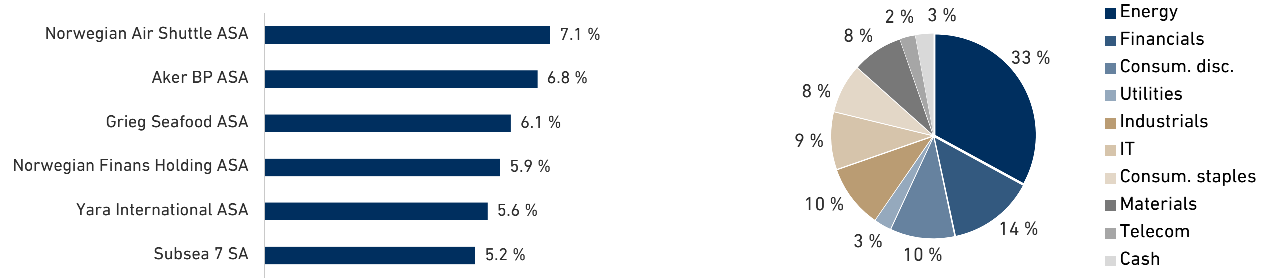
Report date: 30 April 2018

Fund: Pareto Investment Fund	Category: equity fund	Unit class A	Minimum investment: NOK 500
Inception: 1985, unit classes Nov. 2013	Legal structure: UCITS IV	NAV as at 30 April 2018: 332,294.66	ISIN: NO0010040496
AUM: NOK 2 693 million	Domicile: Norway	NAV currency: NOK	Bloomberg ticker: ORFINF NO
Benchmark: OSEFX	Dealing days: all Norwegian business days	Inception: 1985	

Norwegian equity fund with quality bias and high active share

Stock selection criteria
- Capital allocation
- Management and ownership
- Strong competitive advantages
- Balance sheet quality and earnings growth capability

Top ten holdings and sector allocation



Key figures since 01.01.2007

	Fund	Index
Accumulated returns	171.2 %	83.1 %
Annualised returns	9.2 %	5.5 %
Best month	18.7 %	16.5 %
Weakest month	-28.8 %	-27.2 %
Positive months	91	84
Negative months	45	52

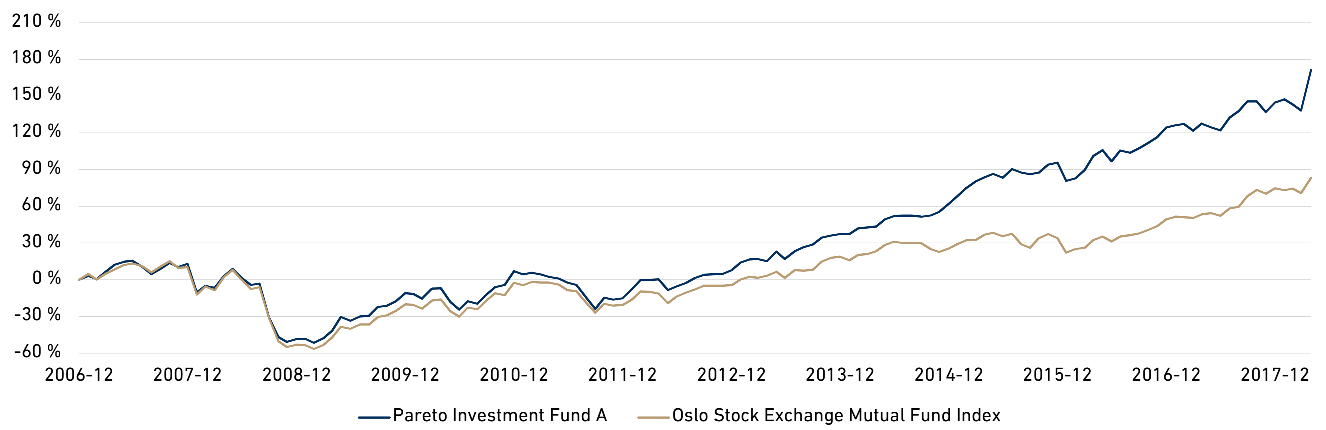
Risk figures five years

	Fund	Index
Standard deviation (ann.)	10.9 %	10.3 %
Tracking error (ann.)	7.1 %	n.a.
Information ratio	0.84	n.a.
Sharpe ratio (ST1X)	1.68	1.13

