Pareto ESG Global Corporate Bond

Investment Policy

Investment process

The Fund selects companies by evaluating their risk and opportunity handling in areas considered significant in the team's investment decision making process. Companies that apply risk and opportunity handling in accordance with the Fund's criteria are considered to positively impact risk mitigation and create long-term value creation.

The approach and philosophy in the portfolio construction are the combination of top-down analytics and underlying ESG analysis to produce a complete picture of the portfolio's sustainability and risk exposure, and how such are handled by the fund managers.

As a first step, the Fund will make investments based on positive screening criteria after companies have been filtered out from the investment universe according to the exclusion screening process. For more information about the exclusion screening process, reference is made to the Fund's Exclusion Policy.

Positive selection criteria:

- Companies with a global reach
- Focus on niche players with strong market position
- Broad diversification
- A preference towards second line suppliers with strong market position and low headline risk
- Focus on risk-adjusted performance
- Diversified portfolio both in geography and sectors

Prior to investment the investment team will simultaneously conduct a financial and sustainability assessment. The team has developed an internal model and a holistic approach where quantitative and qualitative sustainable indicators are evaluated leading to ESG ratings that consider the Principal Adverse Impact of issuers on sustainability objectives, the requirement of the Nordic Swan Ecolabel, the Paris Agreement and the Sustainable Development Goals ("SDGs").

Research

A dedicated ESG analyst is working fulltime on the Fund to perform sustainability assessments[1]. 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;

[1] Information on missions covered by the ESG analyst can be found in Section "Accountability and oversight"

- Climate research centers; and
- Non-governmental organisations (NGOs) research.

For privately owned companies with less stringent disclosure obligations, the Fund requires companies to provide relevant information. Lack of information prevents the 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 Fund will decide not to invest.

The research phase enables the investment team to create a baseline metric to evaluate and compare companies. The investment team has defined a metric based on a materiality assessment that is applied to all companies. Although companies should demonstrate satisfying elements on similar criteria, the weight given to factors may be more significant depending on sectors.

Environmental

The Fund expects companies to:

1. Support a precautionary approach to environmental challenges;
2. Undertake initiatives to promote greater environmental responsibility; and
3. Encourage the development and diffusion of climate friendly technologies

Social

In terms of social practices, the Fund expects companies to:

1. Support and promote practices in both human rights and labour rights; and
2. Make publicly available guidelines on how the company handles these conventions both within its business as well as through entities they control.
3. Ensure employees well being and safety

This is evaluated by observing how companies are performing on the following elements:

- Human rights and political freedom;
- Employment and Income Equality; and
- Employees well being

Governance

In terms of governance practices, the Fund expects companies to:

1. Actively fight corrupt practices, such as extortion and bribery;
2. Have a system of compliance/ committee; and
3. Promote good corporate governance practices.

This is evaluated by observing how companies are performing on the following elements:

- Governance;
- Anti-corruption policies;
- Political stability and rights;
- Transparency in corporate governance practices; and
- Board diversity and independency

Valuation model and scoring system

Each company is scored as “underperformer”, “average”, “above average” or “outperformer” relative to the result of the analysis, including all E, S and G aspects. If a company is rated as “underperformer”, the company is considered not eligible for investment. The first step of the valuation model is to assign the company an individual environmental score, social score and governance score based on the following associated factors:

Environment

1. Support a precautionary approach to environmental challenges,
   - The company provides a code of conduct or practice for its operations and products that confirms commitment to care for health and the environment.

2. Undertake initiatives to promote greater environmental responsibility
   - Through a defined company vision, policies strategies and actions to include sustainable development including climate action plan and potentially circular economy, preserve biodiversity and local communities.
   - Develop sustainability targets and indicators. A valuation of relevant Principal Adverse impact indicators and EU Taxonomy alignment* will be conducted at this stage

3. Encourage the development and diffusion of climate friendly technologies
   - The company aims to implement technologies to help reduce the use of raw materials and increased efficiency

** At this stage, the Fund will collect information about the holdings' Taxonomy-alignment, where available, and aggregate a number at fund level to monitor the portfolio's exposure to Taxonomy-aligned activities. Due to the regulatory state of the Taxonomy regulation and CSDR and consequently the available information at the time of this Policy, the scoring of a potential holding will not be negatively affected if Taxonomy-related information is not disclosed. Nevertheless, if a potential holding does made Taxonomy-related information available such a disclosure positively contributes to the holding's rating. Reference is made to the section "EU Taxonomy"*

(+) Environmental: The company satisfies all the three criteria and associated factors.
(0) Environmental: The company satisfies at least one out of the three criteria and associated factors.
(-) Environmental: The company does not satisfy any of the above criteria and associated factors.

