Pareto
Asset Management

NORDIC SWAN ECOLABEL
Investment Funds
3101 0020

Pareto ESG Global Corporate Bond
Sustainability report

1 January – 31 December 2021

Sustainable investments

In Pareto Asset Management we spend ever more time thinking about what we want our investment activity to achieve. We think of this as responsible investing. In as much as our portfolio management has a decidedly long-term perspective, it is only natural that we take environmental, social and governance aspects into account. We encourage issuers to offer responsible and transparent practices and we do not make investments which constitute an unacceptable risk of contributing to unethical acts or omissions.

Our view is that acting responsibly is a basic requirement for long-term and sustainable value creation. Responsible investment to us means that environmental, social and corporate governance factors are integrated in the investment process to better manage risks and opportunities.

We believe that our management philosophy is well suited for this purpose. Active management, thorough analyses of a limited number of companies and a long-term perspective form a good starting point for sustainable investments. If you are serious about achieving something by way of your investments, you just can't invest blindly in a broad-based index.

Sustainable investment, however, is a demanding exercise. It raises a lot of dilemmas and provides no clear answers, and it requires a lot of subjective judgement. It also entails erring on our part. We make mistakes, we learn from our mistakes, and we have to admit that we still have a lot to learn.

You can find more information about the Pareto ESG Global Corporate Bond fund and its sustainability work at paretoam.com/en/pareto-esg-global-corporate-bond. Additionally, you can access more information about Pareto Asset Management's sustainability work at paretoam.com/en/about-us.

Historical returns are no guarantee for future returns.

Investment team

Finn Øystein Bergh
Chief Economist & Strategist

Stefan Ericson
Senior Portfolio Manager

Mathias Lundmark
Portfolio Manager

Nawel Boukedroun
ESG Analyst

About Pareto ESG Global Corporate Bond

In 2018, Pareto Global Corporate Bond became the first fixed income fund in Norway and Sweden to receive the ESG Nordic Swan Ecolabel for investment funds.

In 2020, in order to align the name with the ESG investment process, the latest prospectus update provided the new name of the fund: Pareto Global Corporate Bond became Pareto **ESG** Global Corporate Bond.

In 2021, we continued our sustainable journey and defined a sustainable objective alongside the goal to produce positive returns. The fund has been classified article 9 ("Dark green") under the European Union's Sustainable Finance Disclosure Regulations ("SFDR").

Being a Nordic Swan Ecolabelled fund, Pareto ESG Global Corporate Bond is highly selective when including companies in its investment universe. The investment strategy utilises "negative and positive selection criteria". A dedicated ESG analyst is working full time together with the fund manager in order to fulfill the strict requirements of the Nordic Swan Ecolabel and to apply the new regulation framework.

As a start, we automatically exclude any company included in the Norwegian Government Pension Fund exclusion list. You can find more information on the exclusion process in our company responsible investment report. In addition, we further exclude companies based on our own assessment and the Swan Ecolabel requirements. The investment team will select bond issuers based on the positive inclusion criteria, after companies have been excluded according the exclusion process. Transparency is also a key element, we therefore strive to initiate and maintain active dialogue with holding companies.

ESG investment process

EXCLUSION

- Restrict investment in issuers fundamentally misaligned with sustainability practices
- Fossil fuels
- Controversial weapons
- Conventional weapons
- Tobacco
- Pornography
- Violating selected international norms and conventions*
- GMO

INTEGRATION

- Increase investments in companies with good sustainability performance
- Internal ESG assessment
- 100% of the direct holdings, have undergone internal ESG analysis.
- ESG management system is documented and verified by Nordic Ecolabelling

ACTIVE MANAGEMENT

- Active dialogue
- Engagement outcome monitoring
- Controversies monitoring on daily basis

* labour law: ILO, human rights, gross corruption and serious environmental breaches

About the Nordic Swan Ecolabel

A Nordic Swan Ecolabelled fund represents a sustainability-labelled alternative for savers and professional investors, and an instrument for fund 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, and which does not represent any fund industry interests.

Carrying the Nordic Swan Ecolabel means that:

- The fund excludes investments in certain industries and companies that are particularly problematic from a sustainability point of view.
- The fund discloses all of its holdings on a quarterly basis. In addition, the fund publishes an annual report on the sustainability performance of the fund.
- The fund conducts an extensive ESG (Environmental, Social and Governance) analysis of its potential investments and prioritises companies that are more sustainable.
- Nordic Ecolabelling encourages active ownership and rewards funds that engage with investee companies.

