

Pareto ESG Global Corporate Bond Sustainability report

1 January – 31 December 2020



Sustainable investments

In Pareto Asset Management we spend ever more time thinking about what we want our investment activity to achieve. We think of this as responsible investing. In as much as our portfolio management has a decidedly long-term perspective, it is only natural that we take environmental, social and governance aspects into account. We encourage issuers to offer responsible and transparent practices and we do not make investments which constitute an unacceptable risk of contributing to unethical acts or omissions.

Our view is that acting responsibly is a basic requirement for long-term and sustainable value creation. Responsible investment to us means that environmental, social and corporate governance

factors are integrated in the investment process to better manage risks and opportunities.

We believe that our management philosophy is well suited for this purpose. Active management, thorough analyses of a limited number of companies and a long-term perspective form a good starting point for sustainable investments. If you are serious about achieving something by way of your investments, you just can't invest blindly in a broad-based index.

Sustainable investment, however, is a demanding exercise. It raises a lot of dilemmas and provides no clear answers, and it requires a lot of subjective judgement. It also entails erring on our part. We make

mistakes, we learn from our mistakes, and we have to admit that we still have a lot to learn.

You can find more information about the Pareto ESG Global Corporate Bond fund and its sustainability work at paretoam.com/en/pareto-esg-global-corporate-bond. Additionally, you can access more information about Pareto Asset Management's sustainability work at paretoam.com/en/about-us.

Historical returns are no guarantee for future returns.

Investment team



Finn Øystein Bergh
Chief Economist & Strategist



Stefan Ericson
Senior Portfolio Manager



Mathias Lundmark
Portfolio Manager



Nawel Boukedroun
ESG Analyst



About Pareto ESG Global Corporate Bond

In 2018, Pareto Global Corporate Bond became the first fixed income fund in Norway and Sweden to receive the Nordic Swan Ecolabel. A dedicated ESG analyst is working full time for the fund in order to fulfil the strict requirements of the Nordic Swan Ecolabel. In 2020, in order to align the name with the ESG investment process, the latest prospectus update provided the new name of the fund: Pareto Global Corporate Bond became Pareto **ESG** Global Corporate Bond.

Being a Nordic Swan Ecolabelled fund, Pareto ESG Global Corporate Bond is highly selective when including companies in its investment universe. The investment strategy utilises “negative selection criteria” where some sectors are excluded.

As a start, we automatically exclude any company included in the Norwegian Government Pension Fund exclusion list. You can find more information on the exclusion process in our company sustainability report. In addition, we further exclude companies based on our own assessment and the Swan Ecolabel requirements.

We continue contributing to the discussion and will revise and enhance our framework when appropriate as international standards develop further.

ESG activities

As we are aware that the global warming impact is one of the most significant challenges of our time, we continue to look for reduction of the carbon impact of the portfolio. One recent example is **U.S. Concrete**. The

company operates in the cement industry, which is one of the two largest producers of carbon dioxide (between 6 and 8% of the worldwide emissions, according to *United Nations Climate Change Conferences*). This led to the holding being sold.

Hannon Armstrong Sustainable Infrastructure, the first U.S public company focused on investment for climate change solutions, is one example we would like to highlight. The company is dedicated to investing in climate change solutions and provides capital to leading companies regarding energy efficiency and has a commitment to implement the recommendations from the “TCFD” (Task force on climate related financial disclosures). Hannon Armstrong has applied a clear and transparent set of policies when evaluating the environmental risks and opportunities of any proposed investment.

The international leader in eco-responsible transport, **Getlink** (ex- Eurotunnel), is another example in which we have chosen to invest for its sustainable business model. The Group strives for continuous reductions of CO2 emissions by enabling trains to use the tunnel. This way, GetLink is contributing to the shift from short-haul air travel to rail between France and Britain. Brexit does involve some risks coming up, but Getlink is also part of the solution through cooperation. In a world filled with conflicts, the company is also a symbol of future improvements in UK and European relations. They are currently working on the replacement of diesel-powered locomotives by hybrid battery ones.

Targeting Performance and Sustainable Development

EXCLUDE



Restrict investment in issuers fundamentally misaligned with sustainability practices.

- Fossil fuels
- Pornography
- Controversial weapons
- Violating selected international norms and conventions*
- Conventional weapons
- Tobacco

INCLUDE



Increase investments in companies with good sustainability performance.

