Pareto
Asset Management

Responsible investments

Report 1–2025

Contents

INTRODUCTION

On additional exclusions, and thinking for ourselves

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Pareto Asset Management signed the United Nations Principles for Responsible Investment (UNPRI) in 2014. At that time, there were only some 1,300 signatories worldwide (the figure has now almost quadrupled). I dare say few of our clients knew what this was about – or cared.

Just like our present guidelines, our guidelines back then precluded investment in companies excluded by the Norwegian Bank Investment Management (NBIM) Council on Ethics. In addition, our guidelines stipulated that we could exclude companies at our own discretion, based on the general principles in our guidelines (which in turn were based on the NBIM guidelines).

The first company to be individually excluded was Kongsberg Gruppen, which technically was not excluded by NBIM due to the simple fact that it was a Norwegian company and thus outside of the NBIM investment universe. Later, the Swedish defence company Saab and the US engineering company Fluor Corporation were similarly excluded (Fluor Corp. was later excluded by NBIM). In 2020, we put the American company Heico Corporation on our watchlist, only to redefine the company as excluded shortly thereafter.

The common denominator here is weapons. Our guidelines state that we shall not invest in companies which themselves or through entities they control produce weapons that, in normal use, violate basic humanitarian principles, or sell weapons or military equipment to states subject to sanctions that Norway supports.

With these companies duly inducted into our own little list of additional exclusions, and with those exclusions communicated and explained time and time again, both internally and externally, they came to be taken for granted. A fact of life in our daily business. They weren't really questioned.

Sometimes, it takes extraordinary events to shake up beliefs and attitudes. One such event was the Russian invasion into Ukraine in February 2022. Slowly, especially after the realisation grew in Western Europe that we would have to strengthen our defences, attitudes towards defence companies started to change. We got an increasing number of questions about why we had excluded these companies, especially domestic defence giant Kongsberg.

Now, we certainly didn't feel like relaxing our restrictions just because clients question them or ask us to loosen up – on the contrary, we got very good at defending our decisions. But it got us thinking.

This was not just about taking a second look at a few specific companies. It was about the reason we have such guidelines in the first place. When we say (and write) that we want to invest in a responsible and ethical manner, we seek to achieve two things at the same time:

We want to contribute to a better world, or at least avoid contributing to a worse world; and we want to reap the higher risk-adjusted return that we believe is to be had from companies whose products or actions are aligned with the needs and values of humanity in the years to come. If returns aren't necessarily higher, at least the risk of future misalignment is notably reduced. It's not as simple as wanting to do well by doing good, but you'd be excused for thinking so. The first goal is a prerequisite for the second, but it's certainly not a sufficient condition.

Now, in a situation with a war of conquest raging on European soil and a growing consensus that European nations should and must rearm, is weapons production really unethical – or quite the opposite? Our guidelines haven't precluded all such activities (the wording is intended to capture controversial weapons), but the line is hard to draw. Hence the idea that maybe, just maybe, we have been too strict about drawing the line. Maybe we have kept ourselves from investing in activities that are in fact patently ethically and morally good. Maybe having companies on a list has kept us from making a renewed evaluation as befits an active manager.

So, by way of several discussions in our responsible investment committee, we went back to square 1. We took a close, hard look at our guidelines, and we had a renewed look at our in-house weapons-related exclusions. Should they still be excluded? And if so, would revised guidelines lead to different conclusions?

Kongsberg Gruppen is an interesting example here. Folketrygdfondet (the Government Pension Fund Norway) is the second largest shareholder, meaning that the company is well within their guidelines. I might add that the government is the largest shareholder. Even if it hasn't been studied by the NBIM Council of Ethics, someone at Folketrygdfondet has obviously taken a long and hard look at the company. That would not automatically lead us to include the company, as this has been the case for years, but it does tell us that it may be viewed differently.

I'll cut to the chase. Yes, we decided to reinclude both Kongsberg, Saab and Heico. And no, we weren't influenced by the stock price appreciation of, especially, Kongsberg, quite the contrary – if anything, opening up after such a rally would make us look silly. This was simply a matter of principle. We believe that as the world looks now, these companies do in fact deliver products of benefit to society. We may in fact have been misguided all along, too cautious in our interpretation of the precautionary principle.

Do note that this could have been done without revising our guidelines. In the process, however, we very reminded of the inherently subjective nature of such subjects. This goes beyond a simple observation that there may be no clearly right or wrong decision. The point is that in order to make a meaningful decision, we have to dig deeper. And we cannot just lean on previous decisions. None of these decisions are set in stone – or at least they shouldn't be.

This applies to more than our own decisions. In April 2016, we excluded the US engineering and construction company Fluor Corporation, due to an admittedly very small joint venture maintaining the functionality of nuclear warheads. In January 2018 NBIM announced that they had come to the same conclusion after a long period of deliberation.

If it takes almost two years for them to reach the same conclusion, what if they have excluded a company that now deserves to be reincluded?

I dare say this is not likely to happen often. The NBIM Council of Ethics has a number of highly competent professionals putting in lots of good work, and they do an impressive job of scouring and analysing companies worldwide. We think of leaning on their exclusion lists as delegating an important and indeed very comprehensive task.

On rare occasions, though, it may just so happen a deserved revocation is late in coming. After all, some companies do get reinstated into the NBIM investment universe from time to time. As I just said, they do a thorough job, but thorough jobs take time.

So, we decided to revise our guidelines. Not by much, though. Just as we have always had the opportunity to exclude companies not excluded by NBIM, we have now given ourselves leeway to include individual companies still excluded by NBIM.

