

SFDR FUND STATEMENT

**Pareto ESG Global Corporate Bond
2023**



Fund Statement

Summary

This document provides sustainability-related disclosures regarding Pareto Asset Management's fixed income product branded as Pareto ESG Global Corporate Bond (the Sub-Fund), which is categorised as an Article 9 fund as provided in Article 45 of the Sustainable Finance Disclosure Regulation Level II text from the European Supervisory Authorities.

Overall, the Sub-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 ESG Global Corporate Bond builds on these guidelines.

In addition, the Sub-Fund has been approved as a Nordic Swan Ecolabel fund since 2018 and has from that point been subject to several strict requirements in four areas, namely exclusions, inclusions, active ownership, and transparency. Due to this, all of the Sub-Fund's investments are selected based on qualitative and quantitative inclusion and exclusion criteria and are further assessed according to active ownership and transparency standards as defined by the Nordic Ecolabelling. Such strategies enable the Sub-Fund to steer its capital flow in a sustainable direction. For a complete overview of the criteria for Nordic Swan Ecolabel funds: <https://www.nordic-ecolabel.org/investmentfunds>

The Sub-Fund's investment objective is to create long-term positive return relative to its risk profile, by investing in companies enabling the Sub-Fund to maintain a decarbonization trajectory.

No significant harm to the sustainable investment objective

This financial product promotes environmental and/or social characteristics but does not have as its objective a sustainable investment.

No sustainable investment objective

To ensure that all investments made by the Fund comply with the do no significant harm principle and follow good governance practices, the Fund applies the following methodologies:

- All investments from exclusion sectors are filtered out from the fund investment universe, as such investment do not contribute to the Fund's sustainable investment objectives, may cause significant harm to environmental and / or social objectives and such investees' governance practices do not live up to the required standards.
- Issuers not filtered out in the exclusion screening process and that fail the ESG analysis, including the principal adverse impact indicators on sustainability factors to the extent such information is available, are not eligible for investment as the risk of the issuer causing significant harm to any environmental or social objective is unacceptable and / or the investees' governance practices do not live up to the required standards. The engagement activities may impact whether the issuers pass or fail the ESG analysis.

The fund managers' methodology aims to continuously evaluate the principal adverse impacts on environmental, social and governance issues related to the issuers' operation activities to the extent such information is available. This entails that the Sub-Fund will collect and measure any relevant quantitative and qualitative information enabling to measure principal adverse impacts on sustainability factors.

It is emphasised that in accordance with the Sub-Fund's exclusion criteria, the Sub-Fund shall not invest in, among others, holding companies which themselves or through entities they control derive 5% or more of their revenue from power generation, exploration, drilling, extraction and/or refining (for fuel) of coal (all sorts of thermal coal, e.g. lignite or anthracite), natural gas (conventional and unconventional), crude oil (conventional and unconventional), and/or uranium. In addition, the Sub-Fund strives to maintain a low exposure to high greenhouse gas emitting sectors, including aluminium, aviation, automobiles, cement, mining, pulp and papers, shipping, steel.

As the Sub-Fund is managed under the requirements of the Nordic Swan Ecolabel and Pareto Asset Management's guidelines for responsible investments, every issuer must comply with the OECD Guidelines for multinational Enterprises

and the UN Guiding Principles on Business and Human Rights.

Sustainable investment objective of the financial product

The Sub-Fund's investment objective is to create long-term positive return relative to its risk profile, by making investments aligned with its sustainable investment objectives. The Sub-Fund has one environmentally sustainable investment objective and one socially sustainable investment objective. Both sustainable investment objectives have connections to the 2030 Agenda for Sustainable Development with the 17 Sustainable Development Goals (hereinafter "SDGs") at its core.

The Sub-Fund's environmentally sustainable investment objective is to maintain a decarbonization trajectory.

The Sub-Fund's socially sustainable investment objective is to contribute to well-functioning society and promote better living standards.

Investment strategy

The Sub-Fund's investment strategy must be exercised in accordance with the following frameworks for all investments made by the Sub-Fund:

- The Nordic Swan Ecolabel criteria;
- UN's Principles for Responsible Investments;
- Pareto Asset Management guidelines for responsible investments; and
- The Sub-Fund's investment policy, exclusion policy and engagement policy.

