Pareto
Asset Management

Pareto ESG Global Corporate Bond

Sustainability report

1 January – 31 December 2023

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Introduction

This year, we have been busy working on steadily strengthening our sustainability processes, investing time in interactions with our different stakeholders. We are convinced that this collaborative approach is the most effective means to stay at the forefront while carefully evaluating challenges and opportunities in our pursuit of meaningful achievements.

While sustainable investing has continued to grow in Europe, we have recently observed a more aggressive increase in anti-ESG claims in the United States, transformed into a highly politicised issue that has divided opinions on sustainable investing practices. In some states, a misconception has occurred, that the incorporation of extra-financial factors could prevent asset managers from fulfilling their fiduciary duty. This misunderstanding often arises from the misconception that sustainable investing involves prioritising societal impact over financial returns.

European investors have demonstrated a more nuanced comprehension of these different concepts. However, the process of fully acknowledging the real value of sustainable investing has been a gradual evolution. In the beginning, doubts and scepticism arose about the real value of integrating extra financial factors in the overall valuation, due to concerns about greenwashing and overstatements lacking materiality.

In recent years, regulatory changes have played, and continue to play, a pivotal role in reshaping sustainable finance, requiring companies to adopt new accounting standards. Consequently, we are now observing improvement in disclosure practices, facilitating a deeper understanding of the real impact of investments on society and enabling the identification of companies demonstrating advanced sustainable practices.

Our team strongly believes that sustainable investing goes beyond impact contributions and functions as proactive measures against emerging risks that could adversely affect companies, in terms of both financial materiality and impact materiality, forming what we refer to as a double materiality.
The shift to a low-carbon economy is crucial for safeguarding our society from the impacts of climate change. The risks associated with this transition, often referred to as transition risks (regulations, technologies, consumer preferences), are interconnected with the physical risks (floods, wildfires, drought) posed by climate change itself. As companies navigate these challenges, it becomes important to prioritise sustainable investments that account for both transition and physical risks.

Companies pursuing the green transition have unique opportunities to innovate and align with sustainable practices, taking advantage of a growing demand for environmentally and socially responsible solutions. Adopting sustainable practices within operations not only contributes to positive societal outcomes but also attracts investors, creating a mutually beneficial relationship between innovation and capital in the dynamic landscape of the green shift.

Nawel Boukedroun
Responsible, ESG & Sustainable investments

Yield and sustainability – a good pairing

Reaching a net performance of 9.2%* in 2023 for the Pareto ESG Global Corporate Bond H EUR share class is evidence that sustainable investment goes hand in hand with the identification of best risk-adjusted returns.

The fund strategically focuses on companies in the high-yield segment. The fund favours companies with strong market share. Companies in the middle part of the value chain are favoured. The fund management seeks companies with long-term viable business models and sound credit profiles. ESG analysis is fully incorporated into the more fundamental credit model to assess total value for the fund.

Our team firmly believes that companies seeking capital and actively transitioning toward more sustainable business practices are likely (all else equal) to experience a more sustainable financial trajectory compared to their industry peers. These companies play a pivotal role in driving the shift towards a low-carbon economy, thereby supporting key industry leaders actively involved in delivering products or services aligned with evolving environmental or social conscious of end customers.

* Annualised performance: 1.3% since inception of share class (28 September 2018).

Stefan Ericson
Lead Portfolio Manager

> *Companies seeking capital and actively transitioning toward more sustainable business practices are likely (all else equal) to experience a more sustainable financial trajectory.*

Focusing on the Nordic Swan Ecolabel

Why choose the Nordic Swan Ecolabel?

- The Nordic Swan Ecolabel is a well-known and highly respected trademark recognised among the official European ESG labels
- The Nordic Swan Ecolabel means that the fulfilment of the criteria has been checked by an external third party. This is a unique feature in the Nordic and European fund markets.
- The Nordic Swan Ecolabel is an evolutive label which updates its rules in order to be in line with new European regulations

A Nordic Swan Ecolabelled fund represents a sustainability-labelled alternative for all investors, and is an instrument for asset management companies to show that their funds fulfill stringent requirements.

Everything that a Nordic Swan Ecolabelled fund must attain – the exclusion of unsustainable companies, the inclusion of more sustainable companies and acting in a transparent manner – is undertaken to encourage companies and capital markets to act more sustainably in the long run.

The application of the Swan label is conducted by Miljömärkning Sverige AB, which works on behalf of the government. The label does not represent any fund industry interests.

The Nordic Swan Ecolabel was established in 1989 by the Nordic Council of Ministers as a voluntary ecolabelling scheme for the nordic countries Denmark, Finland, Iceland, Norway and Sweden. Nordic Swan Ecolabelling is subject to official regulations adopted by the Nordic Ecolabelling Board. The Nordic Ecolabel is regulated by the Nordic Council of Ministers.
The Nordic Swan Ecolabel is one of the founders of the international network for ISO 14024 Type 1 ecolabels, GEN, the Global Ecolabelling Network.

Carrying the Nordic Swan Ecolabel means

- The fund excludes investments in certain industries and companies that are particularly problematic from a sustainability point of view
- The fund conducts an extensive ESG (Environmental, Social and Governance) analysis of its potential investments and prioritises companies that contribute the most to a better tomorrow
- The fund applies transparency for all its holdings on a quarterly basis. In addition, the fund publishes an annual report on the sustainability performance of the fund.
- The label expects the licensees to define a systematic process to select candidates. Further, the fund managers need to initiate and maintain dialogues with a minimum of holdings.

Article 9 – what does it mean for us?

SFDR regulation – observing ongoing viability

In the realm of new regulations, certain concepts, such as "sustainable investments" (Article 9 classification) or "promotion of Environmental and Social practices" (Article 8 classification), remain abstract and give rise to divergences. This led the European Commission to initiate a consultation with the possibility of refining the classification system in the future.

Is this classification perfect? Certainly not. Nevertheless, it has provided a notable step forward in addressing greenwashing. Can it be refined further? Without a doubt. Meanwhile, our commitment is focused on maintaining a robust and transparent position within our processes, continually seeking advancement. We will systematically assess the compatibility of our practices with changes.

Sustainable investments

In 2021, the fund defined a sustainable objective alongside the goal of producing positive returns. The fund was classified as an Article 9 fund under the European Union's Sustainable Finance Disclosure Regulations ("SFDR").

Objective

The fund has an environmentally sustainable investment objective to maintain a decarbonization trajectory. The fund also has a social dimension and therefore defines a socially sustainable investment objective which strives to contribute to a well-functioning society and promote better living standards.

Both sustainable investment objectives have connections to the 2030 Agenda for Sustainable Development with the 17 Sustainable Development Goals ("SDGs").

Framework

In the context of new regulations, the concept of "sustainable investments" remains abstract and creates divergences. Whilst the European Securities and Markets Authority (ESMA) has asked the European commission for more clarity, each investment manager has to come up with a clear definition of how they qualify sustainable investments*. Each regulator is in charge to reviewing and approving processes.

