

SFDR FUND STATEMENT

**Pareto ESG Global
Corporate Bond
2021**



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 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 ESG Global Corporate Bond builds on these guidelines.

The Fund's investment strategy is designed to create long-term positive return in sustainable investment, combining the classic requirements of risk and financial return with the low carbon transition requirements in line with The Paris Agreement as signed on 22 April 2016 (the Paris Agreement) and the Sustainable development goals (SDGs) developed by the United Nation.

All elements of the strategy to invest in assets are binding on the investment fund, as these are set out in the investment policy. After an investment has been successfully made, or while in the existing portfolio, on-going monitoring is carried out both at portfolio level and at asset level by the investment team and overseen by the compliance team. The aim of ongoing monitoring is to identify and minimize sustainability risks over the entire term of the investment. The investment team has a structured screening and an ESG integration process to comply and show commitments including but not limited to the Nordic Ecolabelling requirements.

All securities are assessed with regard to their sustainability as part of the investment process to ensure that, while promoting sustainable investment, the principle of "do no significant harm" is taken into account.

The sustainable investment objective of the fund is monitored on a continuous basis throughout the lifecycle of investments, including:

- A valuation based on the rating criteria: "Outperform", "Average" and "Underperform" will be given in each category before a total score is computed. If the company receives a total score "Underperform", the investment team will not undertake the investment, and an existing holding will be sold.

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 team.

No significant harm to the sustainable investment objective

In line with the European Green Deal objectives, investments should comply with the "do no significant harm" (DNSH) principle according to which holding companies should not be supporting or carrying out activities that do significant harm to any of the six environmental objectives, within the meaning of EU taxonomy, on the establishment of a framework to facilitate sustainable investment.

Sustainable investment objective of the financial product

Pareto ESG Global Corporate Bond selects companies aligned with the objectives of the Paris Agreement. At this stage, the reference scenario selected is the IEA Sustainable Development Scenario, which is built on a decarbonisation trajectory in line with the Paris Agreement.

Pareto ESG Global Corporate Bond looks at the company's commitment to the carbon emission reduction while acknowledging that there is still substantial global dependence on fossil energy.

As part of our carbon emission reduction ambition the fund company has accredited a recognised third party to perform independent calculation of Pareto ESG Global Corporate Bond's carbon footprints.

The methodologies used by the investment team to meet the objective are described in detail in the section "Attainment of the sustainable investment objective".

Investment strategy

Fund managers will pick companies based on the negative and positive screening criteria, after companies have been excluded according to the screening process (further information on exclusion process in the fund investment policy available upon request).

The investment team selects companies with good sustainability efforts by evaluating how they handle their environmental, social and governance practices. In order to identify companies that show strong sustainability practices, the investment team has developed a thorough internal ESG analysis model which combines the Nordic Swan Ecolabel's requirements with the low carbon transition requirements in line with the Paris Agreement and the Sustainable development goals ("SDGs") developed by the United Nation.

Proportion of investments

Pareto ESG Global Corporate Bond is comprised of 95% direct investments and 5% cash. The fund aims to maintain a range of 1 to 10 % in cash for the fund.

The investment team will internally manage the holdings and new investments in order to avoid any indirect holdings according to the Nordic Ecolabelling. If any indirect holdings are considered, this will be reported to the Nordic Ecolabelling to continue compliance with the requirements of the Nordic Ecolabelling.

All assets are assessed with regard to their sustainability aspects as part of the ESG analysis process to ensure that, while promoting sustainable investment, the principle of "do no significant harm" is taken into account. The investment decision is always based on the inclusion of sustainability criteria. If it becomes apparent that an investment under consideration could cause significant harm to the sustainable investment objectives or there is no clear means to mitigate and improve the sustainability characteristics of an investment, the investment team commits to not investing in the asset.

Monitoring of the sustainable investment objective

The sustainable investment objective of the fund is monitored on a continuous basis throughout the lifecycle of investments, including:

- Internal ESG valuation based on exclusion and integration processes conducted before a potential acquisition
- Ongoing companies newsflow analysis. Any new (relevant) information regarding an existing holding's ESG position (negative or positive) will be integrated into the company ESG analysis report.
- Identification and assessment of a potential breach or conflict; information based on internal analysis, public information and/or outside sources and dialogue.
- 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.