The Sub-Fund applies the following as the main elements in its investment strategy to ensure that all investments meet the Sub-Fund's investment criteria:

- Exclusion criteria;
- ESG integration (inclusion criteria); and
- ESG engagement

The Sub-Fund applies several binding elements in its investment strategy to select investments to attain the sustainable investment objectives of the Sub-Fund:

- The investment must contribute to one of the Sub-Fund's sustainable investment objectives: 1) to maintain a decarbonization trajectory, or 2) contribute to a well-functioning society and promote better living standards. Each investment has to enable or positively impact one of the SDGs targeted by each sustainable investment objective and pass the ESG analysis by achieving a rating exceeding "underperformer".
- The investment cannot cause significant harm to any

environmental or social sustainable investment objective: The investment has to comply with the Sub-Fund's applied exclusion criteria, pass the Sub-Fund's ESG analysis by achieving a rating exceeding "underperformer" and the principal adverse impacts have to be acceptable opposite the sustainable investment objectives of the Sub-Fund.

- The investee must follow good governance practices: The investment has to comply with the Sub-Fund's applied exclusion criteria and pass the Sub-Fund's ESG analysis by achieving a rating exceeding "underperformer".
- Newsflow analysis: The newsflow analysis is a binding element applied to monitor the Sub-Fund's investments during their holding period. "Newsflow" includes all new information about an issuer disclosed by the issuer or through public sources. The disclosures provided through the newsflow enable the Sub-Fund to continuously assess whether the investment complies with the Sub-Fund's investment criteria.
- Engagement: The fund managers shall engage with the issuers which the Sub-Fund is invested in according to procedures as described in the Sub-Fund's Engagement Policy.

Proportion of investments

All of the Sub-Fund's investments in bonds will be sustainable investments, which is equivalent to 80% of the total net assets of the Sub-Fund. The sustainable investments will contribute to one of the sustainable investment objectives of the Sub-Fund.

The Sub-Fund will make sustainable investments with an environmental objective that is not aligned with the EU Taxonomy (EU) 2020/852 ("the taxonomy"). Such investments contribute to another environmental objective in accordance with the Sub-Fund's environmentally sustainable investment objective.

Due to the lack of/low numbers of companies reporting on the taxonomy at the time of this document, the Sub-Fund does not commit to a percentage of sustainable investments with an environmental objective that are aligned with the taxonomy. Nevertheless, the fund is not prevented from making sustainable investments with an environmental objective that are aligned with the taxonomy.

The remaining share of the Sub-Fund is not considered sustainable and includes cash and derivatives. Cash may be held as ancillary liquidity or for risk balancing purposes. The Sub-Fund may use derivatives for the purposes described in the "Investment Objective and Policy" section in the Sub-Fund's Annex.

It is emphasised that the actual share of environmental and social objectives may vary over time, but the minimum share of environmental or social objectives will not be less than 25% of the total net assets of the Sub-Fund.

Where it is in the best interests of the investors and in response to market conditions, the Sub-Fund may temporarily deviate from the 80% threshold.

Monitoring of sustainable investment objective

The sustainable investment objective and the sustainability indicators are monitored through internal and external control mechanisms throughout the lifecycle of the investments by applying the following processes:

- Internal assessment of the potential investments according to the Sub-Fund's applied investment decision making process executed by the ESG analyst.
- Ongoing companies newsflow analysis. Any new and relevant information regarding an existing holding's ESG position (negative or positive) will affect the company's assigned rating according to the Sub-Fund's rating system.
- Identification and assessment of a potential breach/conflict/controversy disclosed through internal analysis, publicly available information and sources, the Sub-Fund's dialogue with its holding companies.
- The Sub-Fund applies Bloomberg classification industry sectors ("BICS") related to relevant exclusion criteria to identify companies not eligible for investment. The list of exclusion is monitored on a daily basis. In addition, the Head of Risk receives news from NBIM via email alerts and will get a notification if a new company were to be excluded.
- The Sub-Fund has designated a third party to perform a carbon footprint assessment.
- An annual review of our process and analysis is performed, signed, and released by the Chief Compliance Officer. This review is verified by the Nordic Swan Ecolabel.