The fund is a Luxembourg domiciled fund, the Commission de Surveillance du Secteur Financier ("CSSF") is the supervisory authority.

The fund has been through a filing process to get the CSSF's approval of its disclosures as an SFDR Article 9 product and the approval has been granted.

*For the time being, it does not exist further guidance related to the definition of "sustainable investments" under SFDR Article 2 (17). Due to this, the Fund's definition of sustainable investments may change when such guidance is provided to ensure that the Fund's definition is compliant with Article 2 (17).

Sustainability process

FRAMEWORK		ACTIVITIES	TARGETED SDGs
Environmental objective	Environmentally sustainable activities contributing to a decarbonization trajectory	**Climate & environment** • Renewable energy supply • Ecosystems,land and biodiversity safeguard • Sustain. management of forestry agriculture & aquaculture • Strategy deployment within operations to limit global warming	
		Circular economy • Production and consumption implying, leasing, reusing, repairing, refurbishing or recycling existing materials & prod. • Development of sustainable or smart infrastructures or cities	
		Environmental sustainable solutions • Model that promotes sustainable production and consumption • Product/service innovation enabling energy efficiency, digitalisation or electrification	
		Environmental sustainable funding • Providing funds to develop or improve environmentally sustainable solutions	
Social objective	Socially sustainable activities contributing to a well-fuctionning society and promote better living standards	**Health & wellness** • Providing health care services or products, medicines, or medical aids • Improving people everyday life through social solutions	
		Social sustainable funding • Providing funds to develop or improve socially sustainable solutions	

STEP 1: IDENTIFICATION OF SUSTAINABLE CONTRIBUTION

+

ESG	APPROACHES	
ESG Analysis Internal model (+25 criteria) overseen by and compliant with the Nordic Swan Ecolabel	**Exclusion**	• Fossil fuel • Coal • Uranium • Tobacco • Alcohol • Weapons • GMO • Gambling • Pornography • Violations of ethical norms (UN, OECD..)
	Integration	• Valuation leads to a score of: “Outperform”, “Average” and “Underperform” for each pillars (E,S&G). A company that underperforms on one of the criteria can not be investible • Stricter criteria for issuers from high emitting industries and or critical for the biodiversity safeguard • The Principal Adverse impacts risk factors are embedded into the analysis
	Active management	• To influence issuers to further develop sustainable management and transparency in reporting practices
		• Controversy monitoring model and follow-up for clarifictation or incident

STEP 2: ESG AND DNSH* ANALYSIS

* Do No Significant Harm

=

SUSTAINABLE INVESTMENT

Our sustainable investment process

According to the SFDR regulation Article 2(17)*, there are three criteria that must be met for an investment to be considered sustainable:

1. The investment contributes to a sustainable objective
2. The investment does not significantly harm any other environmental or social objective; and
3. The investee follows good governance practices

For that purpose, we have defined a pass-fail approach to determine whether an investment is sustainable. It is built as follows:

1. Identification of sustainable contribution in economic activities

The issuers must have revenue derived from products/services enabling or positively impacting one of the targeted SGDs and/or have a clearly identifiable strategy and targets that enable or positively impact one of the targeted SDGs as shown in the chart on page 7.

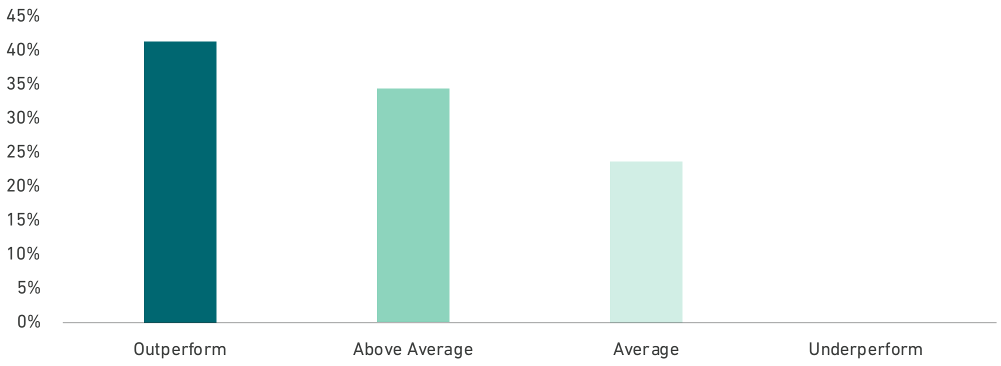
2. The ESG analysis

The issuer has to pass the ESG analysis built on exclusion criteria, inclusion criteria and engagement as described in the Fund's Exclusion Policy, Investment Policy and Engagement Policy.

We have developed a thorough internal ESG analysis model which combines the Nordic Swan Ecolabel's requirements with our own criteria.

Our internal model implies exclusion and inclusion criteria. The first step of the ESG valuation consists of reducing the investment universe according to our exclusion policy. Then, the rating criteria: "Outperform", "Average" and "Underperform" will be given for each category (Environmental, Social, Governance) before a total score is computed.

If a company receives a total score "Underperform", we will not undertake the investment, and an existing holding will be subject for exclusion and reported to the ethics committee.



Source: Pareto Asset Management / 31.12.2023

3. Do No Significant Harm (DNSH)

The fact that an investment contributes to a sustainable objective does not neces social components. Consequently, the "do no significant harm" principle requires that an investment's possible negative impacts as well as its contributions must be assessed prior to an investment decision.

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:

Article 2 (17).SFDR Article 2 (17) provides the provisions decisive for what is a sustainable investment according to SFDR.

- All investments from exclusion sectors are filtered out from the fund investment universe, as such investments 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 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. This is because 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.

Examples of investment cases

Name	Seche Environnement	Organon
Description	Seche Environnement is specialised in waste recovery, circular economy, and low carbon technology.	Organon is a global healthcare company delivering medicines and therapies to serve women's health.
Sustainable contribution	By the nature of its activities, Seche Environnement promotes sustainable production and consumption.	By offering solutions to improve women health conditions, Organon promotes health and wellness.
ESG rating	**Outperform**	**Above average**
Pass/fail	Pass	Pass

Active management

Engagement and ownership have historically been an equity investor remit. Pareto ESG Global Corporate Bond is a fixed income fund, so by definition we have no voting rights. However, it is generally easier for fixed income investors to reach companies seeking debt capital. Furthermore, any effect of ESG qualities on capital allocation is more direct in the primary market, which is of larger importance in fixed income. Hence, we believe that fixed income fund managers have an important role to play in positively influencing bond issuers in the right direction.

Access more information on our engagement policy here

Fixed income fund managers have an important role to play in positively influencing bond issuers in the right direction.

Engagement dialogues

EQT

A few years ago, we made the decision to participate in EQT's Sustainability-Linked notes and we have remained invested since then. EQT is a Swedish private equity company, investing in infrastructure, real estate, growth equity, and venture capital in Europe, North America, and Asia Pacific. EQT is one of the largest private equity firms in the world. The company has ownership in some of the credit issuers in which we invest.

