

SFDR FUND STATEMENT

Pareto Aksje Norge
2021



Fund Statement

Summary

This document provides sustainability-related disclosures regarding Pareto Asset Management's equity product branded as Pareto Aksje Norge, which is categorised as an Article 8 fund as provided in Article 32 of the Sustainable Finance Disclosure Regulation Level II proposal text from the European Supervisory Authorities. The information presented in this document does not disclose all the elements of the Level II proposal, as this part of the framework has not yet entered into force.

Overall, the Fund is subject to the requirements made at the company level (Pareto Asset Management, henceforth PAM) through the *Guidelines for Responsible Investments*. Furthermore, PAM has signed the UN Principles for Responsible Investment (PRI). These guidelines are based on UN PRI, the UN Global Compact, the guidelines for the Norwegian Government Pension Fund Global, the Principles for the exercise of ownership rights in investment companies from the Norwegian Fund and Asset Management association, as well as internationally recognised principles and conventions. At the fund level, Pareto Aksje Norge builds on these guidelines and creates a formal ESG strategy and implementation system.

The ESG strategy implementation can be split between three different phases. These phases are: 1) Exclusions of companies on the exclusion list, 2) A thorough ESG analysis of all potential holdings prior to investing, 3) Active ownership.

The Fund considers environmental, social and corporate governance factors by excluding any company included on the Norwegian Government Pension Fund Global exclusion list. Furthermore, sustainability risks affect the companies' long-term value creation, making sustainability assessments and analysis central elements in all investment decisions. The Fund assesses both environmental and social aspects of all companies prior to investing. Good corporate governance is necessary, as a matter of course. Lastly, the Fund is a long-term and active owner, seeking to influence the companies in a more sustainable direction. This can be related to emission-reduction goals, social factors in the value chain, reporting quality, etc.

No sustainable investment objective

This financial product promotes environmental and/or social characteristics but does not have as its objective a sustainable investment. The financial product does not commit to making one or more sustainable investments and does not commit to making investments aligned with the EU Taxonomy.

Environmental or social characteristics of the financial product

Pareto Aksje Norge promotes both environmental and social characteristics by excluding certain pre-selected companies, screening every potential investment prior to investing and conducting active ownership after the investment is made. To fulfil our investment requirements, the companies need to: Work to reduce their negative impact and have relevant goals to positively impact the environment. They must commit to reducing environmental and climate risks in their value chain, promote responsibility and encourage environmentally friendly technology. Carbon-intensive sectors are subject to more thorough screening as the environmental risk is believed to be higher. Such sectors include oil & gas, materials, etc. Companies must support and promote good practices in both human rights and labour rights. Guidelines must be publicly available on how the company handles these conventions both within its business as well as through its entities.

Investment strategy

Pareto Aksje Norge has a dedicated investment strategy and mandate. After certain companies are excluded, the fund managers will pick companies based on thorough screening, including ESG factors. The fund's investment strategy is fundamental, and key figures (such as earnings, dividends, capital structure) and strategy are evaluated. Companies with a healthy capital structure, strong return on equity, moderate pricing and good leadership will be considered. Additionally, the fund managers believe that sustainability and long-term value creation go hand in hand, making ESG a natural aspect to integrate in the Fund's strategy. The objective of the Fund is to maximise risk-adjusted returns, and ESG screening is a key component in meeting this objective.

Apart from this, the Fund does not commit to investing solely in specific sectors, products, or themes, like for example taxonomy-aligned companies etc. See Pareto Asset Management *Guidelines for Responsible Investments*.

Proportion of investments

Pareto Aksje Norge adheres to the company-wide exclusion criteria. In addition, the Fund conducts more thorough ESG analysis in the investment process of each holding. The Fund is actively managed, meaning there is no pre-defined asset allocation, other than healthy diversification. In practice, the Fund aims to have all assets under management aligned with good environmental, social and governance characteristics.

Monitoring of environmental or social characteristics

Pareto Aksje Norge promotes environmental and social characteristics throughout the investment process.

The Fund consistently monitors the companies through all available channels. As of now, companies mostly report their figures in an annual sustainability report, making new information fairly rarely available. However, the Fund is consistently evaluating new projects etc. that may materialise in non-financial figures. The investment team has created a database with historical non-financial information on all holdings, making it easy to track progress when new information is published.

All investments have a database of historical non-financial information and a factsheet. These documents are updated on an annual basis, or more often if possible. Through this analysis, potential improvements and/or risks are identified, enabling us to have constructive discussions with management. As a large owner in most of the holdings, the Fund can easily access management and discuss possible improvements or strategies in general.

The fund will not have a separate reference benchmark for measuring ESG impact.

Methodologies

Formalised guidelines on ESG.