Methodologies

Sustainability indicators used to measure the attainment of the environmentally sustainable investment objective:

- Percentage of NAV in investments aligned with the SDGs [SDG 7, SDG 8, SDG 9,
- SDG 11, SDG 12, SDG 13, SDG 14, SDG 15]
- Percentage of NAV committed to Science-Based Targets (hereinafter "SBTs")
- Percentage of NAV approved SBTs
- Percentage of NAV climate action plan
- Percentage of NAV Green bonds and Sustainability-linked bonds
- Carbon Footprint assessment executed by a designated third party

Sustainability indicators used to measure the attainment of the socially sustainable investment objective:

- Percentage of NAV in investments aligned with the SDGs [SDG 1, SDG 2, SDG 3, SDG 4, SDG 5, SDG 6, SDG 8, SDG 10, SDG 16, SDG 17].

Further, the Sub-Fund will use the principal adverse impacts

on sustainability factors, where such information is available, to over time compare the portfolio's results and progress when the Sub-Fund has obtained sufficient basis of comparison.

Data sources and processing

A dedicated ESG analyst is working fulltime on the Sub-Fund to perform sustainability assessments. The Fund does not make use of already computed ratings from sustainability rating agencies as it aims to hold a 100% in house ESG analysis. Nevertheless, in certain case such rating may motivate further inquiry to disclose and clear for any hurdles. In this respect, research focuses on gathering data from relevant sources. Given the amount of available sources, the investment team prioritize data collection from the following sources:

Companies' public disclosures and publicly available reports;

- Sell-side research;
- Third party research;
- Academic studies;
- White papers;
- Climate research centers; and
- Non-governmental organisations (NGOs) research.

For privately owned companies with less stringent disclosure obligations, the Sub-Fund requires companies to provide relevant information.

Further, the Sub-Fund has designated third-party to collect certain sustainability-related data, including the portfolio's carbon footprint and the principal adverse impacts indicators on sustainability factors.

Lack of information prevents the Sub-Fund from performing its company valuation properly. In the event of unanswered questions or insufficient available disclosures, communication with the company shall be conducted. If information remains insufficient the Sub-Fund will decide not to invest.

Limitations to methodologies and data

Available and reliable extra-financial and sustainability data has some limitations, particularly in the fixed-income spectrum in which the Sub-Fund invests. The portfolio managers regularly review its metrics, and continuously seeks to improve transparency, disclosure, and data provision by engaging with prospective or existing portfolio companies. All of the Sub-Fund's holdings are subject to an initial analysis to ensure that the holding complies with the Sub-Fund's investment criteria. If the portfolio managers do not have information that sufficiently enable them to conduct the analysis, the holding is considered not to be eligible for investment.

Due diligence

The Sub-Fund's ESG analyst will conduct an assessment before a new holding is acquired.

The assessment consists of exclusion criteria, inclusion criteria and engagement activities. The different parts of the assessment are further described in the following documents:

- Investment Policy: <https://paretoam.com/globalassets/svanen/pegcb-investment-policy-2023.pdf>
- Exclusion Policy: <https://paretoam.com/globalassets/svanen/pegcb-exclusion-policy-2023.pdf>
- Engagement Policy: <https://paretoam.com/globalassets/svanen/pegcb-engagement-policy-2023.pdf>
- Pareto Asset Management guidelines for responsible investments: <https://paretoam.com/globalassets/rappporter-og-dokumenter/guidelines-for-responsible-investments.pdf>

An annual review of the process and analysis is performed, signed and released by the Chief Compliance officer. This review is verified by the Nordic Swan Ecolabel.

Engagement policies

As part of its investment process, the Sub-Fund has developed an engagement process. The Sub-Fund's engagement process is available at: <https://paretoam.com/globalassets/svanen/pegcb-engagement-policy-2023.pdf>

Attainment of the sustainable investment objective

At the time of this Annex no eligible or appropriate benchmark with similar investment universe and in accordance with Regulation (EU) 2016/1011 is available.

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