This road should not be easily taken. For one, it requires a well-argued proposal put forward to our responsible investment committee, which in turn needs to have an exhaustive discussion of the matter. And every such decision needs to be presented and explained in detail in the next responsible investment report. This ensures transparency and the possibility of interested parties seeing our arguments and supplementing or refuting them.
Right now, we have no such company under deliberation, and I don't expect to see one in the foreseeable future. But we wanted to communicate clearly that this is an option going forward.

There is another facet to this decision: We believe it is highly appropriate for an active asset manager. Having made a point of the fact that we need to think for ourselves, we have come to the perhaps obvious and overdue understanding that no task should be exempt from thinking – which really is the case if you slavishly follow an external exclusion list.

From time to time, an excluded company may deserve a closer look. Our lightly revised guidelines now open for this possibility. And, of course, a company not on the NBIM exclusion list may still be excluded by Pareto Asset Management. That's what active management is all about: We make active decisions.

Rest assured, though, that our sustainable investment goals are just as ambitious as they have been for several years now. And we are just as firm in our conviction that we sacrifice absolutely no long-term return doing so.

Our approach to climate change

Article from the *Pareto ESG Global Corporate Bond Sustainability Report 2024*

First and foremost, the approach of our article 9 fund, Pareto ESG Global Corporate Bond, is based on the understanding that certain sectors and activities are fundamentally incompatible with the sustainable objectives of our fund strategy. As part of the fund's commitment to environmental stewardship, we exclude industries and practices that significantly contribute to environmental harm or prevent progress toward a low-carbon economy. These exclusions include activities related to the oil and gas, coal, and power generation industries that are not aligned with the Paris Agreement. For more details, please refer to our fund exclusion policy.

High emitting industries, often referred to as "hard-to-abate" sectors, are critical to the transition. These industries possess immense potential for impactful decarbonisation, but realising this potential requires significant investment to develop and scale innovative solutions. Investors play a pivotal role in advancing the global climate transition by channelling capital into companies committed to reducing their emissions, rather than exclusively favouring those already operating with a low-carbon footprint.

That said, it is crucial for us that companies which don't demonstrate a genuine effort to transition, according to our expectations, are excluded from our investment universe.

To that end, we have identified sectors that we consider high emitting

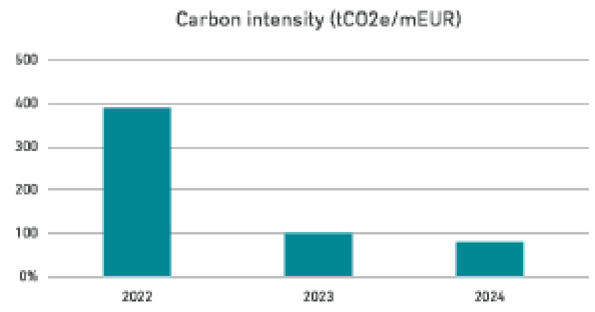
- Aluminium
- Aviation
- Automobiles
- Cement
- Mining
- Pulp and papers
- Shipping
- Steel
- Agriculture, forestry and fishing
- Water supply, sewerage, waste management and remediation
- Construction
- Accommodation and food services

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

Shaping a meaningful transition for the future:
One of the fund's investment objectives is to create long-term positive returns relative to its risk profile, by investing in companies enabling the fund to maintain a decarbonisation trajectory.

Carbon footprint monitoring:
As part of our carbon emission reduction strategy, we have implemented measurement of principal adverse indicators of carbon footprint. Greenhouse gas emissions calculations allows us to quantify the greenhouse gas emissions embedded within our investments, presenting them as tonnes of carbon dioxide equivalents (tCO_2e) 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 emissions.



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. The decrease in GHG intensity could be influenced by our decision to discontinue the use of estimated data and instead focus solely on company-reported data. This shift has consequently impacted coverage and should be considered when interpreting the results.

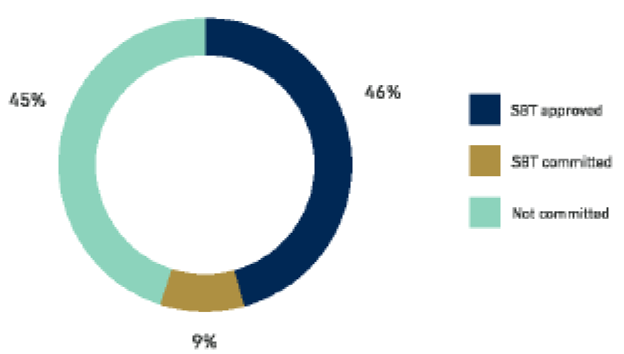
Our team recognises that relying solely on these indicators may not offer a complete view of a company's true climate impact, especially given the current limitations of climate data, such as gaps in coverage, transparency, and calculation reliability. It is also important to acknowledge that companies remain in the early stages of their journey toward meeting carbon targets. As a result, their climate strategies will evolve over time and may not yet be fully reflected in their short-term carbon footprint.

However, these challenges should not be seen as reasons for inaction. Our team will continue to monitor companies' progress in decarbonisation efforts as part of the ongoing sustainability risk and opportunity assessments. At the same time, we believe it is crucial to focus on forward-looking indicators, as they provide a clearer understanding of a company's commitment to mitigating and adapting to climate change.

Pareto ESG Global Corporate Bond
Temperature and emissions targets

Carbon action plan assessment
The team values companies having a credible and effective climate action plan aligned with the objectives of the Paris Agreement. The Science Based Targets Initiative (SBTi), a reputable and recognised framework, serves as the primary standard for this assessment. SBTi offers guidance and robust criteria for setting science-based targets that align with limiting global warming to 1.5°C or well below 2°C. This ensures corporate climate commitments are transparent, credible, and scientifically justifiable.