Engaging with privately owned issuers can present challenges, primarily due to a lack of required transparency. To manage this hurdle, we have reinforced our strategy placing emphasis on direct communication with the owner of several of our holding companies: EQT. By doing so, we ensure an impactful approach and overcome the limitations posed by conventional channels.

Cerba Health Care

Our engagement journey with EQT started a couple of years ago, starting with a dialogue concerning Cerba Health Care, a leading medical diagnostics and labora-tory testing company. EQT facilitated our introduction to their partner and the team overseeing Cerba Health Care. In our initial meeting, we shared our suggestions and strove to influence in a positive way by requiring crucial factor for analysis. This dialogue took place when the company decided to appoint a CSR director. This helped the company to understand investor requirements. The company received the feedback well and initiated follow-up dialogues. In 2022, the company extended their corporate socially responsible team and we have observed a significant improvement in disclosure practices, complemented by commitment taken to reduce the carbon footprint.

Zayo

Later, we initiated discussions with EQT concerning the absence of women on the board of our portfolio company Zayo, a communication infrastructure company, which EQT acquired in 2019. This marked a significant concern for us, contradicting the sustainability claims asserted by EQT in public disclosure. During our discussion, the top management at EQT not only acknowledged these apprehensions but also committed to proactively addressing the matter within a reasonable timeframe. Not long after, the company took a positive step by nominating a woman as a board member and appointing another female in top management. Following this development, last year, another female was appointed as a director, marking further significant step towards achieving greater gender diversity on the board of directors.

Covanta & First Student

This year, our engagement activity involved constructive dialogue with EQT's Head of Corporate Sustainability to address carbon reduction strategy at the company level and, consequently, indirectly impacting our portfolio companies owned by EQT such as above-mentioned Covanta, a leading company specialised in waste-to-energy transformation, and First Student, offering student transportation services. These are all US based companies.

In 2021, EQT became the first private equity firm to achieve an approved Science-Based Target (SBT), committing to a 50% reduction in direct emissions and a 30% cut in business-travel related indirect emissions.

When updating our analysis on EQT, we observed that the company was not on the right track with a substantial increase in scope 3 emissions and especially where they had clear reduction targets: business-travel related emissions. The rise in Scope 3 emissions, particularly from post-corona business travel, was attributed to the presentation of these emissions in absolute figures. The company acknowledged workforce growth and explained that it actively promotes remote meetings to offset the trend.

During our discussion, we also sought clarification on the reasons why portfolio companies' emissions were excluded from Scope 3 (sub-category: Investment). The company explained that this was due to the difficulty in tracking fluctuations in the portfolio (bought and sold). However, as part of their SBT targets, EQT adopted a strategic approach, setting SBT approved for all portfolio companies by 2030.
EQT aims for all portfolio companies (excluding EQT Ventures*) to have validated SBTs by 2030, 10 years ahead of the SBT recommendation for the financial sector. Challenges in engaging U.S. companies were discussed, emphasising the consistent application of rigorous standards.

During the presentation, EQT also showcased achievements, with nearly 30% of portfolio companies securing SBT approval, and 18 publicly committing to goals, including notable contributions from Covanta and Zayo, which means that these companies must submit their science-based targets plan for 2024.

Furthermore, EQT highlighted their proactive engagement in guiding portfolio companies towards improving disclosure practices in a context of new regulations. EQT mentioned their sustainability evaluation process and provided access to extra-financial information. This hands-on approach is a testament to EQT's commitment to transparency and is encouraging for future sustainability development.

James Hardie

James Hardie, a global leader in building material solutions, has committed to a Net Zero target for scope 1 and 2 emissions and has developed a proprietary science-based roadmap. In our dialogue, we discovered that scope 3 emissions, though not initially part of the Net Zero goal, constitute over two-thirds of the total emissions.

Our engagement aimed to understand the company's carbon-reduction ambitions and evaluate its alignment with the Paris Agreement. During our dialogue, James Hardie clarified that their framework for scope 1 and 2 aligns with sector-specific Science Based Target requirements, and the decision to develop an in-house road-map was due to resource constraints, with a consideration to adopt recognised standards like SBTI in the future. The company also highlighted challenges with scope 3, deeming the Science Based Targets Initiative framework as too ambitious and unrealistic. Our team encouraged the company to engage with the Science-Based Targets initiative for scope 3 feedback, after our assessment revealed that their peers faced similar challenges.

In the meantime, the company has clarified its proactive approach to utilising a greater amount of sustainable fibre cement. Presently, comprehensive testing is ongoing this year to assess the feasibility of incorporating more environmentally friendly cement, a pivotal component in the production of their building material solutions. This initiative is set to notably impact the reduction of scope 3 emissions, particularly focusing on the sub-category of "Purchased goods and services".

We have also emphasised the importance of comprehensive data for scope 3 and urged the company to commit to including missing calculation in the next report. Through this collaborative dialogue, we strove to encourage transparency and im-provement in disclosures. This will enable us to better anticipate the temperature alignment of the portfolio with the Paris Agreement (see page 22)

Improvement in public disclosure:

During the last couple of months, important discussions in sustainable finance have focused on the Corporate Sustainability Reporting Directive ("CSRD") implementation for corporates. Beginning this year, companies within its scope will have to report extra-financial data, signalling a proactive step towards accountability, standardised sustainability practices, and a smoother transition to a sustainable economy.

The CSRD ensures transparency in companies' environmental, social, and governance practices, fostering consistency and comparability. By preventing divergent standards, it facilitates informed decision-making, benchmarking, and a universal understanding of sustainability efforts. This directive represents a significant milestone in steering businesses toward a more sustainable and responsible future.

Nevertheless, it is important to note that CSRD currently does not cover all companies, particularly those outside of Europe. Additionally, small, and medium-sized enterprises will be reporting at later stages. Despite these limitations, our team is dedicated to enhancing our valuation continuously, incorporating more comparable variables. To achieve this goal, our objective is for every company to uphold a uniform standard of disclosure. We are committed to taking proactive measures and refuse to stay idle until this standard is widely embraced.

Profine and Preamia

As a result, one of our focus areas this year has involved actively engaging with companies to assess their extra-financial disclosure implementation status, identify potential challenges, and share valuable insights. For instance, companies like Profine, a German company contributing to energy efficiency through the provision of PVC-U profiles for windows and doors, or Preamia, a French company actively involved in developing medical-social infrastructures, may not be initially obligated to disclose at the early stages of CSDR but later, in 2027. Our interactions have been encouraging, with companies willingly sharing data and addressing disclosure challenges.

Encouraging outcome in previous engagement activity

This year we have also observed progress with previous engagement activity. In our previous sustainability report we mentioned Scatec.

