

SFDR FUND STATEMENT

**Pareto Global
2021**



Fund Statement

Summary

This document provides sustainability-related disclosures regarding Pareto Asset Management's equity product branded as Pareto Global, 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 Global builds on these guidelines and creates a formal ESG strategy and implementation system.

The fund's objective is to generate the highest possible risk-adjusted return, by holding a concentrated portfolio of stocks in companies with better financial quality and significantly better ESG characteristics than its index. We believe that both stronger financial and sustainability attributes are important factors to outperform the index over the long term, hence the fund should have a significantly lower carbon footprint than its index. The fund excludes companies with material revenue streams from unethical activities and follows the exclusion list of the Norwegian Government Pension Fund Global strictly.

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

The fund targets a significantly lower carbon footprint than its index, in combination with high ESG standards on both an absolute and a relative basis.

Investment strategy

The fund's objective is to generate the best possible risk-adjusted return, by holding a concentrated portfolio of stocks in companies with better financial quality and significantly better ESG characteristics than the index.

The fund implements a high minimum-level screening on financial and sustainability attributes in its selection process. Companies with economic activities which are deemed to have a significant adverse impact on the achievement of one or more of the UN SDGs, are systematically excluded from the fund's investment universe. With a bottom-up investment philosophy based on proprietary fundamental research, the chosen companies that remain within this best-in-class investable universe are closely followed by the portfolio managers, in order to monitor potential controversies. When new financial and sustainability data are made available, these data are incorporated into the portfolio managers' own proprietary models and assessments. To secure best-practice ESG investing, the portfolio managers utilise leading external ESG databases in combination with a thorough internal ESG analysis for every company on the refined investable universe list.

Monitoring of environmental or social characteristics

The active investment universe of the fund is continuously monitored by the portfolio management team on developments affecting environmental or social characteristics, inter alia carbon intensity and controversies where the companies may be involved. If a company exhibits significant negative progress along these dimensions, the company may no longer be found eligible for investment and may be taken out of the investable universe. The fund utilises its own research in addition to third-party ESG databases for this process.

Methodologies

The fund follows the exclusion guidelines of Pareto Asset

Management and the Norwegian Government Pension Fund Global, in addition to excluding companies that obtain more than a certain threshold of their total revenue from activities or products considered unethical. The fund also excludes companies that are in breach of global norms including inter alia the UN Global Compact.

Data sources and processing

The fund sources data from a handful of third-party vendors. These data are used as part of the fund's fundamental research process, where various data points from various data providers are reconciled and measured against each other and combined to attain a full picture of the investment case. The fund does not utilize third-party ESG scores as-is to make investment decisions, hence the portfolio managers prefer third-party ESG providers that follow transparent and coherent frameworks for assessing ESG risk.

Limitations to methodologies and data

The portfolio managers are to a certain degree dependent on third-party data in implementing their investment strategy. This relates to both financial data and ESG data. The investment process is designed to mitigate modelling errors by placing higher significance on actual reported data, carefully weighing the importance of estimated data, and simultaneously assessing the estimation methodologies used when such are disclosed. Another way of mitigating missing or less timely data, is to emphasise the importance of fewer but more material ESG factors in the investment process.

Due diligence

The fund holds the same high standards on due diligence when analysing the financial but also the sustainability aspects of its investments. This process is amended by a quarterly screening by the Risk and Compliance departments, where the fund's holdings are reconciled against a list of exclusion criteria. Both functions report independently to the company's CEO and the Board of Directors, in addition to the involved stakeholders.

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 UN PRI (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.

For Pareto Global, as an actively managed fund, engaging with companies is an instrumental part of the fund's investment process. This engagement already starts before investing in a company, when the portfolio managers assess whether a company meets the strict investment criteria and may become part of their investable universe. It is a strict requirement for them to meet with the companies before investing, in order to establish a dialogue with the company. Once eligible for an investment, their engagement with the company continues on an on-going basis, either in writing or orally, where they follow-up on developments along financial and sustainability targets. This engagement is executed on an ad-hoc basis, where the portfolio managers continuously assess the need for additional information or clarifications on reported information. As an active shareholder, the fund may also exercise its influence by voting at shareholder meetings. This is done on an ad-hoc basis based on the subject of matter, its significance, and the size of the fund's holding.

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