Social

1. Support and promote practices in both human rights and labour rights

Human rights

- The company should support and respect the protection of internationally proclaimed human rights
  - Company is not causing or contributing to adverse human rights impacts.
  - Company promotes employment, income equality and employee's safety.
- Make sure that they are not complicit in human rights abuses
  - Failure to act by a company that "helps" assist another, to carry out a human right abuse.

Labour rights

- The elimination of all forms of forced and compulsory labour
  - Clear policy not to use, be complicit in, or benefit from forced labour.
- The effective abolition of child labour
  - Act according to the ILO conventions and or Un Global Compact or publish an annual

modern slavery statement. Identify whether child labour is a problem within the business. Aware of countries, regions, sectors, economic activities where there are a greater likelihood of child labour.

2. Make publicly available guidelines on how the company handles human rights and labor rights both within its business as well as through entities they control.
   - Guidelines should be provided by company via reporting and/or from website.

3. Support inclusions, diversity and employee's well-being
   - Guidelines should provide policies and elements that emphasize inclusion and diversity Disclosures should provide elements such as third-party recognition that the company is a good place to work

(+) Social: The company satisfies all the three criteria and associated factors.
(0) Social: The company satisfies at least one out of the three criteria and associated factors.
(-) Social: The company does not satisfy any of the above criteria and associated factors.

Governance

1. Actively fight corrupt practices, such as extortion and bribery

- Company provides policy explaining how it will actively fight corrupt practices, such as extortion and bribery.

2. Have a system of compliance/ committee

- All employees should be aware of the company's code of ethical business conduct. The company should have a well-defined system.
- The company should have a well-defined system of compliance and/or committee that ensures a commitment to maintain good values, which adheres to a code of conduct and complies with relevant laws and regulations.

3. Promote good governance practices

- The company establishes a corporate governance practice in relation to national law and standards.
- Provide transparency in board members and missions.
- Promote diversity and independency.

(+) Governance: The company satisfies all the three criteria and associated factors.
(0) Governance: The company satisfies at least one out of the three criteria and associated factors.
(-) Governance: The company does not satisfy any of the above criteria and associated factors.

Once the company is assigned an individual environmental score, social score and governance score, a total score is computed by using the following ESG scorecard:

ESG scorecard	(+) Outperform (strong)	Above Average (strong)	(0) Average	(-) Underperform
	[+,+,+] – all three pillars are outperforming	[+,+,0],[+,0,+], [0,+,+] – at least two pillars are outperforming and one average	[+,0,0], [0,+,0] [0,0,+], [0,0,0]	[-,-,-], [0,-,-], [+,-,-]

Inclusion of strong sustainability practices

Definition of strong sustainability practices

In accordance with the requirements of the Nordic Swan Ecolabel, at least 70% of the Fund's value shall always be invested in holding companies that meet the definition of strong sustainability practices.

The Fund identifies strong sustainability practices where companies provide high transparency and demonstrate strong commitment in all the three aspects (environmental, social and governance). A company demonstrates strong sustainability practices through a total score of “Outperform” or “Above average”.

(+) Outperform (strong)	Above Average (strong)
[+,+,+] – all three pillars are outperforming	[+,+,0],[+,0,+], [0,+,+] – at least two pillars are outperforming and one average

Companies from critical sectors for biodiversity[1] must “outperform” on the environmental pillar to be considered having strong sustainability practices (reference is made to section “Conservation and sustainable use of biodiversity in critical sectors”)

The investment team acknowledges that there is currently no universal standard for implementation and reporting of sustainable practices. It depends on the specific expectations from different regulators, markets, and stakeholders. For this reason, a company can score “Above average” and be qualified as a company that demonstrates strong sustainability practices.

The investment team will always encourage companies to the greatest possible extent to improve practices and reporting where it is required. This includes encouraging companies with a score of “Above average” in improving required elements to obtain a total score of “Outperform”.

Reduction of GHG emissions in critical sectors

The Fund’s investment objective is to create long-term positive return relative to its risk profile, by investing in companies enabling the Fund to maintain a decarbonization trajectory. A specific approach is dedicated to mitigating exposure to climate risk by assessing companies’ capability to align their activities with the Paris Agreement.

First and foremost, the Fund will exclude companies that may cause severe environmental damages as provided in Pareto Asset Management’s (hereinafter “PAM”) guidelines for responsible investment’s exclusion criteria.

Further, holding companies which themselves or through entities they control derive 5% or more of their revenue from 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
- uranium.