Scatec solar

Scatec solar is a Nordic leading renewable energy supplier that develops, owns, and operates renewable power plants with a focus on solar, hydro, wind power projects and other naturally related activities, including financial and physical power trading. Scatec, as well as the entire solar panel industry, is exposed to a risk of human rights abuse within their supply chain. According to the International Environmental Agency, more than 70% of polysilicon – a key component of the solar panel wafers – is produced in China. Of the Chinese production, Xinjiang represents 63%, or roughly half of the global polysilicon capacity. The province Xinjiang in China is constantly alleged to have widespread use of forced labour.
In 2021 we had our initial conversation with Scatec, during which the company explained that they were reviewing all their contracts and had engaged specialists to develop a strategy for better traceability with suppliers and reduce the risk of human rights abuse.

In 2022, Scatec undertook a three-year programme with EcoVadis, a global management platform dedicated to assessing suppliers on key ESG aspects, including labour and human rights. This is a tool enabling Scatec to engage with suppliers. In addition, the company was collaborating with peers in order to align approaches and escalate supply chain engagement to ensure compliance.

In 2023, Scatec continued efforts a by entering a collaborative alliance with Position Green, an advisory firm renowned for its expertise in fostering resilience through implementation of ESG software to track sustainability advancement Scatec proactively collaborates with both their supply chain and insurances experts to formulate a strategy and tracking system that incorporates the management of human rights risks. This approach enables the company to enhance its monitoring and follow-up mechanisms for these risks at both project and corporate levels. The effectiveness of this action will be assessed in the upcoming year, as outlined in their updated Transparency Act Statement.

Scatec will remain on the funds' watchlist, and we will continue to follow the progress.

To engage or divest: a perpetual dilemma?

We would like to reiterate that for us, engagement is not an excuse to keep companies that fail to meet our expectations. However, we recognise that divesting when challenges arise is not a universally optimal solution. Being an investor, we sometimes have the opportunity to influence in a positive way. Our team dedicates time to thoroughly evaluate each situation on a case-by-case basis, considering factors such as the risk of policy breach, the potential for short-term improvement, the size of the company, and the influence our voice can wield.

Catalent – safety issue

Catalent is a global provider of delivery technologies, drug manufacturing, biologics, gene therapies and consumer health products. Earlier this year, Pareto ESG Global Corporate Bond owned bonds in the company. In April, Catalent flagged productivity issues and announced a profit warning following a slower than-expected ramp-up in production capacity. After further analysis, it was found that the slowdown was due to a third-party investigation into safety management at one of the factories. For this reason, we have decided to sell our position. In our opinion, the company was no longer in line withexpectations of good governance practices, but we will keep an eye on the company to see if the necessary progress is made.

Sustainability indicators

The following sustainability indicators are used to measure the attainment of the sustainable investment objective of the fund:

1. Environmentally sustainable investment objective

- Investments aligned with associated SDGs
- Science-Based Targets
- Approved SBTs
- Climate action plan
- Green bonds and Sustainability-linked bonds
- Carbon footprint assessment executed by a designated third party

2. Socially sustainable investment objective

- Investments aligned with associated SDGs

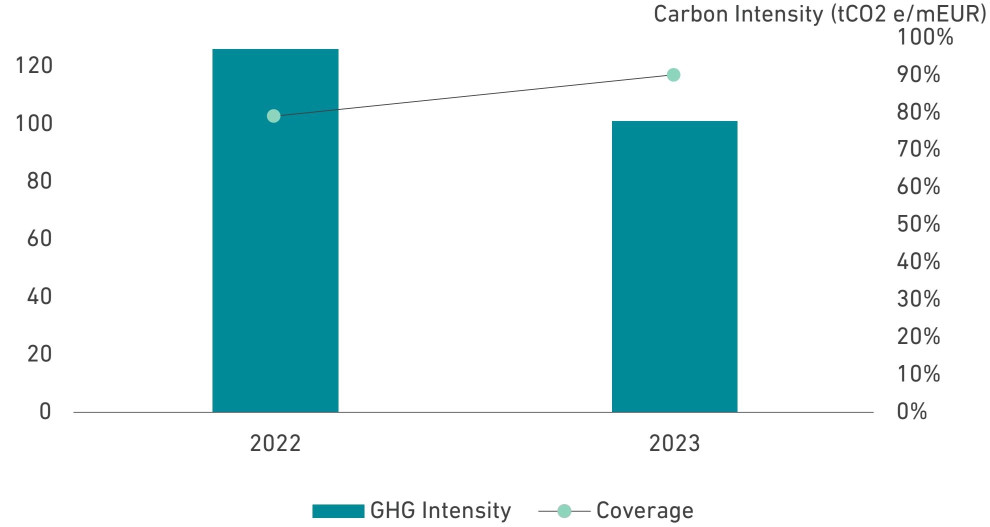
Furthermore, the fund will use the principal adverse impacts on sustainability factors, where such information is available, to over time compare the portfolio's results and progress when the fund has obtained sufficient basis of comparison.

Carbon footprint

One of fund's investment objective is to create long-term positive returns relative to its risk profile, by investing in companies enabling the fund to maintain a decarbonisation trajectory. A specific approach is dedicated to mitigating exposure to climate risk by assessing companies' capability to align their activities with the Paris Agreement.

Carbon footprint monitoring

As part of our carbon emission reduction strategy, we have implemented principal adverse indicators of carbon footprint measurement. Implementing greenhouse gas emissions calculations allows us to quantify the greenhouse gas emissions embedded within our investments, presenting them as tonnes of carbon dioxide equivalents (tCO2e) apportioned to our investments. These emissions may then be 'normalised' by a financial indicator (either annual revenues or value invested) in order to give a measure of carbon.



Source: Intercontinental Exchange and companies' public disclosure. GHG Intensity: Dividing the apportioned CO2e by the apportioned annual revenues. Apportioning, as an approach, is built on the principle of ownership. That is, if an investor owns – or, in the case of debt holdings, finances – 1% of a company, they also 'own' 1% of the company's emissions.

Sustainability indicators cont.

Fossil fuel exclusion

In accordance with the exclusion process, the 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.

Such activities are not compatible with the environmentally sustainable objective of the fund.

High-emitting industries

Last year, we reinforced our climate change expectations to comply with the Nordic Swan Ecolabels' new requirements. The objective is for the fund management to accelerate the decarbonisation of the portfolio. The fund strives to maintain a low exposure to high greenhouse gas emitting sectors:

- Aluminium
- Aviation
- Automobiles
- Cement
- Mining
- Pulp and papers
- Shipping
- Steel

Holding companies operating in the 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
- At least 75% of the company's capex, on average for three consecutive years, 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)
- The company is one of the best 15% in GHG intensity