- Internal ESG assessment
- 100% of the direct holdings in the portfolio, have undergone internal ESG analysis
 - ESG management system is documented and verified by Nordic Ecolabelling

DIALOGUE



Engage with issuers to question ESG-related business practices.

- Sample dialogue questions
- What steps are taken to limit GHG production?
 - social impact of your supply chain?
 - How do you gauge the or sustainability committee?

About the Nordic Swan Ecolabel

A Nordic Swan Ecolabelled fund represents a sustainability-labelled alternative for savers and professional investors, and an instrument for fund management companies to show that their funds fulfill stringent requirements. Everything that a Nordic Swan Ecolabelled fund must attain – the exclusion of unsustainable companies, the inclusion of more sustainable companies and acting in a transparent manner – is undertaken to encourage companies and capital markets to act more sustainably in the long run.

*The application of the Swan label is conducted by Miljömärkning Sverige AB, which works on behalf of the government, and which does not represent any fund industry interests.

Carrying the Nordic Swan Ecolabel means that:

- The fund excludes investments in certain industries and companies that are particularly problematic from a sustainability point of view.
- The fund discloses all of its holdings on a quarterly basis. In addition, the fund publishes an annual report on the sustainability performance of the fund.

- The fund conducts an extensive ESG (Environmental, Social and Governance) analysis of its potential investments and prioritizes companies that are more sustainable.
- Nordic Ecolabelling encourages active ownership and rewards funds that engage with investee companies.

Why choose the Nordic Swan Ecolabel?

- The Nordic Swan Ecolabel is a very well-known and highly respected trademark, especially in the Nordic region.
- The Nordic Swan Ecolabel is a simple way of communicating environmental work and commitment to customers.
- The Nordic Swan Ecolabel means that the fulfilment of the criteria has been checked by an external third party. This is a unique feature in the Nordic fund market.

- The Nordic Swan Ecolabel is an evolutive label which updates its rules in order to be in line with the new regulations. Its role of engagement will become more structured. This applies to us as bond investors as well.

The Nordic Swan Ecolabel does not imply that all of the fund's companies are sustainable or without problems or challenges. *The aim of the requirements is to make your investment in a Nordic Ecolabelled fund move markets, industries and companies in a more sustainable direction.*

New regulations

On March 2020, the "TEG" (Technical Experts Group) with the approval of the European Parliament and the European council published the final report on EU Taxonomy. These regulations will guide companies in the disclosure of non-financial information, meaning that the information on sustainability has become more transparent and structured. Combining this with our evaluation criteria will allow us to reduce further the sustainability risk of the fund.



Sustainability trends

Sustainability trends and driving forces keep strengthening, both as a result of environmental and social changes becoming more evident, and the response evolving from different societal levels – the world community, regions and countries, municipalities and consumers. The political agenda is clear and supported at the highest level through the Paris Agreement and the **UN Sustainable Development Goals** (SDGs), Agenda 2030.

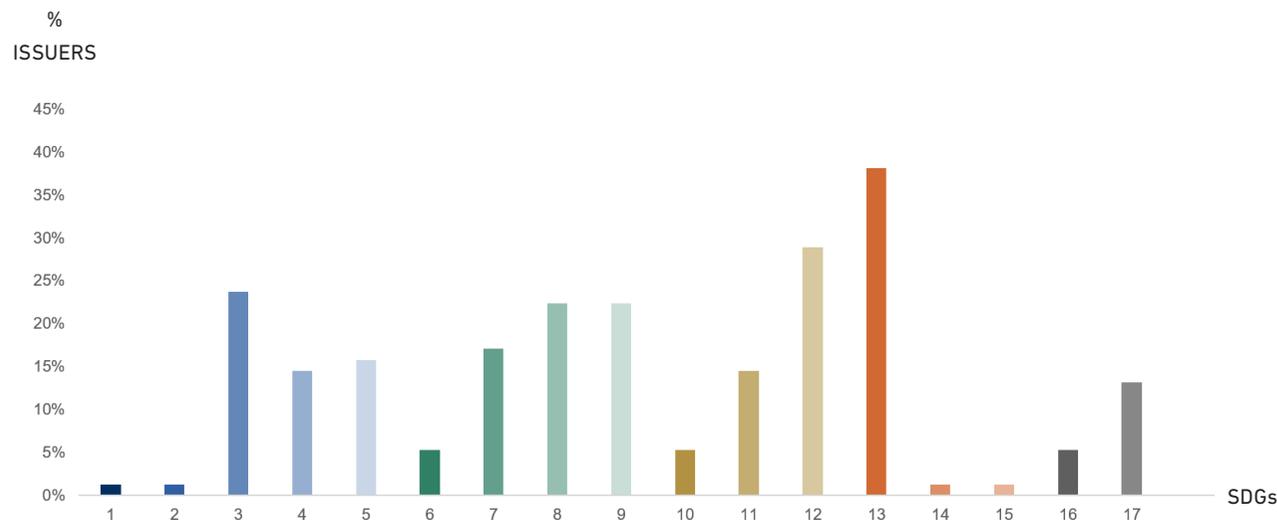
Through our company dialogues, we have identified several trends in the area of sustainability:

- Generally, sustainability is gradually becoming an integral part of their business. It seems increasingly important to be able to show that you are a sustainable company, taking responsibility for both the environment and the people in their environment.
- Sustainability is seen as a business opportunity, which can both strengthen the company's competitiveness and improve profitability.
- The companies' customers place increasing demands on sustainable products and solutions. As the number of sustainable options for customers increase, businesses are forced to work actively and purposefully with sustainable issues in order to remain competitive.

- More and more companies link their long-term sustainability goals and aspirations to the UN's 17 global sustainability goals. By selecting some of the 17 sustainability goals, each company can clearly highlight which sustainability issues or areas they have chosen to prioritise in their sustainability work. The companies' focus areas are often, given their business operations, where they believe they best can contribute to the transition towards a sustainable development and a sustainable society.

As part of the Nordic Swan Ecolabel and the ESG rating system, we analysed which SDGs companies are involved in and how they justify it. We are aware that companies sometimes make themselves look better than they are, so we work to get a clear vision of what they really do. This allows us to know how the fund indirectly participates in the achievement of these goals. As of December 2020, 64% of companies in the fund are committed to at least one goal and have relevant justification to walk the talk.

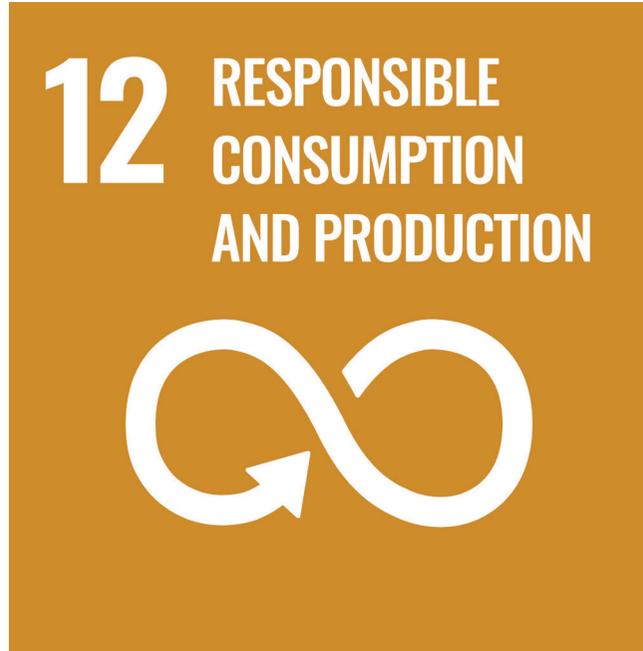
Pareto ESG Global Corporate Bond SDGs exposure



Top 3 contribution:



38% of our issuers can verify through concrete actions how they work positively / reduce the negative impact related to the climate matter.



29% of our issuers can verify through concrete actions how they work positively / reduce the negative impact of their production.