In theory, and in accordance with the Nordic Swan Ecolabel criteria companies that fulfil all of the following criteria are exempt and may be included in the fund:

- At least 90% of the company’s energy sector CapEx in new capacity, on average for the three consecutive years including the last financial year, are in the renewable energy sector.
- Revenue from renewable energy comprises at least 50% of the company’s total revenue. This ratio may be calculated on average over the course of 1, 2 or 3 of the last financial years.
- The company has no revenue from tar sand, shale oil or shale gas, or other fracking activities and/or mining of oil shale and/or extraction in the Artic region.

The fund may not invest in energy companies which themselves or through entities they control derive 5% or more of their revenue from generating power from:

- coal (all sorts of thermal coal, e.g., lignite or anthracite);
- natural gas (conventional and unconventional);
- crude oil (conventional and unconventional); and
- uranium.

In theory, and in accordance with the Nordic Swan Ecolabel criteria companies that fulfil all of the following criteria are exempt and may be included in the fund:

- At least 90% of the company’s energy sector CapEx is in new capacity, on average for three consecutive years including the last financial year, are in the renewable energy sector.
- Revenue from renewable energy comprises at least 50% of the company’s total revenue from power generation OR at least 50% of the company’s energy production capacity is based on renewable sources. This ratio may be calculated on average over the course of 1, 2 or 3 of the last financial years.
- The company has no revenue from tar sand, shale oil or shale gas or other fracking activities and/or mining of oil shale and/or extraction in the Arctic region.

These companies’ activities generate a significant amount of Green Gas Emissions contributing to accelerate global warming and temperature rising. Such companies are not compatible with the sustainable objective of the Fund.

Further, the Fund strives to maintain a low exposure to high emitting sectors namely:

- Aluminum;
- Aviation;
- Automobiles;
- Cement;
- Mining;
- Pulp and papers;
- Shipping; and
- Steel.

Holding companies operating in above mentioned sectors must pass at least one of the following eligibility criteria to be considered investable by the Fund:

- At least 30% of the company's economic activity is aligned with the climate change objectives of the EU Taxonomy† (climate change mitigation and adaptation);
- At least 75% of the company's CapEx, on average for three consecutive years including the last financial year, is aligned with the climate change objectives of the EU Taxonomy;
- The company is in a rapid transition and has a validated 1.5 °C Science Based Target (SBT) with near- and long-term or net-zero emission targets or is aligned with a similar internationally accepted framework for transition; and/or
- The company is one of the best 15% in GHG intensity. To calculate intensity the Fund shall consistently use either yearly GHG emission/Enterprise value incl. cash or GHG emission/revenue in a global comparison of its sector (aluminium, aviation, etc.) with reported GHG emissions. GHG

emissions shall be calculated with the GHG Protocol Corporate Standard (scopes 1 & 2, and scope 3 for automobiles).

The Fund will favor investments in holding companies offering a clear and relevant climate action plan. As part of the ESG analysis, the Fund will track companies' improvement and achievement in carbon footprint reduction.

As part of the carbon emission reduction ambition, the investment team has accredited Trucost S&P to perform an independent calculation of the Fund´s carbon footprints. This is a key element to monitor progress and achieve the Fund's sustainable objective.

Conservation and sustainable use of biodiversity in critical sectors

The following sectors qualify as critical for the conservation and sustainable use of biodiversity:

- Agriculture;
- Construction and infrastructure;
- Extractive industries;
- Fishery and aquaculture;
- Food and beverage;
- Forestry and logging; and
- Shipping.

Several components within the Fund's ESG analysis have sub-verticals that emphasize the importance to conserve and preserve biodiversity (reference is made to Section "Investment process" in this document). Due to this, companies which themselves or through entities they control derive 30% or more of their revenue from the above-mentioned sectors must have strong sustainability practices.

As referred to in section "Strong sustainability practices" a company demonstrates strong sustainability practices through a total score of "Outperform" or "Above average". Biodiversity being related to environmental issues; companies from the above-mentioned sectors must satisfy all criteria and associated factors described under "Environment":

(+) Outperform (strong)	Above Average (strong)
[+,+,+] – all three pillars are outperforming	[+,+,0],[+,0,+],~~[0,+,+]~~ –at least two pillars are outperforming and one average. **Environmental pillar must outperform**

The Fund will monitor the portfolio holdings on an ongoing basis to ensure their attainment of the elements included in the environmental pillar. If such companies do not meet this requirement, the Fund will engage systematically and targeted to stimulate the company towards conservation and sustainable use of biodiversity. Engagement progress shall be measured in relation to the goals and milestones as decided and described in the annual sustainability report (reference is made to the Fund's Engagement Policy: link website)

EU Taxonomy

The European Taxonomy (hereinafter "the Taxonomy") has established a list of environmentally sustainable economic activities. The Taxonomy identifies these activities by their substantial contribution to at least one of the EU's climate and environmental objectives:

- Climate change mitigation;

- Climate change adaptation;
- The sustainable use and protection of water and marine resources;
- Transition to a circular economy;
- Pollution prevention and control; and
- The protection and restoration of biodiversity and ecosystems.