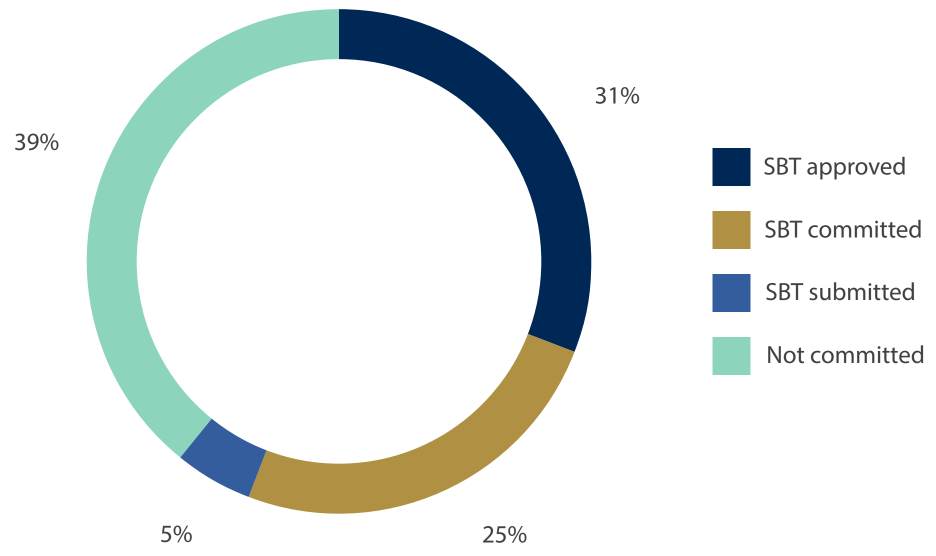
Sustainability indicators cont.

Science-Based Targets

Prior to investing, the fund managers conduct a full ESG analysis attempting to assess the climate action plan of issuers. The fund management encourages holding companies to adopt a Science-Based methodology and get an approval from the Science-Based Target Initiative. This validation brings relevance and reassures the fund management that companies can align with the recommendation of the Paris Agreement.

The fund has committed to holding a minimum of 25% of holding companies with a Science Based Targets **validated** at all times.

As of December 2023, the fund held 31% of holding companies with a Science-Based Target validated, 5% had submitted targets and were waiting for approval and 19% had made a public commitment to submitting their targets within 24 months.

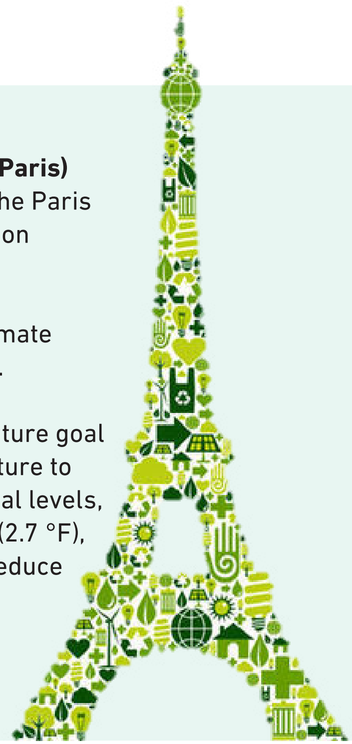


Source: Science Based Targets Initiative website

The Paris Agreement (French: Accord de Paris)
Often referred to as the Paris Accords or the Paris Climate Accords, is an international treaty on climate change.

Adopted in 2015, the agreement covers climate change mitigation, adaptation, and finance.

The Paris Agreement's long-term temperature goal is to keep the rise in mean global temperature to well below 2 °C (3.6 °F) above pre-industrial levels, and preferably limit the increase to 1.5 °C (2.7 °F), recognizing that this would substantially reduce the effects of climate change.



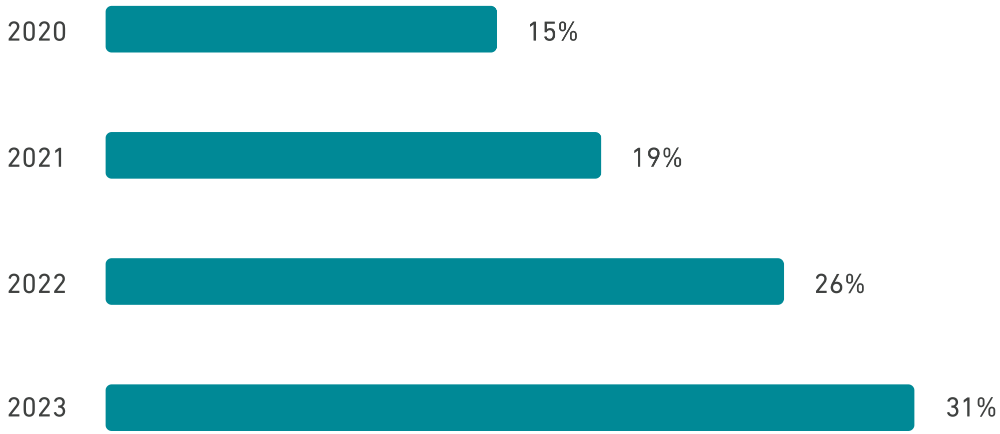
The Science Based Targets initiative ("SBTi")
An alliance created between CDP ("The Carbon Disclosure Project"), the United Nations Global Compact, the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF).
The initiative ensures that companies' net-zero targets are consistent by assessing the robustness of climate action plans via science-based methodologies.

Sustainability indicators cont.

The need for climate change mitigation led the market to offer a broader spectrum of sustainable opportunities.

In 2023, we managed to increase the proportion of our green and Sustainability Linked Bonds by 5% to reach a total exposure of 31%.

Green debt evolution



Source: Pareto Asset Management and Bloomberg

Green and sustainability-linked bonds

The concept of green bonds has been growing in popularity over the past years. This is the result of concerns about the negative impacts of climate change. This segment of the bond universe has gained recognition through its potential in enabling entities to get and manage financing to improve sustainability in their operations. This instrument, though, has attracted severe criticism from investors questioning the green aspect of certain bonds. The emergence of Sustainability-Linked Bonds ("SLBs") is perceived by certain investors as a way to prevent greenwashing and abuses related to the use of proceeds.

In 2019, following the path of the Sustainability Linked-Loans, the first Sustainability-Linked Bond was issued by the Italian energy distributor ENEL. The International Capital Market Association ("ICMA") defines SLBs as any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability or ESG objectives. Although SLBs is a viable alternative, the instruments present some limits.

The "regular" Green Bond framework enables us to measure the impact of our investments via specific projects, whereas for the SLBs, targets are set up at the company level making the investment impact difficult to follow. Our investment strategy strives to deliver a positive impact on society.