Pareto ESG Global Corporate Bond - SBT status breakdown



Source:
Science-Based Targets Initiative and Pareto Asset Management

The team actively encourages portfolio companies to commit to the initiative and work towards submitting and obtaining verification of their targets.

The Paris Agreement, adopted in 2015, is a landmark international treaty aimed at addressing climate change by limiting global warming to well below 2°C, with efforts to cap the increase at 1.5°C. Achieving these targets requires global cooperation and significant reductions in greenhouse gas emissions. However, despite international commitments, the world is currently on track for a 3.2°C temperature rise by 2100, far exceeding the Paris Agreement's goals.

To bridge this gap, substantial emission cuts are necessary. By 2030, global emissions must decrease by 15 gigatonnes of CO_2 equivalents per year to align with the 2°C target and 32 gigatonnes per year to meet the 1.5°C target. This equates to annual emission reductions of 7.6% per year for the 1.5°C pathway and 2.7% per year for the 2°C pathway between 2020 and 2030, according to the United Nations Environment Programme (UNEP, 2019).

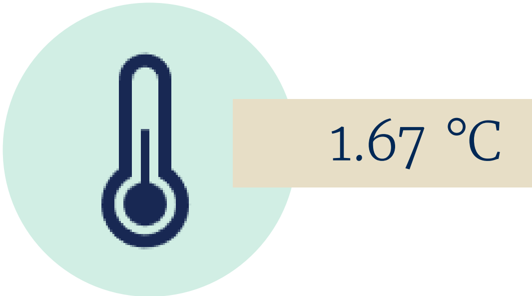
Scenario	% of reduction	Giga ton	Year range
1.5 °C scenario	7.6%	15/year	2020-2030
2 °C scenario	2.7%	32/year	2020-2030

The Science Based Targets initiative offers sector-specific methodologies that allow companies to apply a framework aligned with the Paris Agreement's ambitions. These methodologies use a fair-share approach, ensuring that emission reductions are distributed equitably while enabling companies to grow sustainably.

Our methodology first establishes whether a company has SBTi-approved targets. If so, it receives a temperature score aligned with either the 1.5°C or 2.0°C scenario, contributing to the overall temperature alignment score of the portfolio. At this stage, some companies have not yet adopted SBTi targets, often due to resource constraints or the lack of an established SBTi framework for certain sectors and niches.

To address this, we have developed a process to assign default temperature scores to these companies, following SBTi recommendations to ensure a consistent and scientifically robust assessment. Information on our methodology can be shared upon request.

Estimated temperature of the portfolio (Scope 1 & 2)



Source:
SBTI, companies' disclosures and Pareto Asset Management. The methodology relies on historical data that was not available for all portfolio companies, as some have only recently started reporting on GHG emissions. Currently, the coverage represents 60% of the fund.

Guidelines for responsible investments

1. BACKGROUND AND PURPOSE

Pareto Asset Management AS ("Pareto Asset Management") aims at contributing to sustainable development of markets and long-term value creation by investing in a responsible and ethical manner. We believe that responsible investments are important for achieving the best possible risk-adjusted return for our unitholders and customers. Sustainability and sound corporate governance give companies competitive advantages and contribute to long-term value creation.

This document sets out guidelines for responsible investments undertaken by Pareto Asset Management on behalf of our unitholders and individual asset owners. The purpose of the policy is to prevent Pareto Asset Management from contributing to the violation of human rights, labour rights, corruption, environmental damage or other unethical actions. Furthermore, we consider it important to integrate sustainability assessments into our investment processes, as this can also affect the long-term value of our investment.

We expect the companies that we invest in to comply with the same principles.

As part of our efforts to promote responsible investments, Pareto Asset Management has signed the UN Principles for Responsible Investment ("UN PRI"). These guidelines are based on UN PRI, the UN Global Compact , the guidelines for the Norwegian Government Pension Fund Global, the Principles for the exercise of ownership rights in investment companies from the Norwegian Fund and Asset Management Association, as well as internationally recognised principles and conventions.

Please note that the fund Pareto Total solely is subject to the exclusion criteria as provided in section 2.2 and not the guidelines in their entirety.

2. RESPONSIBLE INVESTMENTS

2.1 Priorities

We seek to invest in companies that have good quality of operations and management. The companies should have a clear focus on ethical issues in their attitudes and actions, as well as having a value base for the business that complies with the guidelines. The companies must exert good corporate governance, comply with national legislation as well as international conventions, and show an open and complementary information policy. This means we emphasise social conditions, the environment, sustainability and good corporate governance when considering a company.

Ethical risk assessments must be conducted before an investment can be made.

2.2 Exclusion of companies

Pareto Asset Management shall not be invested, on behalf of our funds and customers, in companies which themselves or through entities they control:

- Produce weapons that, in normal use, violate basic humanitarian principles
- Produce tobacco
- Sell weapons or military equipment to states subject to sanctions from the UN Security Council or other international measures directed at a particular country that Norway has supported (mandate for the management of the SPU section 3-1 second paragraph letter c)
- Mining companies and power producers that themselves or consolidated with controlled entities receive 30 percent or more of their revenues from thermal coal, or base 30 percent or more of their operations on thermal coal activity
- Produce pornography

Pareto Asset Management may decide to exclude a company if there is an unacceptable risk that the company contributes or is responsible for:

- Human rights violations, such as killing, torture, deprivation of liberty, forced labour and exploitation of children, including child labour
- Violations of individuals' rights in war or conflict situations
- Breach of basic employee rights
- Severe environmental damage
- Actions or omissions that at an aggregated company level lead to an unacceptable degree of greenhouse gas emissions Corruption
- Other repeated or significant violations of basic ethical norms

Pareto Asset Management shall exercise a precautionary principle in connection with investments in biotechnology companies, weapons, gambling and alcohol.