Pareto Aksje Norge identifies strong ESG practices where companies provide high transparency and demonstrate strong commitment in all three aspects (environmental, social and governance). Within each category (E, S and G), a score between 0 and 100, where 100 is the best possible score, will be given to the company based on several factors. A company demonstrates

a strong ESG practice through a total score of above 80. The factors are:

ENVIRONMENTAL

- Transparency and reporting quality. This enables us and others to assess the company's performance, as well as measure its development. A company without ESG reporting will automatically receive a poor score.
- Internal policies and practices. Within this, relevant targets, preferably science-based targets.
- R&D in sustainable technology/solutions. The companies should show a sharp focus on new and improved solutions.
- Key figures: GHG emissions, water consumption, hazardous waste compared to peers.
- For companies operating in carbon-intensive sectors, the Fund aims to only invest in companies in the top half regarding climate risk.

SOCIAL

- Human and labour rights. The companies should support and respect the protection of internationally proclaimed human rights.
- EHS. The company's focus on all stakeholder's health and safety. Clear strategies. Will be measured through several key figures as sick leave, injury rate, etc.
- Diversity and inclusion. The company should work actively to reduce diversity problems (if any). Measured through gender composition in management, leadership and board, and pay gaps.

GOVERNANCE

- Corruption and ethics. The company needs to have clear guidelines to fight corruption in all forms. A code of conduct.
- Governing bodies and ownership structures. Transparency in committees with a clearly defined mission and a balanced presentation of members.

Data sources and processing

The investment team does not make use of information from external ESG rating agencies, apart from, say, having Sustainalytics and MSCI scores motivate further inquiry. We aim to conduct 100% of the ESG analysis in-house. This gives us further in-depth knowledge of the companies' ESG practices,

enabling us to better engage with the companies. The in-house analysis will be updated on an annual basis. We keep track of all ESG data reported from the companies, which is updated when the annual or sustainability report is published. The Fund continuously monitors the companies' non-financial performance through all available channels, including, but not limited to, sustainability and annual reports, news channels, investor relations, etc.

Limitations to methodologies and data

Available extra-financial and sustainability data have their limitations, as companies in Norway do not have clear laws regarding non-financial reporting. The investment team regularly reviews company metrics, and continuously seeks to improve transparency, disclosure, and data provision in relation to the fund by engaging with companies.

Due diligence

The investment team conducts an in-depth analysis of a company before an investment decision is made. This process consists of both financial and non-financial analysis. Any company on the exclusion list of Norwegian Pension Fund Global is automatically excluded. Next, the investment team conducts an extensive ESG analysis on the company, focusing mainly on reporting quality, transparency, whether goals are compliant with the Paris Agreement, measures to reach said goals, EHS practices, employee welfare, governance, remuneration, etc. We conduct our ESG analysis in-house, but external reports can motivate further inquiry.

Disclaimer

This Fund Statement is subject to amendments in order to comply with requirements set out in the Regulation (EU) 2019/2088 of the European Parliament and the council of 27 November 2019 on sustainability-related disclosures in the financial services sector and, when entering into force, the Final Regulatory Technical Standards.

Engagement Policy

Pareto Asset Management (PAM) shall exercise active ownership in the portfolio companies to promote responsible business operations. In 2014, we formalised our commitment by signing the UNPRI (United Nations Principles for Responsible Investment). Through our signature, we committed ourselves to respond to the six principles:

1. We will implement ESG issues in our investment analysis and decision-making processes
2. We will practice active ownership and implement ESG in our ownership policy and its exercise
3. We will work for satisfactory reporting on ESG topics from our portfolio companies
4. We will promote acceptance and implementation of the principles in the financial industry
5. We will work with other signatories to strengthen the effect of the principles and their implementation
6. We will report on our activities and our progress in implementing the principles

The exercise of active ownership is subject to PAM's *Policies on Exercise of ownership*.

PAM's *Guideline on Exercise of ownership* applies on product level. All of PAM's funds must engage with their portfolio companies to be compliant with the guidelines.

Pareto Asset Management has established an ethics committee entrusted with the responsibility to ensure that the company's *Guidelines for Responsible Investments* are up to date and appropriate, as well as assess and decide exclusion of companies in accordance with the guidelines. The Compliance Manager shall supervise compliance with our *Guidelines for Responsible Investments*, including the necessary exclusion of companies.

The Fund managers of Pareto Aksje Norge believe in exercising their rights as shareholders. There are two main ways of doing this. Either through direct voting at general assemblies or engaging with the company management and/or board.

The Fund managers utilise both tools when engaging with the companies. The investment team strives to have continuous dialogue with management in the companies where the fund is invested. The investment team believes that strong engagement dialogue is one of the keys to success in long-term value creation. The investment team would expect companies to comply with our governance criteria as they are convinced that quality of corporate governance enables us to stress the importance of sustainability aspects to the companies the Fund finances. In addition, the Fund votes on all general assemblies.

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