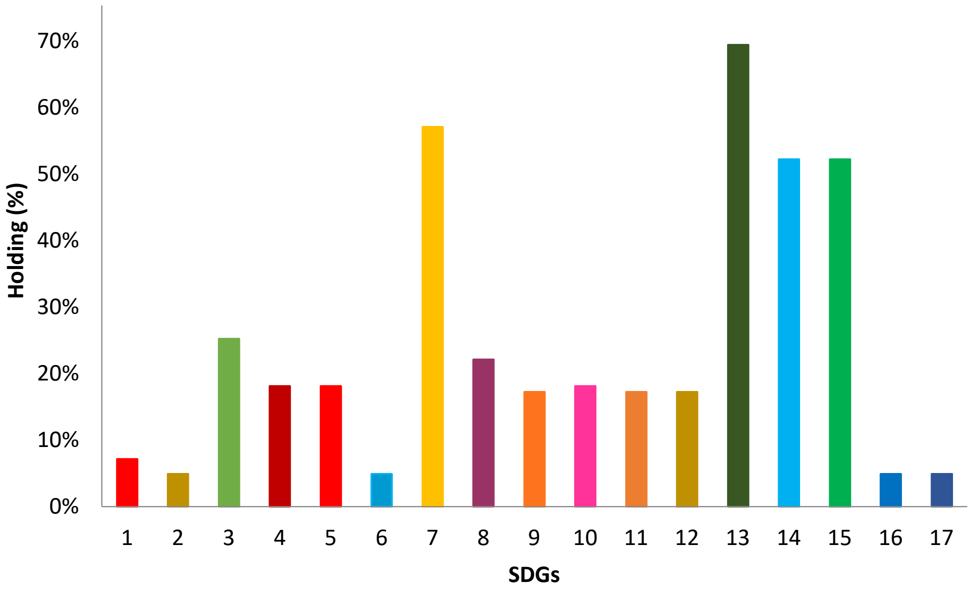
Green bonds and SLBs will both remain among our tools to allocate assets in a sustainable manner. As investors, we acknowledge that it is our duty to do our best to assess the bond framework, second-party opinion and the capability of companies in reaching the pre-established sustainability targets. For us, this analysis is the only way to prevent green-washing in relation to Green bonds and SLBs.

During the period, we have taken part in several green and sustainable issuances.

Sustainability indicators cont.

Sustainable Development Goals

The 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 ("SDGs").



Source: Internal process based on companies reporting and research

As referred to in the section "Sustainable investments", the fund has established several environmentally or socially sustainable activities. Each activity contributes to the achievement of at least one SDG and implies clear materiality through concrete actions, investments or income generation achieved by the companies.

The Ørsted case: Pursuing the decarbonication pathway

To gain a realistic understanding of carbon risk and make projections about portfolio decarbonisation and Paris Agreement alignment, the analysis must be approached with some pragmatism. Navigating this complexity involves a coherent use of resources and methodology.

Here is a case illustrating how we can go about this task. It involves the Danish company Ørsted, in which Pareto ESG Global Corporate Bond owns bonds.

Ørsted is a leading company developing and operating offshore wind farms, solar farms, energy storage facilities and bioenergy plants.

Ørsted is the largest energy company in Denmark. The company was renamed Ørsted from DONG (Danish Oil and Natural Gas) energy in 2017 after selling its upstream oil and gas production and becoming a renewable energy company.

Quality and reliability check

First and foremost, we need to get a good understanding of the data and its quality. This involves examining the sources of carbon emissions within a company, thereby identifying areas with the greatest potential but also coherence in setting reduction targets. In the case of Ørsted, 20% of the emissions come from scope 1&2, while 80% derive from scope 3.

For a long time, the primary focus was on analysing emissions and progress in scope 1 and 2 emissions, but we have observed a significant shift towards understanding and addressing the complexities of scope 3 emissions.

This presents a challenge due to a wider range of categories, some not directly controlled by companies themselves but by different stakeholders in the value chain.

Scope 3 emissions are a critical part of understanding company and portfolio level carbon risks – as they generally account for most companies' emissions.
The scope 3 emissions include the 15 sub-categories:

1. Purchased goods and services
2. Capital goods
3. Fuel- and energy-related activities (not included in Scope 1 or 2)
4. Upstream transportation and distribution
5. Waste generated in operations
6. Business travel
7. Employee commuting
8. Upstream leased assets
9. Downstream transportation and distribution
10. Processing of sold products
11. Use of sold products
12. End-of-life treatment of sold products
13. Downstream leased assets
14. Franchises
15. Investments

Ensuring companies report complete data across all three scopes is crucial to better anticipate carbon footprint reduction and avoid potential errors stemming from future coverage gaps. For instance, Ørsted has reported on scope 1&2 and all categories of the scope 3 except for subcategories 8, 10, 12, and 15, as these are not pertinent to the company's operations, which inherently have no emissions in these subcategories. All their data and disclosure are reviewed by an independent auditor.

Furthermore, Ørsted has consistently achieved an A rating, the highest possible score, from CDP's "Climate Disclosure Plan" for four consecutive years. These elements foster trust in data reliability, enabling us to proceed and analyse the company's climate action plan.

Decarbonisation trajectory
As a second step, we gather decarbonisations plans and targets of the companies we invest in, along with substantial details and a clear roadmap outlining their approach to achieving their goals. Acknowledging that we are not carbon experts and certainly do not have the competence to determine the timeline and the % of reduction needed for our companies, we highly value targets that have received validation from reputable organisations. Currently, the "SBTi" (Science-Based Targets Initiative) stands out as the most robust standard in this regard.

For instance, Ørsted has a SBT validated:

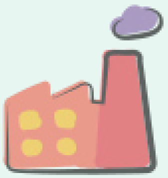
<u>Short to mid-term:</u>
- Reduce emissions by 98% by 2025 on scope 1 & 2 (2006 baseline)
- Reduce emissions by 50% by 2032 on scope 3 (2018 baseline)

<u>Long term:</u>
- Net zero on all the three scopes by 2040

Ørsted has implemented a robust plan to decarbonise operations, primarily focusing on offshore wind energy and biomass as key renewable energy sources, but

What are scope 1, 2 & 3?

The three scopes categorise the different types of greenhouse gas emissions created by a company, its suppliers and its customers.



SCOPE 1
Direct emissions from owned or controlled sources

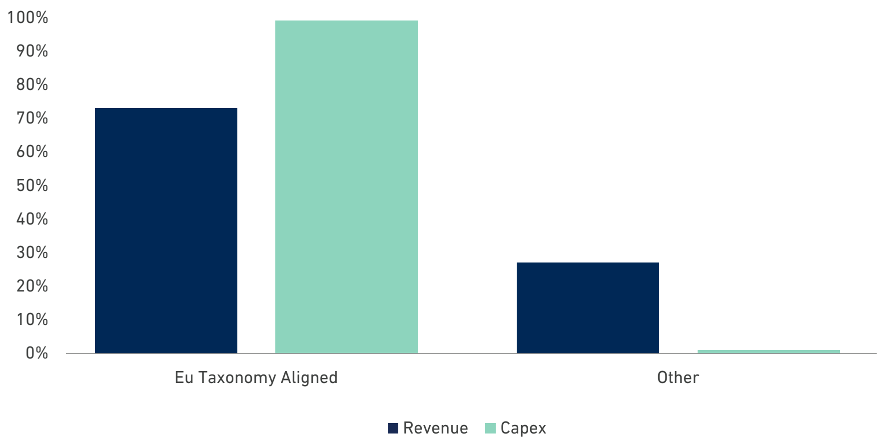
SCOPE 2
Indirect emissions from purchased energy by the company

SCOPE 3
Emissions that are a consequence of activities that are not owned or controlled by the company

also sustainable procurement practices. The latter entail evaluating and tracking suppliers on their sustainable practices, which directly influences scope 3 emissions.