[1] The contents of UNPRI can be found here: www.unpri.org/pri/an-introduction-to-responsible-investment.

[2] The UN Global Compact contains ten general principles derived from the Universal Declaration of Human Rights, the ILO Declaration of Fundamental Principles and Rights in Work and the Rio Declaration on Environment and Development.

[3] This includes "the worst forms of child labour" as defined in the ILO Convention (No. 182) Article 3.

3. CORPORATE GOVERNANCE

Pareto Asset Management shall exercise active ownership in the portfolio companies in order to promote responsible business operations. This means that we will use our ownership rights and influence in the companies to help move the companies in a positive direction in terms of social relations, environmental issues, sustainability and good corporate governance.

When there is a specific reason to believe that a company violates our policy of responsible investments, we will consider addressing the issue with the company's management and encouraging the company to correct the circumstances. If necessary change is not implemented, Pareto Asset Management will normally sell all positions in the company.

4. RESPONSIBILITY FOR MONITORING AND CHECKING 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 paragraph 2.3 of the guidelines. 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 & 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 we have 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 Pareto Asset Management with an overview of the status of ongoing work for responsible investments in the company.

The Compliance Manager shall supervise compliance with our Guidelines for Responsible Investments, including the necessary exclusion of companies. In addition, the compliance officer will attend meetings of the Ethics Committee as an observer.

Signatory of:

The UNPRI principles

Behind the UNPRI principles is the UN Environment Program Finance Initiative (UNEP FI). UNEP FI is a global partner-ship between the United Nations Environment Program and the financial sector. Among the goals for the collaboration is to identify, promote and realize best environmental and sustainability practices in the financial industry. Central to this collaboration are ESG questions, derived from the English concepts environmental issues, social issues and corporate governance.

Through our signature, we committed ourselves to respond to ESG questions that may follow, to the best of both our customers in the long run and for society as a whole:

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

Our signature also includes a more general, implicit obligation to follow principles and standards anchored in the UN. These are voluntary, non-judicial recommendations that express expectations of good corporate governance, and which provide expectations for good corporate practices in dealing with environmental and social issues. In assessing our investments, these principles and standards will act as a reference framework and guide.

The UN Global Compact contains ten general principles derived from the Universal Declaration of Human Rights, the ILO Declaration of Fundamental Principles and Rights in Work and the Rio Declaration on Environment and Dvelopment. The principles are general and state, among other things, that companies must respect human rights and not be involved in violations of them, maintain freedom of association and collective bargaining rights, and eliminate all forms of forced labor, child labor and discrimination in working life.

Investing in a responsible and ethical manner

Pareto Asset Management aims at contributing to sustainable development of markets and long-term value creation by investing in a responsible and ethical manner.

We believe that responsible investments are important for achieving the best possible risk-adjusted return for our unitholders and clients. Sustainability and sound corporate governance give companies competitive advantages and contribute to long-term value creation.

As part of our efforts to promote responsible investments, Pareto Asset Management has signed the UN Principles for Responsible Investment (PRI). These guidelines are based on UN PRI, the UN Global Compact, the guidelines for the Norwegian Government Pension Fund Global, the Principles for the exercise of ownership rights in investment companies from the Norwegian Fund and Asset Management Association, as well as internationally recognised principles and conventions.

Pareto Asset Management shall exercise active ownership in the portfolio companies in order to promote responsible business operations. This means that we will use our ownership rights and influence in the companies to help move the companies in a positive direction in terms of social relations, environmental issues, sustainability and good corporate governance.

Our product-based exclusion criteria

Weapons and ammunition
A variety of types of weapons, ammunition and warfare methods are prohibited under international law, such as the Geneva Convention. In addition, Pareto Asset Management may exclude companies involved in weapons production as a precautionary principle.

Tobacco
Tobacco is a legal stimulant, which according to WHO is causing several million deaths in the world each year.

Coal
Pareto Asset Management follows the Norwegian Government Pension Fund in its assessment of coal producing companies.

Pornography
Pareto Asset Management does not invest in companies producing pornography.

Our product-based precautionary principles

Biotechnology
Modern biotechnology touches life's big questions and has an impact on what we think about human worth. It is therefore relevant to the whole global population, and not just doctors and researchers who carry out in vitro fertilisation, map genes and research stem cells. Investments in biotechnology may involve a risk of violation of fundamental ethical norms.

Alcohol
We have considered whether there should also be an absolute ban on investments in alcohol but has concluded that it is neither desirable nor manageable in an ethically consistent and sound manner.

Alcohol as a food additive is generally considered to have many positive aspects. Furthermore, alcoholic beverages are embedded in most societies, with many businesses indirectly profiting from alcohol consumption. Breweries, wineries and distilleries stand out as obvious examples, but also wholesalers, hotels, restaurants, airlines, shipping companies, railways and especially grocery chains may have a significant portion of their profits from the sale or delivery of alcohol. The same applies, of course, to real estate companies with revenue-based rent, such as the listed company Olav Thon Eiendomsselskap (OSE).

An absolute ban on investments in companies with interests in alcohol will therefore likely be perceived as a case of double standards, and insurmountably complicated. In consideration of the significant social and health problems relating to alcohol abuse, the company will nevertheless apply a precautionary principle with investments in alcohol.