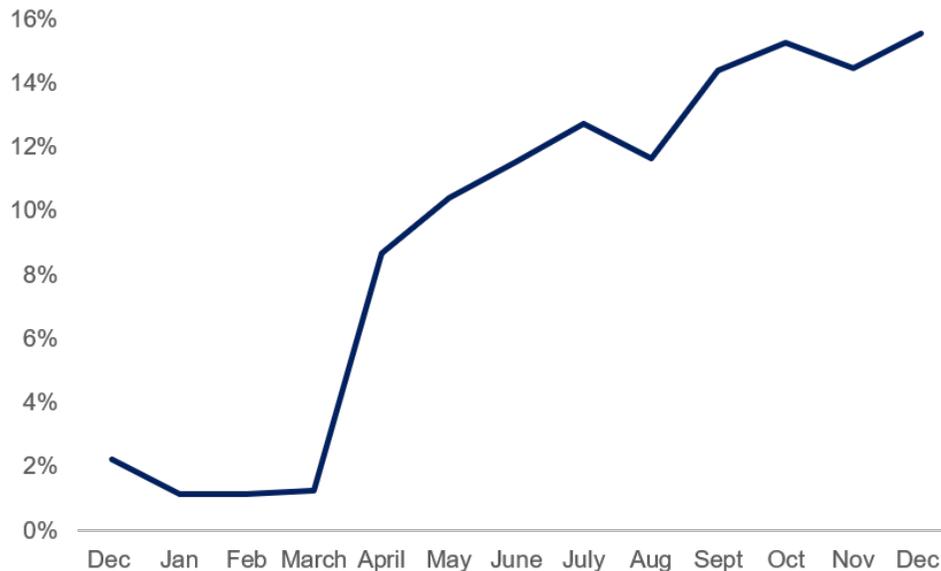
24% of our issuers work actively to offer employees or clients (ex: health industry) good health and wellbeing.

Green bonds

The concept of green bonds has been growing in popularity over the past years. This is the result of concerns about the negative impacts of climate change. This segment of the bond universe has gained recognition through its potential in enabling entities to get and manage financing in order to improve sustainability in their organisation.

During the period we have taken part in several high yield green bond issues. Our fund universe for green bonds has therefore grown. We have been able to find a broader spectrum of sectors to invest in. The percentage of green bonds in the fund has grown from 2.2% to 15.5%.

Green bonds evolution

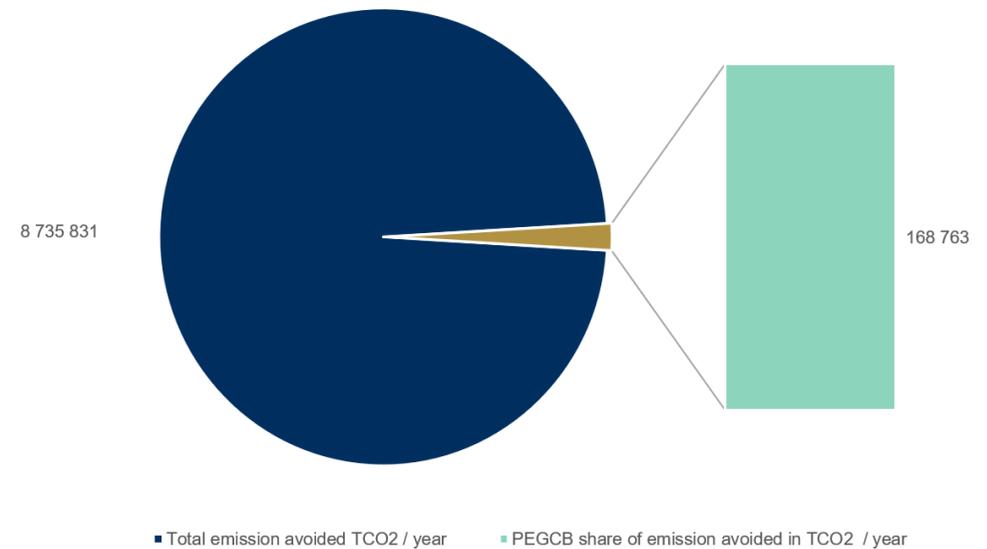


Positive impact of the fund

In order to be in line with the Green Bond Principles, the second-party opinion ensures that companies that have issued a green bond publish a report on their *Green use of proceeds*. This reporting includes information on emissions avoided through the Green project. **Avoided emissions** is a climate impact indicator expressed in tonnes of CO2 equivalent. This is the difference between the emissions saved by the project and those induced by a fictive situation, called the reference situation, in which the project would not have been carried out.

This indicator enables us to measure the sustainable impact of our investments.

CO2 emissions avoided



* The amount of emissions avoided is based on the data reported by the companies (4/14 Green projects). Since we took part in several green bonds in 2020, not all companies have published the relevant reports.