Data sources and processing

The investment team does not make use of rating from dedicated ESG analysis companies as it aims to hold a 100% in-house ESG analysis of the holding companies in the fund. However, the investment team uses all public information, internal and external research, and dialogue with the companies' management teams to assess holdings.

Limitations to methodologies and data

Available extra-financial and sustainability data has its limitations, particularly in the fixed-income spectrum in which the fund invests. The investment team regularly reviews its metrics, and continuously seeks to improve transparency, disclosure, and data provision by engaging with prospective or existing portfolio companies.

Due diligence

The investment team selects companies with good sustainability efforts by evaluating how they handle their environmental, social and governance practices. In order to identify companies that show strong sustainability practices, the team has developed a thorough internal ESG analysis model which combines the Nordic Swan Ecolabel's requirements with the low carbon transitions requirements in line with the Paris Agreement and the Sustainable development goals ("SDGs") developed by the United Nation.

An internal ESG analysis will be conducted before a new holding is acquired.

1. Fund managers will pick companies based on the negative and positive screening criteria, after companies have been excluded according to the screening process
2. Valuation based on the rating criteria: "Outperform", "Average" and "Underperform" will be given in each category (Environmental, Social, Governance) before a total score is computed.
3. If the company receives a total score "Underperform", fund managers will not undertake the investment.

The annual update on each ESG analysis will be conducted by an in-house analyst that is specifically assigned the responsibility related to internal ESG analysis.

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.

Attainment of the sustainable investment objective

Pareto ESG Global Corporate Bond excludes companies that operate in the production and/or distribution of fossil fuel.

The investment team selects companies aligned with the objectives of the Paris Agreement. At this stage, the reference scenario selected is the IEA Sustainable Development Scenario, which is built on a decarbonisation trajectory in line with the Paris Agreement.

The investment team determines how a business activity could contribute to an unacceptable level of greenhouse gas emissions. Pareto ESG Global Corporate Bond observes the company's commitment to the carbon emission reduction and encourages companies to define a clear action plan alongside decarbonisation commitments.

As part of the carbon emission reduction ambition, the team has accredited a recognised third party to perform

an independent calculation of Pareto ESG Global Corporate Bond's carbon footprints. In addition, the investment team is working on implementing a company-level alignment with the Paris Agreement goal to limit global warming to well below 2 degrees from pre-industrial levels. The approach taken by our third party is a transition pathway assessment, which examines the adequacy of emission reductions over time in meeting a 2 degrees carbon budget.

The investment team is leveraging this assessment to track the fund and benchmark against the goal of limiting global warming to 2 degrees preferably 1.5 degrees climate change scenarios.

This assessment will enable the team to identify the scale of reductions required by 2025 and beyond to meet the Paris Agreement. Both carbon and temperature assessments enable us to further work on the fund decarbonisation by engaging with companies or divest if the efforts do not fit expectations.

The S&P U.S. Dollar Global High Yield Corporate Bond Index has been designated as a benchmark for determining the attainment of the sustainability objective of the fund as at this point of time there is no relevant Paris Aligned High Yield benchmark available.

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.

The EU Taxonomy is under development. Nor has a calculation model been established for units of fund investments that are in accordance with the taxonomy. The companies in which the fund invests have not yet started to report on the extent to which their activities are compatible with the EU Taxonomy. At the date of this Statement, the fund considers it not possible to provide reliable information on the proportion of the fund's investments that will be in financial activities that are environmentally sustainable according to the EU Taxonomy. The fund continuously monitors this situation and if reliable and verifiable data on the fund's investments become available, this document will be updated.

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 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 successful 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 is revealed by the transparency and accountability of the firm's governance-related issues and enables us to stress out the importance of sustainability aspects to the companies the fund finances.

Social dynamics are complex and evolve over time, engagement also means listening and adapting to every situation. Each action plan will not require the same efforts, while the process of engagement is equal to all. The investment team aims to contribute to companies' improvement in the sustainability field by sharing view and suggestions. Each formalised dialogue is integrated, updated and reviewed into the ESG analysis.

Pareto Asset Management AS
Org. nr.: 977 287 677

Dronning Mauds gate 3
0250 Oslo

P.O Box 1810, Vika
NO-0123 Oslo

t: +47 22 87 87 00
f: +47 22 01 58 50
e: post@paretoam.com

www.paretoam.com

