

## Engagement Policy

### Pareto ESG Global Corporate Bond (PEGCB)

#### Active ownership

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.

#### Our philosophy

The fund management strives to have continuous dialogue with management in the companies where the fund is invested. The fund management believes that strong engagement dialogue is one of the keys to successful long-term value creation. The fund management 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 fund management aims to contribute to companies' improvement in the sustainability field by sharing view and suggestions.

#### Engagement process

##### Introduction

Engagement and active ownership have historically been an equity investor remit. However, we have observed that it is generally easier for fixed income investors to reach companies seeking for capital

on the debt market. This is the reason why we believe that fixed income fund managers have an important role to play in positively influencing bond issuers in the right direction. As responsible investors, we consider the engagement activity to be a key component to meet our sustainable objective and achieve our fiduciary duty.

#### PEGCB's engagement approaches

The fund applies the following main approaches in its engagement activities:

- Proactive engagement
- Reactive engagement

#### *Proactive engagement approach*

At Pareto Asset Management, we believe that companies have a part to play in the transition to a sustainable future. The fund management team strives to find the winners of tomorrow. Once the fund invests in companies, fund managers and ESG analyst will try to influence companies to develop and improve sustainability practices.

In addition to the ongoing engagement dialogues with the holding companies, the fund managers can from time-to-time on an ad hoc-basis reach out to the holding companies to get clarifications on elements or obtain documentation the fund managers consider necessary. Such interactions with the holding companies are equally considered as engagement dialogues.

The fund managers have lately observed that their issuers are open to discuss sustainability matters. Nevertheless, the fund managers also experience that bond holders are of the opinion that fund managers do not have voting rights and due to this the fund managers' power of influence can be limited. Consequently, the fund managers consider a close relationship with issuers as a key element in order to be heard. The fund managers strongly believe that every appropriate measure made by the holding companies can mitigate sustainability risk within the holding companies and elevate the quality of their sustainability practices regardless of the predefined selection criteria. Therefore, the team strives to undertake and maintain dialogues with the holding companies to the greatest extent possible.

#### *Reactive engagement approach*

The reactive engagement arises after a controversy has been identified: The investment team follows companies' newsflow via numerous tools as referred to in the fund's investment policy.

- i. If it occurs information that gives the management team reason to believe that a holding violates an obligatory requirement or represents an unacceptable risk, the management team will act to disclose whether the alleged breach qualifies as an actual breach, including by entering into an engagement process with the holding company concerned.
  - a. If the non-conformity is verified, and the fund managers do not expect the issue to be resolved/rectified in the near future, the fund managers will sell all the holdings in breach within three months after the non-conformity was verified.
  - b. If the non-conformity is verified, but the fund managers expect the issue to be resolved/rectified in the near future, the fund managers preserve the right to keep the holding provided that they enter into an engagement process with the concerned holding company relative to the substantiality of the non-conformity and publish website disclosure according to ii. The fund undertakes to sell all positions in the holding company after 24 months if the non-conformity has not been successfully addressed and the issue still implies non-conformity. When the alleged non-

conformity affects the holding's ESG rating (average, above average, outperformer) to the extent that the holding no longer qualifies as an eligible investment (underperformer), the fund will sell all its positions in the holding.

- c. If the alleged non-conformity does not constitute a breach of any obligatory requirement but may have a significant impact on company operations and sustainable development, a reactive engagement dialogue will be undertaken. When the alleged non-conformity affects the holding's ESG rating (average, above average, outperformer) to the extent that the holding no longer qualifies as an eligible investment (underperformer), the fund will sell all its positions in the holding.
- ii. The fund managers undertake to publish on PAM's website information about alleged non-conformities if the holding concerned is kept in the portfolio for more than one month after the fund managers received information about the alleged non-conformity. Such website disclosure shall include information about the following elements:
  - a. How the fund managers assess the non-conformity;
  - b. What actions the fund managers will take to address the issue;
  - c. What result the fund managers expect to achieve; and
  - d. When the fund managers estimate that the issue will be resolved.

The fund considers a non-conformity verified when it has been confirmed as such through several sources, including Bloomberg newsflow tracker alerts, screening according to the Norwegian Government Pension Fund Global's exclusion list and one or multiple additional reliable external source(s). Non-conformities can also be verified through PAM's ethics committee's exclusion of a company according to PAM's guidelines for responsible investments.

#### *PEGCB's engagement process*

The fund's engagement process is formalized as follow:

- Selection of candidates;
- Identification of engagement objective(s);
- Integration of engagement into our ESG analysis; and
- Transparency

#### *Selection of candidates*

The fund does not only undertake to have reactive dialogues, if any, with its holding companies. The fund managers strive to regularly engage with its holding companies to address ESG issues. Such engagement is particularly applied to a minimum of 10% of the fund's issuers with the following characteristics:

- The largest contributors of GhG emissions;
- Companies from critical sectors for biodiversity<sup>1</sup> that are not recognized as strong sustainability practitioners; or
- The holding companies rated with the poorest ("average") sustainability score.

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<sup>1</sup> Critical sectors: agriculture, construction and infrastructure, extractive industries, fishery and aquaculture, food and beverage, forestry and logging, and shipping

#### *Identification of engagement objective(s)*

The following objectives are applied for reactive and proactive engagement dialogues:

- Thematic(s) (environmental, social, governance), objectives and targets must be defined by the fund managers prior to their engagement with the individual holding company; and
- Thematic(s) (environmental, social, governance), objectives and targets should be discussed during the meeting with the holding company

The following tools are used to monitor the progress of the engagement:

- The investment team defines and applies qualitative and/or quantitative indicators to monitor the progress of each individual holding company relative to the agreed targets; and
- The investment team drafts transcripts on an ongoing basis to document its dialogue with the holding companies. The transcript shall provide the fund managers with an oversight of their engagement processes to ensure sufficient follow-ups and measures. Such transcripts shall include a description of the agreed objectives, targets and expected progress. The holding company's progress towards achievement of the individually determined objectives/targets shall likewise be included. The transcript shall name the person conducting the dialogue.

#### *Integration of engagement into our ESG analysis*

Each formalized dialogue is integrated, updated and reviewed into the ESG analysis. The outcome of the engagement activities may impact the ESG rating.

In general, the ESG analyst and at least one of the fund managers attend engagement dialogues. If any of the fund manager can attend the meeting the ESG analyst updates the sustainability assessment of companies relative to the outcome of the engagement dialogue and share information with fund managers. Divestment is known as an option when companies fall under the fund management's expectations. When objectives or progress defined by holding companies are not satisfying, fund managers may decide to sell positions.

#### *Our transparency commitment*

The fund management team emphasises the importance of transparency on its activities. A selection of engagement dialogues conducted during the reporting period will be reported in the fund's annual sustainability report. The sustainability report is made publicly available on PAM's website. The reported engagement disclosures will be based on the information obtained through:

- The engagement dialogues targeted according to the engagement objectives; and
- The fund managers' monitoring of the individual holding company's progress.

#### **References to other relevant files**

Pareto Asset Management's guidelines for responsible investments

Investment Policy PEGCB

Exclusion Policy PEGCB