As part of the strategy, the Fund aims, in due time, to measure to what extent companies' products and services contribute to the achievement of these major environmental objectives. At date of this Policy technical screening criteria have been developed for certain economic activities capable of contributing substantially to the following two objectives:

- Climate change mitigation; and
- Climate change adaptation.

The investment manager will use its best effort to obtain, in due time, information that will enable it to reasonably determine the Fund's Taxonomy alignment. The same applies for the remaining four environmental objectives when associated criteria come into force.

The investments team will select a relevant third party to perform the Fund's Taxonomy exposure including the assessment of the "Do No Significant Harm". The calculation will be done by using a combination of companies' disclosure and estimated data following the market standards.

It is emphasized that the Fund does not commit to making sustainable investment in economic activities aligned with the Taxonomy.

Accountability and oversight

Ethics committee

PAM 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.

It will also assist portfolio managers with training, advice and sparring as needed. In particularly demanding cases, the Ethics Committee shall inform the CEO.

The Ethics Committee is headed by the company's chief economist and strategist and consists, in addition, of representatives of different departments as required. Twice a year, the Ethics Committee prepares a report on our guidelines for responsible investments and the practice of these.

The report reviews specific topics PAM has worked with as well as relevant company assessments and dilemmas. It shall be available to our customers. The chairman of the Ethics Committee shall annually provide the Board of PAM with an overview of the status of ongoing work for responsible investments in the company.

Fund management

A dedicated ESG analyst is working full time along with fund managers which enable the analyst to fully integrate the holding companies and monitor progress. Moreover, it enables fund managers to better anticipate sustainability risk and opportunities in their investment decisions and portfolio construction. The main role of the analyst is to:

- Systematically perform internal sustainability analysis before a new holding is acquired;
- Together with fund managers ensure that outcome from ESG valuation is embedded into investment decision;
- Update internal sustainability analysis on an annual basis[2];
- Properly applied processes (exclusion, inclusion, controversy, and engagement);
- Provide on monthly basis risk and compliance with appropriate metric to verify that 70% of holding companies are in line with definition of strong sustainability practices and none of the holding score “underperform”.
- The ESG analyst is responsible for acting as primary contact for the Nordic Swan Ecolabel license

Fund managers:

The role of the fund managers is of much broader scope. Fund managers construct and manages the portfolio which entails integrating following factors:

- Credit analysis and ESG analysis
- Predominantly bottom-up approach
- Expectation on the security performances
- Identification of risk and opportunities

Fund managers ensure that sustainability aspects and ESG criteria are systematically integrated into investment decisions process.

Risk and compliance

- PAM keeps an exclusion list that is automatically cross-checked against the Norwegian Government Pension Fund Global’s exclusion list. The exclusion list is updated on a monthly basis internally by our risk function
- Investigate the circumstances of all reported breaches and provide the ethics committee with information;
- Check that 70% of holding companies are in line with definition of strong ESG practices and none of the holdings score “underperform” by monthly reviews of metrics provided by the Fund’s ESG analyst;
- Perform internal compliance check[3] on annual basis. This control shall have a risk-based approach where the most relevant risks of noncompliance are identified; and
- Provide internal compliance check[4] report. The report shall include the risk analysis identifying the most relevant risks of non-compliance.

[2] If new relevant information occurs and may impact sustainability aspects, the ESG analyst will be prompt to update the analysis
[3] In accordance with the Nordic Swan Ecolabel criteria O24
[4] In accordance with the Nordic Swan Ecolabel criteria O24

Derivatives and indirect holdings

The Fund may use financial derivative instruments (FDI's), such as forward rate agreements, futures, options, swaps, CDS (Credit Default Swaps) and other derivatives for hedging purposes.

The Fund applies an internal limit where indirect holdings may not exceed 0,5% of the Fund's value. Compliance with the internal limit will be monitored and managed in Rules Manager by our risk function.

The fund does not practice short selling, cf. the Nordic Swan Ecolabel criteria O3.

All indirect investments will be reported immediately to the Nordic Ecolabelling to notify any changes that could lead to a requirement no longer being fulfilled. The investment team sees no reason to invest in indirect holdings and has not done so in the last 24 months.

References to other relevant files

Pareto Asset Management's guidelines for responsible investments

Engagement Policy PEGCB

Exclusion Policy PEGCB