Gambling
We have considered whether there should be a ban on investments in gambling. At this point, our assessment is that a general ban is problematic for several reasons.

Gambling has a relatively wide definition, covering everything from games that primarily fills an entertainment function, to more economically active activities where the outcome is largely due to chance and luck.

For the purpose of these guidelines, it's the possible harmful effects that are of importance. The consequences of gambling can be summarised in two words: gambling addiction.
Pareto Asset Management does not want to act in a way that contributes to increasing and more harmful gambling addiction. As part of the investment process we must therefore always raise the question of whether the company in question operates in such a way that it is likely to create gambling addiction.

In our opinion, a general ban will not contribute to better achievement. An important element is that a significant part of the gambling business largely, or wholly, fills an entertainment function. Although the gains are in the form of money, unlike the teddy bear in the amusement park, the stakes are normally such that participation is for fun, excitement and surprise, not because it nourishes some presumption of getting rich.

Furthermore, gambling, like alcohol, has such an extent that it can be difficult to draw sharp limits. One might imagine a kiosk chain with deployed slot machines of a type approved by the relevant authority, where the kiosks get a lease while the profits are due to a third party. The chain then has no benefit of increased gaming on the vending machines, and their own activity can be claimed to be limited to the letting of floor space.

Similarly, gambling is offered on most cruise ships and passenger ferries, as well as at some hotels. In addition, there are companies producing the game machines used without this being considered gambling. For these reasons, we have concluded that there should be no general ban on gambling. On the other hand, it seems obvious that we should apply a precautionary principle when investing in companies that offer gambling.

Deep sea mining
In responsible investing, we are often faced with dilemmas and paradoxes having no obvious solution. One such dilemma involves deep sea mining.

As the world weans itself off fossil fuels, the demand for critical minerals like cobalt, nickel, and manganese will increase sharply. These minerals are essential for the technologies driving the green transition, including solar panels, wind turbines, and especially electric vehicle batteries. According to the World Economic Forum, mineral requirements for clean energy could rise by as much as 500% in the coming decades.

One potential solution to meet this demand is deep-sea mining, a method of extracting minerals from the ocean floor, where resources can be found in abundance. Deep-sea mining is primarily focused on small, mineral-rich rocks found in oceanic regions. If fully utilised, these ocean reserves could ease dependence on terrestrial mining, which often leads to deforestation, water pollution, and abuses of human rights. Therefore, besides advancing clean energy progress, deep-sea mining is often viewed as a more sustainable alternative to land-based mining.

On the other hand, deep-sea mining presents significant environmental and ethical challenges. Not least, deep-sea mining poses significant threats to marine biodiversity. The disruption of fragile ecosystems, along with sediment plumes that smother marine life and noise pollution that affects underwater habitats, raises serious environmental concerns.

The EU therefore supports a precautionary approach to deep-sea mining. The European Parliament has called for a moratorium on commercial deep-sea mining until comprehensive regulations and sufficient scientific knowledge on the potential environmental impacts are available. The EU emphasises the need for a thorough understanding of ecosystems before any exploitation begins.

Norway, however, did not concur. In January 2024, the Norwegian parliament approved a plan to open a large part of its continental shelf to seabed mineral extraction. In April, dedicated parts were formally opened for seabed mining, and in June, the government announced plans for a first licensing round in 2025. The proposal would potentially cover 38% of the total area.


The New York Times

Norway Moves to Allow Seabed Mining Exploration

The Guardian

Norway votes for deep-sea mining despite environmental concerns

Parliament votes 80-20 in favour while scientists warn mining could devastate marine life

The parliament, not surprisingly, justified this decision by the need to secure critical minerals for the green transition. Norway aims to leverage its strong governance, human rights standards, and environmental regulations—factors often lacking in mineral-rich emerging economies.

However, this decision has raised significant concerns among environmentalists and indigenous communities. Protests have emerged, highlighting fears about the potential degradation of marine ecosystems and the long-term impacts on biodiversity. Critics argue that the risks associated with deep-sea mining could outweigh the benefits of securing mineral resources, calling for a more cautious approach and stricter safeguards before permitting such activities to proceed. WWF-Norway (the World Wildlife Fund) sued the government a few weeks before the latest decision to open up for licensing.

In our view, deep sea mining is an apt illustration of the dilemmas often embedded in responsible investment decisions. It serves a greater purpose, helping us become less dependent on fossil fuels. It would also reduce reliance on supplies from China, which now dominates the extraction of some of these minerals. On the other hand, the risk of damage to marine ecosystems seems incontrovertibly identifiable.

Given that the impact may depend to a large degree on the regulations adopted and the technologies chosen, we have decided that we simply don't have sufficient information at this point. Hence, as a precautionary measure, we will need to examine each case thoroughly before making an investment decision. In the first case brought to the table, the fund managers decided to exit our position (page 20). However, the company was not formally excluded from our investment universe. We just decided that we needed more information – which is of course what the precautionary principle is all about.

Conduct etc.

Human rights violations
Gross or systematic violations of human rights such as killing, torture, deprivation of liberty, forced labour, the worst forms of child labour. In our reviews, we have not found any circumstances that indicate that any of our portfolio companies contribute to such human rights violations.

Serious environmental damage
Serious environmental damages can be said to include severe climate impact in the form of relatively high greenhouse gas emissions, which is also in line with Norway's international commitments and the government's climate report.

Based on this review, we are not aware of circumstances that indicate that any of our portfolio companies contribute to serious environmental damage. However, we have previously spent a lot of time assessing the situation for **Norsk Hydro**'s operations in Brazil, where heavy rain in February 2018 led to flooding and environmental damage. The company is no longer on our watch list.