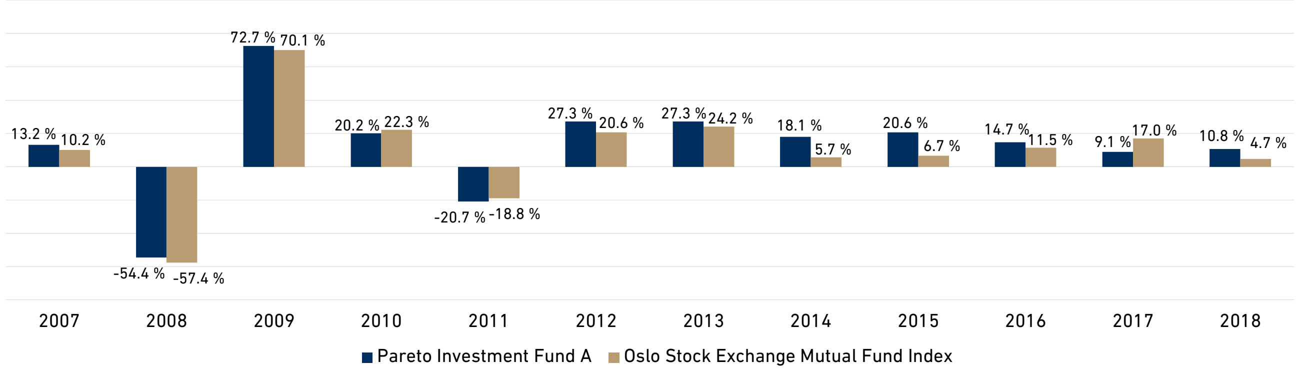
Performance by periods

	Fund	Index
Last month	13.8 %	7.2 %
Year to date	10.8 %	4.7 %
One year	19.1 %	19.3 %
Three years (annualised)	13.8 %	10.2 %
Five years (annualised)	18.3 %	12.5 %
Since 01.01.2007 (ann.)	9.2 %	5.5 %

Performance history with current portfolio manager



Annual returns with current portfolio manager



Monthly commentary – April 2018

by Tore Været and Patrick Meum

With a 14 per cent increase in value, seven percentage points ahead of the Oslo Børs Mutual Fund Index, April was a historic month for the investors in Pareto Investment Fund. Relative to the index, April was the best month in history, or at least the past 25 years.

The value of **Norwegian Air Shuttle** increased by close to 80 per cent during the month, but this explains less than half of the outperformance. Other significant contributors were **Grieg Seafood**, **DNO**, **Aker BP** and **Aker Solutions.** At the other end of the scale we find **Protector Forsikring** and **Royal Caribbean Cruises**, which declined by 13 and five per cent, respectively.

Norwegian Air Shuttle presented quarterly results at the end of April. The first quarter is low season for airlines in general and Norwegian presented its weakest quarter ever. Costs have run awild during the last 18 months, following strong fleet growth as well as increasing fuel prices. In addition, the company has been forced to reduce airfares in order to fill a sufficient number of seats.

We have had a long-term perspective of the share, assuming that profitability is currently at its lowest and fleet growth at its highest. When this turns, sometime during the second half this year, we expect profitability to improve. The quarterly report was a positive surprise regarding costs excluding fuel, as the numbers were five per cent better than expected.

The Norwegian Air Shuttle share skyrocketed in April due to a major shareholding notification from the London-based holding company IAG, which owns, among others, British Airways. They have acquired close to five per cent of the shares in Norwegian and are contemplating placing a bid on the entire company. We are by no means surprised by their interest. With Norwegian's fleet, IAG will own by far the largest fleet in Europe and strengthen their position in several important regions. IAG launched its own low cost long distance airline under the brand Level in 2017, but is currently lacking scale to its business. By the end of 2018, it is expected that their fleet will count only five aircraft.

IAG is making a healthy profit on its operations. Assuming that they will be able to achieve the same profitability with Norwegian Air Shuttle, IAG should be able to pay well above today's share price of 300 kroner. Initially we thought it unlikely that there would be a transaction in the short run, given the large difference between the share price and the underlying value in Norwegian, even after its recent share price jump. However, Norwegian has received several inquiries after IAG announced its interest in the company. Norwegian has appointed financial advisers and set up an internal task force to handle the incoming inquiries, and the majority shareholder has said he won't be standing in the way of a possible transaction.

We believe IAG shares our view of profitability currently being low and growth being high, and sees this as a good timing to acquire Norwegian Air Shuttle. Furthermore, they share this assessment with other industry players. If a transaction does not happen now, the stock will decline in the short term, but we are determined not to sell on the back of this month's share increase. We are waiting for the operations and earnings per share to improve to higher levels than what we have seen in 2017 and 2018. This way, as long-term investors, we will get better paid than if there were to be an acquisition with a traditional takeover premium to today's share price.

Portfolio management team: Tore Været and Patrick Meum