EU Taxonomy, a good indicator

Company disclosures on the EU Taxonomy can also serve as a valuable indicator. The following graph demonstrates the progress of the company with their environmentally sustainable pathway through the revenue stream derived from activities aligned with the EU Taxonomy. Additionally, it highlights the company's strategic



Source: Intercontinental Exchange and companies' public disclosure

commitment to sustainability by showcasing continued investments in greener solutions, as evidenced by the alignment of their capital expenditures with the EU Taxonomy.

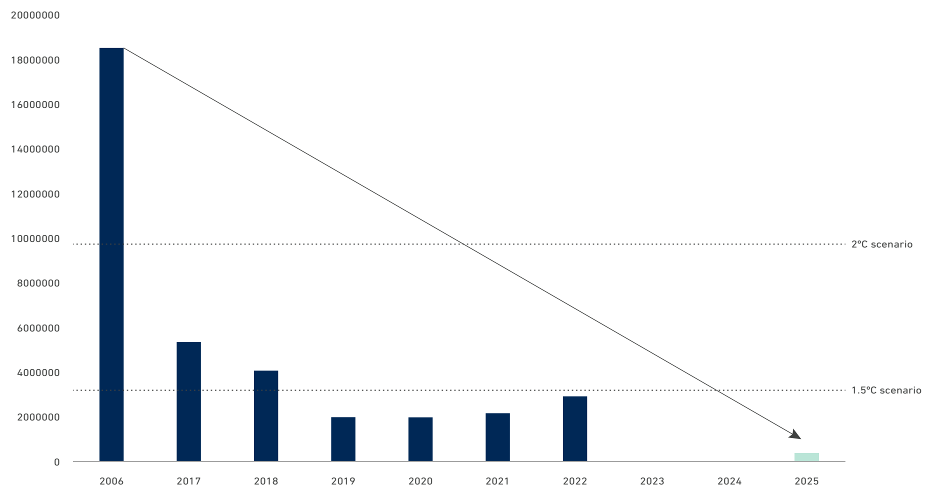
Having taken those initial steps, we have gained confidence in the company's objectives and the reliability of the components involved.

Practice what you preach

The focus is now to observe the progress of companies in their carbon reduction efforts, as we delve into historical data to determine if the company is on a positive trajectory.

Ørsted carbon reduction progress on scope 1&2

Ørsted has an ambition of reducing these emissions by 98% by the end of 2025, using 2006 as a starting point.



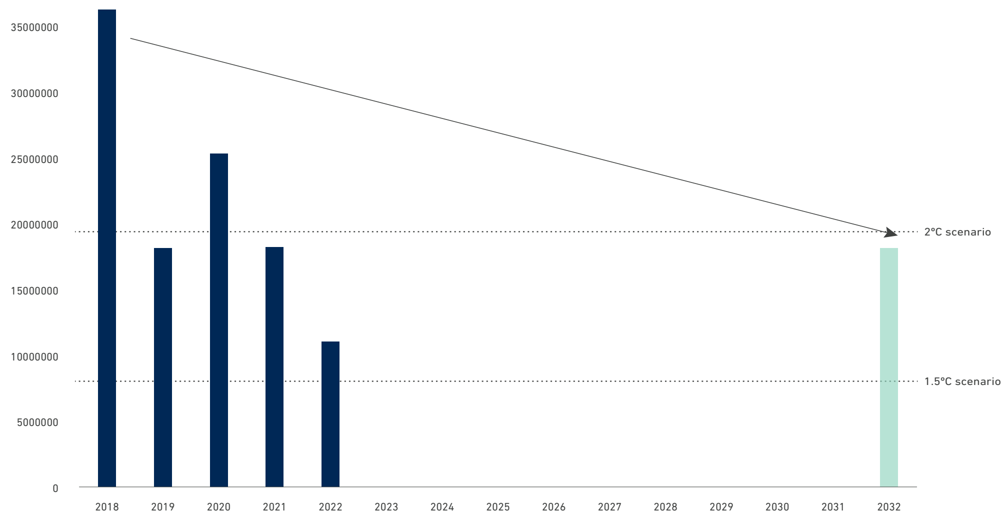
Source: Ørsted, CDP and Pareto Asset Management. Scenarios are calculated according to the Intergovernmental Panel on Climate Change (IPCC) Special Report on 1.5°C scenario database

This stage of the analysis reveals both progress and potential delays in meeting their targets.

In the case of Ørsted, we note an increase of emission cuts due to the postponement to June 2024 for the shutting down of coal-based fired plants. This delay resulted from a combination of post-corona effects, including a shortage of wood pellets needed for the biomass-based plant, and the conflict in Ukraine. The Danish state, a major shareholder, required the company to keep supplying energy. Despite this, we observe that the company remains on track and aligned with the Paris Agreement.

Ørsted – carbon reduction progress on scope 3
Ørsted has a goal of reducing these emissions by 50% by 2032 on scope 3 (2018 baseline).

Here, we observe that in 2022, the company went beyond this objective. However, this is typically a case where it is important to understand the overall picture and be cautious in drawing overly optimistic conclusions. In this case, the achievement can be attributed to a halt in natural gas wholesale deliveries from a contractor. The



Source: Source: Ørsted, CDP and Pareto Asset Management. Scenarios are calculated according to the Intergovernmental Panel on Climate Change (IPCC) Special Report on 1.5°C scenario database.

company anticipates emissions to return to regular levels once they reopen one of their natural gas field but expect to remain on track to reach their 2032 target.

In order to project carbon reduction objectives within our funds, we need similar levels of transparency, commitment, reliability in disclosure and objectives from all our portfolio companies. While all firms are not there yet, upcoming regulations may enforce these standards. In the meantime, we will continue to encourage companies to reach or uphold this level of transparency and reliability.

The EU taxonomy

The EU taxonomy for sustainable activities is a classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate. The taxonomy was established to clarify which economic activities are environmentally sustainable, in the context of the European Green Deal. The aim of the taxonomy is to prevent greenwashing and to help investors make informed sustainable investment decisions.

Biodiversity

Biodiversity one year after the COP15 in Montreal – where do we stand?

In 2023, the Task Force for Nature Financial Disclosure ("TNFD") released a set of disclosure recommendations and guidance that encourage and enable corporate and financial organisations to assess, report and act on their nature-related dependencies, impacts, risks and opportunities. This initiative will enable us to better assess how companies align with the Kunming-Montreal Global Biodiversity framework ("GBF"), requirements of the United Nations Biodiversity conference (COP15).

TNFD framework – not a magic receipt?

The TNFD framework is voluntary, which means that companies are not required to apply and disclose according to the recommendations. Nevertheless, we have seen larger organisations publicly make a commitment to being "early adopters", meaning that they have signalled their intent to start adopting the recommendation and may therefore influence other companies in a positive way. This framework will also enable us to understand and gain insight into the sectorial and geographical implications of biodiversity. We can also use it as a tool to engage with our holding companies and try to influence companies in taking more actions.