Greenhouse gas emissions
The section on climate risk goes into further detail on our assessments in this area. Suffice it to say that we have no company-wide, principled objections to fossil fuel as such, but we do care that the companies in question work to limit emissions and other side effects of their business. Two of our funds have a stated policy of not investing in fossil fuels.

Gross corruption
It goes without saying that corruption is unacceptable to a responsible investor. The problem is generally one of discovery, which seldom takes place without criminal investigation and proceedings. Our challenge then is to evaluate the quality of governance going forward.

We have had instances of corruption also in partly government-owned companies in Norway. As a general rule, we don't necessarily sell our holdings simply because something unacceptable has happened. We will have to evaluate the risk of the problem repeating itself, whether it was a singular case or a consequence of a permeating problem, and of course what is being done in order to get their house in order.

Other particularly gross violations of basic norms
We have not identified other gross violations of basic norms.

Corporate governance

Engagement policy
Pareto Asset Management conducts meetings with the management and board members in many of the portfolio companies, as well as shareholders, on a regular basis. This dialogue is the most important instrument we use in our work as an active owner.

Grounds for initiating engagement activities may be breach of ESG criteria, substantial investment in the company or a need for more information on critical ESG damage that has already occurred.

Requests from clients can also be grounds for engagement.

Proxy voting
Pareto Asset Management has established its own voting guidelines. These are based on the Norwegian Code of Practice for Corporate Governance.

Please note that we don't vote just for the sake of voting. We see no point in casting the maximum number of votes. Most agenda items are standard, plain vanilla issues. Some may be of greater importance. In some of these cases, the outcome is far from given. If we feel that a certain outcome is important, we will contribute to attaining that outcome by voting.

However, casting votes has a cost. In some cases, more specifically with some global companies, it may be inordinately cumbersome. In that case, casting a vote may not be in the best interest of our investors or unitholders.

After all, that is our guiding light: We do what's in the best interest of our clients and unitholders.

Active ownership

Article from the *Pareto ESG Global Corporate Bond Sustainability Report 2024*

At Pareto Asset Management, we seek to invest in companies that have good quality of operations and management. The companies should have a clear focus on ethical issues in their attitudes and actions, as well as having a value base for the business that complies with the guidelines. The companies must exert good corporate governance, comply with national legislation as well as international conventions, and show an open and complementary information policy. This means we emphasise social conditions, the environment, sustainability and good corporate governance when considering a company.

Sustainability risk assessments must be conducted before an investment can be made. Information regarding our sustainability risk assessments process can be found in our sustainability risk policy and our adverse impact policy.

Pareto Asset Management shall exercise active ownership in the portfolio companies in order to promote responsible business operations. This means that we will use our ownership rights and influence in the companies to help move the companies in a positive direction in terms of social relations, environmental issues, sustainability, and good corporate governance.

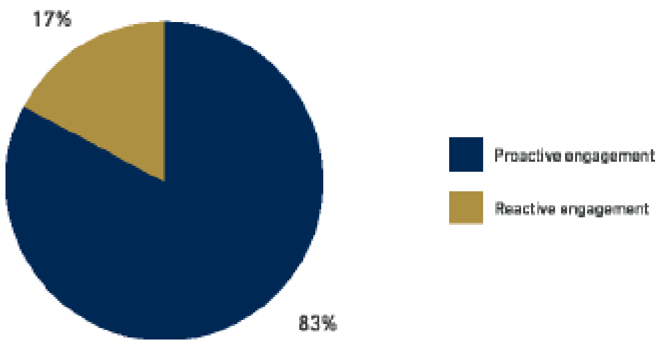
Active ownership has historically been an equity investor remit. However, we have observed that fixed income investors often have more direct access to companies in need of capital. This is why we believe that both equity and fixed income fund managers play a crucial role in steering companies in the right direction via an engagement dialogue. As responsible investors, we view engagement dialogues as essential to making meaningful, long-term investments and fulfilling our fiduciary duty. Pareto Asset Management has established two types of engagement:

- Proactive engagement
- Reactive engagement

Although the results of both reactive and proactive engagement are integrated into the sustainability risk assessment of portfolio holdings and can affect the ESG rating, the rationale behind the two types of engagement differ from one another. While the proactive engagement is conducted annually towards a part of the fund's portfolio based on pre-defined selection criteria, an engagement is defined as reactive when it is conducted due to an identified controversy according to our controversy policy..

During 2024, the fund managemet team of Pareto ESG Global Corporate Bond, had 19 proactive and 4 reactive engagement dialogues. The reason the team had more proactive engagement dialogues than reactive ones is our comprehensive ESG analysis and rigorous investment approach. By prioritising investments in companies with strong governance, sound risk management, and responsible business practices, we significantly reduce the likelihood of encountering major controversies that would require reactive engagement.

Our sustainability assessment process enables us to focus on companies with robust sustainability standards, which reduces their exposure to controversies and the need for reactive engagement dialogues. This way, we focus our efforts on proactive engagement. This forward-looking approach enables us to maintain constructive, strategic dialogues with portfolio companies, reinforcing our role of active managers, driving positive change while minimising the need for reactive interventions.



Company assessments

Rockwool – cloudy on coal
The Danish company Rockwool is probably best known for rock wool for insulating houses, but also produces, among other things, facade panels and roof panel systems intended to reduce noise and fire hazards. Most are products that provide a factual basis for the company's unrelenting emphasis on sustainability and the circular economy. For example, rock wool makes a good contribution to reducing energy needs in homes and offices.
The problem is that the production of these products

consumes a lot of energy. And Rockwool bases part of its production on coal. How much?