Top 10 holdings

	Company description	Sustainable development	Sustainability risk	Link to website	Weight (%)
	<p>UPM leads the forest-based bioindustry into a sustainable, innovation-driven, and exciting future across six business areas.</p>	<p>Consistent work in the area of responsibility has received recognition from third parties. UPM creates renewable and responsible solutions that replace fossil-based materials.</p>	<p>Changes in operating environment.</p>	<p>upm.com</p>	<p>4.0%</p>
	<p>Eurofins provides analytical testing services to pharmaceutical, food, environmental and consumer products industries and governments.</p>	<p>Formal sustainability program that has shown successful strides towards lowering its environmental impact and increasing its positive impact. Signatory to the UN Global Compact.</p>	<p>Absence of split CEO and chairman.</p>	<p>eurofins.com</p>	<p>3.2%</p>
	<p>Energizer is one of the clear marketleaders and recognized markers of dry cell batteries globally.</p>	<p>Energizer is committed to finding a plastic-free packaging solution for all of its battery products by the end of 2020.</p>	<p>Environmental impact.</p>	<p>energizer.com</p>	<p>2.9%</p>
	<p>Second largest producer of spun lace nonwoven fabrics and is recognised as a leading innovator in the nonwoven industry.</p>	<p>JH offers its customers sustainable product options – including natural resources. Forest Stewardship Council certification system manufacturing sites guaranteeing raw materials produced from forests are handled responsibly.</p>	<p>Environmental impact.</p>	<p>jacob-holm.com</p>	<p>2.8%</p>
	<p>A global logistics organisation offering the complete range of transport and logistics, focusing on providing personal advice and tailor-made logistics solutions.</p>	<p>SGL has at all times conducted business according to the ILO conventions and UN Human Rights stipulations. Signatory to the UN Global Compact.</p>	<p>Environmental impact and economic instability.</p>	<p>scangl.com</p>	<p>2.6%</p>

	Company description	Sustainable development	Sustainability risk	Link to website	Weight (%)
	<p>Leading European energy management Techem provides enhanced efficiency throughout the entire value chain of heating and water supply in buildings.</p>	<p>Techem's services and solutions offered help to avoid more than 6.5 million tonnes of CO₂-emissions every year. committed with The "Allianz für einen klimaneutralen Wohngebäudebestand" (Alliance for Climate-Neutral Housing).</p>	<p>Changing behavior and growing disruption</p>	<p>techem.no</p>	<p>2.6%</p>
	<p>Iron mountain is dedi-cated to storing, pro-tecting, managing information destruc-tion, and data backup and recovery services. As of 2016 over 94% of Fortune 1000 compa-nies use Iron Moun-tain's services.</p>	<p>Iron Mountain is listed on the FTSE4Good Index for meeting globally recognized corporate social re-sponsibility standards and joined the RE100 and commit-ted to 100 percent renewable energy and to reduce greenhouse gas emissions.</p>	<p>Data security and privacy.</p>	<p>ironmountain.com</p>	<p>2.3%</p>
	<p>Liberty Global is one of the world's leading converged video, broadband and communication companies, known as its consumer brands: Virgin Media, Telenet and UPC.</p>	<p>The company conducted a materiality study with commissioned ESG experts. It is working on topics covering all aspects of sustainable development and reports on its progress. Received "Bronze class" distinction in the Dow Jones Sustainability Index for excellent sustainability performance.</p>	<p>Dependence on regulatory approvals for telecom licenses.</p>	<p>libertyglobal.com</p>	<p>2.2%</p>
	<p>Oriflame is a leading beauty company selling beauty products. Present in more than 60 countries, of which they are the market leader in more than half.</p>	<p>The company has recently updated its sustainability strategy, for a sourcing, source only of renewable and recyclable materials. Reports on sustainability according to GRI* standards.</p>	<p>Environmental impact.</p>	<p>www.oriflame.com</p>	<p>2.2%</p>
	<p>Intrum offers commercial and consumer debt collection, debt surveillance, international debt collection, purchased debt services, sales ledger administration, and optimization services.</p>	<p>Aims to be the most attractive employers in its industry. This will be done by treating their employees well and offering the best opportunities. Signatory of the UN Global Compact.</p>	<p>Economic instability</p>	<p>intrum.com</p>	<p>2.2%</p>

Signatory of:



Environment

- Climate changes
- Emissions of greenhouse gases
- Resource extraction
- Waste management and pollution
- Deforestation



Society

- Responsible working conditions
- Child labour and slavery
- Local and indigenous communities
- Conflicts
- Health and safety



Corporate Governance

- Corruption
- Lobby activities and donations
- Board composition and diversity
- Tax strategy
- Management salary