Our approach

Overall, the fund management encourages all issuers to develop and improve practices in operations to halt and restore biodiversity. Certain operations are not compatible with this goal.

In terms of sectorial exclusion, the investment team avoids companies generating over 5% of revenye from modified seeds, crops, and genetically modified organisms for agriculture or human consumption. These practices can harm organisms, soil, and water ecosystems. Furthermore, following Pareto Asset Management's guidelines for responsible investments, the fund refrains from investing in companies causing severe environmental damage.

In accordance with the Nordic Swan Ecolabel framework, the following sectors are considered critical for the conservation and sustainable use of biodiversity:

- Agriculture
- Fishery and aquaculture
- Construction and infrastructure
- Forestry and logging
- Shipping

Knowing that several components within the Principal Adverse Environmental Impact analysis directly and/or indirectly emphasise the importance of conserving and preserving biodiversity, companies which themselves or through entities they control derive 30% or more of their revenue from the above-mentioned sectors must obtain the maximum score of "outperform" on the Environmental pillar in our internal rating (as described on page 11). Otherwise, the fund will engage systematically and targeted to stimulate the company towards conservation and the sustainable use of biodiversity. The engagement progress will be measured against the goals and milestones as decided and described in the annual sustainability report.

Top 10 holdings

	Company description	Sustainable development	Sustainability risk	Link to website	Weight (%)
The Biofore Company UPM	UPM leads the forest-based bioindustry into a sustainable, innovation-driven and exciting future across six business areas.	UPM has introduced a new environmental initiative specifically aimed at improving biodiversity. The company pledges to cut its absolute Scope 1 and 2 greenhouse gas (GHG) emissions by 65% by the year 2030, using 2015 as the baseline year. In addition, UPM is committed to reducing its absolute Scope 3 GHG emissions by 30% by 2030, with 2018 serving as the baseline year.	Biodiversity safeguard	upm.com	2.7%
tdc net	TDC Net is an open-access connectivity provider of digital infrastructure. They build, own and operate the next generation of Denmark's digital infrastructure. As Denmark has a leading position in digitalisation across the EU, TDC Net plays an important role in enabling society's transition to a green and sustainable future.	Ranked among the top 1% most sustainable companies worldwide as assessed by EcoVadis. In 2022 the Science-Based Targets initiative validated their targets of becoming net-zero in their own operations by 2028 and in their entire value chain by 2030.	Dependence on regulatory approvals for telecom licenses	tdcnet.com	2.5%
techem	Techem is a German company that specializes in providing energy management and energy services primarily for residential and commercial real estate properties.	Goal of achieving climate-neutrality for the group by 2045 by improving the energy efficiency of buildings with digital solutions and avoid CO2-emissions by using renewable sources. By providing efficient and smart building technology – Techem actively contribute to a better energy efficiency and climate mitigation	Biodiversity Safeguard	techem.com	2.4%

	Company description	Sustainable development	Sustainability risk	Link to website	Weight (%)
IRON MOUNTAIN®	Iron mountain is dedicated to storing, protecting, managing information destruction, and data backup and recovery services.	Iron Mountain is listed on the FTSE4Good Index for meeting globally recognised corporate social responsibility standards and joined the RE100 and committed to 100 per cent renewable energy and to reduce greenhouse gas emissions	Data Security and privacy	ironmountain.com	2.4%
GETLINK	Getlink operates in the mobility infrastructure segment, transport and is a leader in eco-responsible transport.	Getlink's Environmental Plan 2025 set out to reduce direct CO2 emissions by 30%, and their approach was validated by the Science-based Target initiative.	Product safety and quality and regulatory changes	getlinkgroup.com	2.3%
eurofins	Eurofins provides analytical testing services to pharmaceutical, food, environmental and consumer products industries and governments.	Eurofins has a 2025 goal of achieving carbon neutrality by 2025, and their efforts to source renewable energy resulted in a 12% increase during the year.	Governance structure efficiency	eurofins.com	2.2%
BBVA	BBVA is a Spanish multinational financial services company based in Madrid and Bilbao. BBVA is the first multinational Spanish bank services on the Nasdaq sustainable debt market.	BBVA is a part of the Net-Zero Banking Alliance, and has a goal of reducing to zero the exposure to coal-related activities, stopping the financing of companies in the business by 2030 in developed countries, and by 2040 for other countries.	Governance policies and guidelines	bbva.com	2.2%

	Company description	Sustainable development	Sustainability risk	Link to website	Weight (%)
HASI	Hannon Armstrong is a leading investor in climate solutions, committed to making a positive impact on the environment through its investments in energy efficiency, renewable energy, and other sustainable infrastructure projects.	Hannon Armstrong is committed to reducing their absolute scope 1 and 2 GHG emissions by 100% by 2030 and are committed to sourcing 100% renewable electricity through 2030.	Regulatory changes and data privacy	hasi.com	2.1%
picard	Picard Groupe is a leading French company that operates within the manufacture and retail distribution of premium frozen products.	Picard Groupe has set a goal of having a 20% reduction in CO2 emissions from transport and a 20% CO2 footprint reduction in their products by 2026.	Concentration of power for decision making	picard.fr	2.1%
IQVIA™	IQVIA is an American Fortune 500 and S&P 500 multinational company that serves the combined industry within health information technology and clinical research.	IQVIA commits to reaching net-zero greenhouse gas emissions across the value chain by 2050. The company is committed to reducing the absolute scope 1 and 2 GHG emissions by 46% by 2030 from a 2019 base year, to reduce absolute scope 3 GHG emissions from business travel by 55% in the same time frame.	Data privacy and security	iqvia.com	2.1%

Disclaimer

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Signatory of:

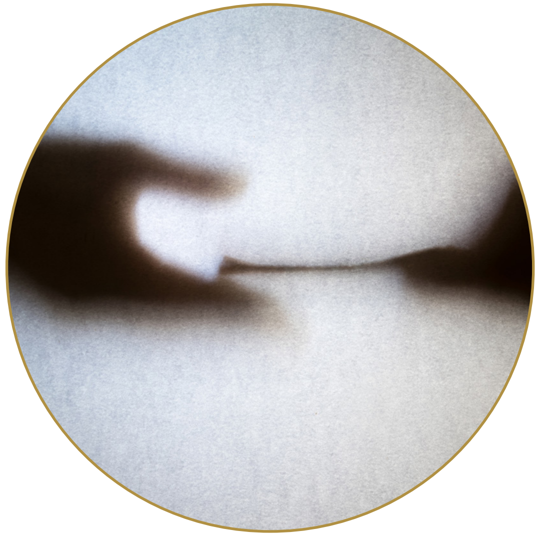
PRI Principles for Responsible Investment

Environment

- Climate changes
- Emissions of greenhouse gases
- Resource extraction
- Waste management and pollution
- Deforestation

Society

- Responsible working conditions
- Child labour and slavery
- Local and indigenous communities
- Conflicts
- Health and safety



Corporate governance

- Corruption
- Lobby activities and donations
- Board composition and diversity
- Tax strategy
- Management salary

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