høyrente added the NRC Group. The company is the largest rail infrastructure entrepreneur in the Nordic region and a newcomer on the bond market. The bond has 600 million Norwegian kroner outstanding, a spread of 4 percentage points over three-month money market rates and a maturity of five years. The bond was significantly oversubscribed and the price was quickly traded up to 102.

In the secondary market, the fund made some adjustments. Bergen Kommunale Kraftselskap (BKK) re-entered the portfolio, together with Agder Energi, Olav Thon Eiendomsselskap and the lighting solutions company Glamox. The fund also sold off the last of the bonds in Norwegian Air Shuttle. In Odfjell we extended the term.

Raufoss Industripark announced in September that they are exercising their right to early repayment of their bond at a rate of 102. The bond has been a very good investment for Pareto Høyrente.

In September, the central bank of Norway raised the key rate by 0.25 percentage points to 1.50 per cent. The central bank wrote that the key rate will likely stay at this level in the near future. The main arguments for the rise in interest rates were the Norwegian economy doing well, low unemployment and a weak Norwegian currency.

The money market rate (three-month NIBOR) has gradually increased throughout the year and stood at 1.77% at the end of the month, up from 1.27% at the beginning of the year. This has increased the yield on bonds, but it is uncertain whether it will eventually rub off on deposits in terms of increased interest rates. We therefore believe this is a good argument for considering fixed-income funds.

Only small changes in credit spreads over the last month means that the yield for the bonds in the fund is marginally up to approximately 4.5%.

The strategy of the fund, with a well-diversified portfolio of solid issuers where underlying bonds have a short average maturity and a very short interest rate duration, has proven robust and given a reasonable return. We are well positioned to participate actively in the market going forward and are constantly considering credits which individually provide good risk-adjusted returns, are liquid and have low vulnerability to industry conditions and individual factors. We are optimistic about the return potential for investors who want a fixed income fund like ours, with moderate credit risk and low interest rate duration.

Portfolio management team: Eric von Koss Torkildsen and Christian Weldingh