Well, that's information that the company will not divulge. – Due to the competitive nature of our industry, we do not disclose this information, the company replies. For Pareto Asset Management, this is a problem, as our policy does not allow companies that base 30 per cent or more of their business on thermal coal.

We have not taken the step of excluding the share, letting three arguments decide. Firstly, management is very clear that they are going to reduce the use of coal. There are ongoing, credible plans to shift to cleaner energy sources. In 2023, a quarter of capital expenditures went towards sustainability, with a focus on sustainable energy. The company's index for absolute GHG emissions (Scope 1+2) index fell in 2023 by 13 per cent.

Secondly, the share is not on the exclusion list of the Norwegian Government Pension Fund Global, which has the same restriction on coal use.

And thirdly, the products are obviously sustainable.

This is not just about focusing inquisitorially on the problems. Sustainability is about opportunities, and here they are good. Rockwool itself believes that the products they sell will save 100 times the energy consumed in production during their lifetime. We therefore think that Rockwool is a good company to own, which we do in the Pareto Nordic Equity fund.

Danske Bank – a decade of cleanup efforts
In 2014, information emerged on money laundering in Danske Bank's Estonia branch. The following years would see the bank engulfed in criminal investigations, litigation, loads of bad publicity – and extensive cleanup efforts.

In December 2022, final coordinated resolutions were reached with the US Department of Justice, the US Securities and Exchange Commission and the Danish Special Crime Unit, resulting in a total settlement of DKK 15.3 billion, covered by earlier provisions. All amounts have been paid. The bank remains subject to a criminal investigation by authorities in France, and it is placed on corporate probation from the US Department of Justice until December 2025.

In 2021, the Danish FSA appointed an Independent Expert whose role, amongst other things, was to monitor and report on the progress in delivering on the Financial Crime Plan. The Danish FSA has extended the appointment.

The extent and duration of the cleanup efforts illustrate the pervasiveness of the problem and the amount of work needed to ensure something like this does not happen again.

We were astonished to see the extent of the misconduct in the first place, we were surprised to see new revelations of an even bigger problems, and we are still monitoring progress – but we are convinced that the massive efforts undertaken by Danske Bank will place it among the best in class when this is over.

Pareto Nordic Corporate Bond, Pareto Nordic Cross Credit, Pareto Obligasjon and Pareto Likviditet all hold bonds in the bank.

Scatec Solar – supply chain issues
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 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 improving traceability with suppliers and reducing 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 insurance 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.

We appreciate the company's efforts in this field, while also noticing that precisely these efforts are a demonstration of the challenges inherent in their business. For that reason, we have decided that Scatec deserves to be on our watchlist, and we will continue to follow the progress.

Stora Enso – wildlife area damage
Stora Enso is a leading global company in sustainable materials, headquartered in Helsinki, Finland, and Stockholm, Sweden. Dating back to the 13th century, the company is one of the oldest in the world with operations in over 50 countries. PNE owns shares in the company, while both PNCC hold bonds.

In August, it was discovered that forestry machinery had caused damage to an area in Hukkajoki, Finland, inhabited by endangered freshwater pearl mussels. The company promptly halted all harvesting activities at the site.

Following an investigation initiated by Finnish authorities into the environmental damage, we engaged with Stora Enso to address the situation. During our discussion, we raised several critical questions to understand the nature of the incident, the implications and the measures taken by the company.
Stora Enso confirmed that the environmental violation is currently under investigation by the police, other authorities, and their internal team. They emphasised that the incident was entirely against their values, policies, and guidelines, and reassured us of their commitment to preventing such occurrences in the future. They also work to uncover further details about the awareness and compliance of their subcontractor, particularly regarding the endangered

species in the area.

The company has also launched internal investigations of other sites located near protected areas and is collaborating with authorities in cases where irregularities are identified. Furthermore, Stora Enso has initiated additional training programmes for employees, contractors, and subcontractors focused on environmental compliance. To further strengthen their processes, the company will conduct internal and third-party audits aimed at improving planning and control, while ensuring adherence to environmental regulations.

Regarding the financial impact of the incident, Stora Enso declined to comment on compensation matters including a media-estimated amount of €1 million, as these issues remain under review pending the outcome of the investigation. However, the company has stated that they bear responsibility for remediation efforts initiated to restore the affected river and prevent further damage.

Neither fund decided to sell their holdings as a consequence of this event, but we will continue to assess the progress of their remediation efforts and internal reforms.

Nexans – allegations of Anti-Competitive Practices
Nexans is a global leader in the design and manufacturing of advanced cabling systems and solutions. The company specialises in cables for the energy, telecommunications, and transportation sectors, providing innovative solutions that support sustainable energy transition and renewable projects. Both PNCC and PEGCB hold bonds in the company.

Our engagement with Nexans was initiated due to allegations of anti-competitive practices. The UK Competition Appeal Tribunal has approved a class action lawsuit against Nexans, Prysmian, and NKT for allegedly forming a power cable cartel. This action follows a 2014 European Commission finding that they inflated high-voltage power cable prices from 1999 to 2009. Issued in May 2024, the decision allows a claim for £790 million in damages on behalf of about 30 million British consumers. A full hearing is expected in late 2025.

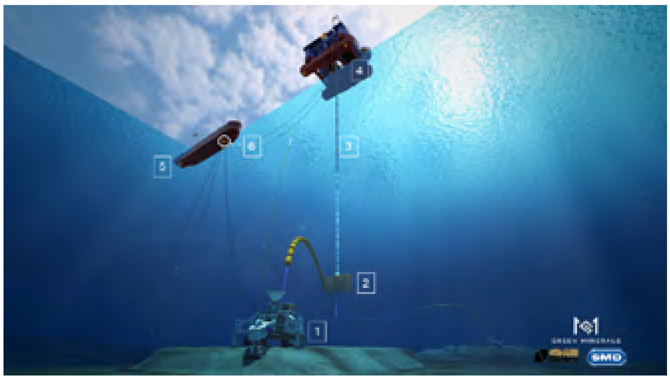
We engaged with Nexans to understand their perspective on the allegations and how they are addressing the issues. We also wanted to touch upon GHG emissions issues which we will not detail here.

Nexans remains open to investor discussions but has not provided recent trial updates. Internal investigations suggest the allegations lack material elements. Nexans has set aside €65 million since 2014, exceeding potential penalty costs. As a precautionary approach, the individuals implicated in the issue were dismissed. Since then, a Chief Compliance Officer oversees risk management and compliance training. Nexans claims its defence is strong, with a decision expected by 2025/2026, and views its response as responsible.

We are monitoring the development of Nexans' legal case regarding alleged anti-competitive practices, with the class action lawsuit set for trial in late 2025. Additionally, the team is tracking Nexans' progress on reducing Scope 3 GHG emissions and preserving and restoring submarine biodiversity.

Green Minerals divestment
Pareto Nordic Corporate Bond has been invested for several years in the company Green Minerals, a business which focuses on exploration and environmental assessments of potential mining sites on the seabed. Their approach includes research into the ecological impact of mining activities, gathering baseline data on marine ecosystems, and developing technology for responsible extraction.

After Norway allowed commercial deep sea mining (see page 10), Green Minerals applied for a license. The fund managers then reached out to the company to gather more information. In conclusion, given insufficient research and uncertainty as to how the company would implement adequate measures to protect marine biodiversity, they found the situation too immature to remain invested.



As a result, the fund sold this position.
We will continue to assess the situation and may, having gained greater visibility, invest in this company again at a later stage.

Common acronyms in ESG investment and regulations

The emergence of ESG investing and related regulations has spawned a myriad new acronyms. If you don't work in this field, you probably don't know all of them. Here is a short overview:

- **CDP:** CDP (the Carbon Disclosure Project) is a non-governmental organization (NGO) that runs a global disclosure system to manage the environmental impact for private and public institutions. Nearly 10,000 of companies, cities, and governmental institutions report on their risks and opportunities related to climate change.

- **CSRD:** The Corporate Sustainability Reporting Directive. In order to help the financial industry to better assess company extra-financial aspects, the EU Commission requires large public-interest companies with more than 500 employees to report information on how they manage environmental, social and governance issues in their business operations. Companies that fall under the scope of CSRD will have to disclose EU Taxonomy-related information.

- **EU Taxonomy:** The EU Taxonomy regulation, which entered into force in the EU in January 2022, has established a classification system of environmentally sustainable activities that translates the EU's climate and environmental objectives into criteria or specific economic activities purposes. The EU Taxonomy recognizes 'environmentally sustainable' economic activities that make a 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
  - The protection and restoration of biodiversity and ecosystems

  In addition, the investment must respect the do no significant harm criteria and be in line with the minimum safeguard.

- **GHG:** Greenhouse gases (GHG) are gases that absorb and emit radiant energy within the thermal infrared range, causing the greenhouse effect. Greenhouse gases shall be calculated according to the GhG protocol or similar official standard.

- **GRI:** The Global Reporting Initiative publishes GRI Standards, which provide guidance on disclosure across environmental, social and economic factors for all stakeholders including investors. These standards are used by organizations worldwide.

- **PAI:** According to SFDR, Principal Adverse Impacts (PAI) are impacts of investment decisions or advice with material, negative effects on sustainability factors. Sustainability factors mean environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters.

- **PRI:** Principles for Responsible Investment is an international network of investors/signatories working together with a common ambition to foster ESG ownership decisions in investment. With 7,000 corporate signatories in 135 countries, it is the world's largest voluntary corporate sustainability initiative.

- **RTS:** Regulatory Technical Standards are a set of technical compliance standards that, once endorsed by the European Commission, need to be met by all parties. Under the SFDR, RTS are the rules that financial market participants need to obey to comply with regulations.

- **SBTi:** The Science Based Targets initiative ("SBTi") is an alliance created between CDP, 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 plan via science-based methodologies.

- **SDGs:** The Sustainable Development Goals ("SDGs") are 17 goals developed in global partnership to achieve the plan of actions for peoples, planet and prosperity as set out in the 2030 Agenda for Sustainable Development.

- **SFDR:** The Sustainable Finance Disclosure Regulation (SFDR), applied in the EU from March 2021, is a European regulation introduced to improve transparency in the market for sustainable investment products, to prevent greenwashing and to increase transparency around sustainability claims made by financial market participants. SFDR sets different kinds of disclosure requirements for three types of funds or other financial products within the scope of the regulation:

  - Article 6: Funds that do not integrate a sustainability focus into the investment process.
  - Article 8: Funds that promote environmental and or social characteristics, referred to as "Light Green" funds.
  - Article 9: Funds that have 'sustainable investment' as their objective, referred to as "Dark Green" funds.

- **TCFD:** Task force on Climate-related Financial Disclosures is a market-driven initiative developed to establish and recommend a general framework for identifying, assessing and reporting climate-related financial disclosures. TCFD focuses on four key areas: governance, strategy, risk management, and metrics and targets.

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