Why choose the Nordic Swan Ecolabel?

- The Nordic Swan Ecolabel is a very well-known and highly respected trademark recognised among the official European ESG labels.
- The Nordic Swan Ecolabel is a simple way of communicating environmental work and commitment to customers.
- 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 the new regulations. Its role of engagement will become more structured. This applies to us as bond investors as well.

The Nordic Swan Ecolabel does not imply that all of the fund's companies are sustainable or without problems or challenges. *The aim of the requirements is to make your investment in a Nordic Ecolabelled fund move markets, industries and companies in a more sustainable direction.*

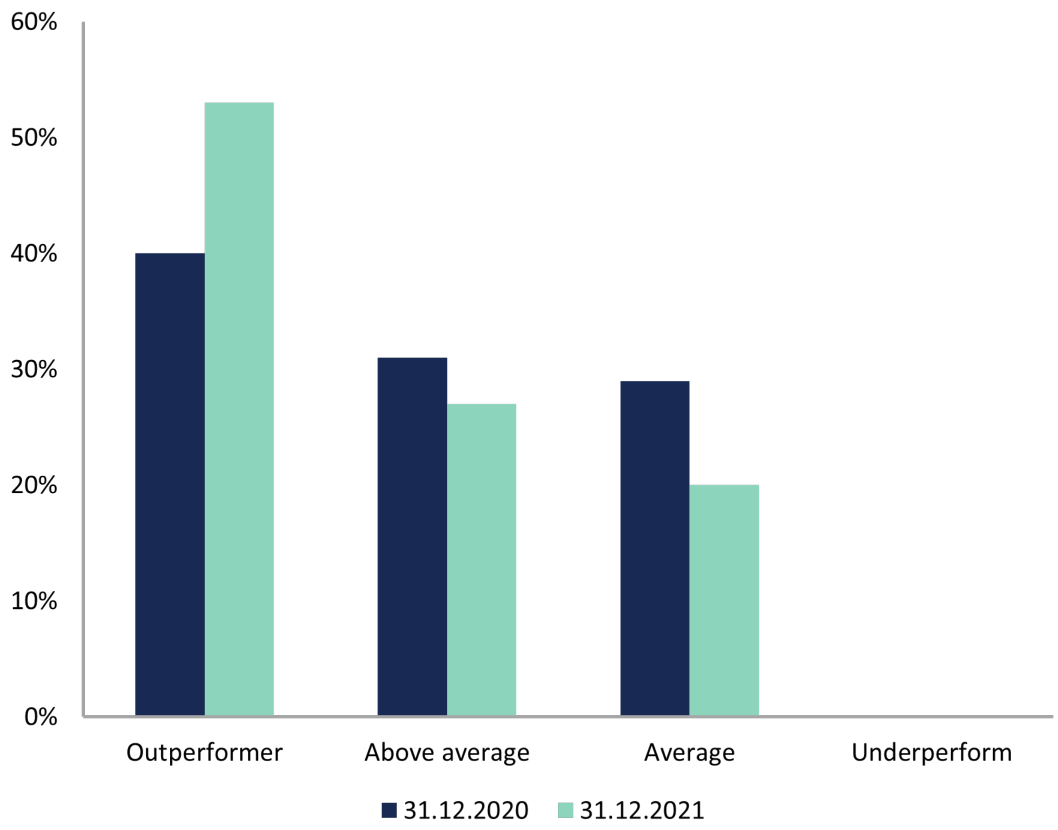
ESG activities

In order to identify companies that show strong sustainability practices, we have developed a thorough internal ESG analysis model which combines the Nordic Swan Ecolabel's requirements with the low carbon transitions requirements in line with the Paris Agreement the Sustainable development goals ("SDGs") developed by the United Nations.

Our internal model implies a valuation based on the rating criteria: "Outperform", "Average" and "Underperform" will be given in each category (Environmental, Social, Governance) before a total score is computed. However, the recents events and regulations emphasise the climate emergency.

If the 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.

The proportion of issuers in the portfolio that obtained a score of "outperform" significantly increased during the period. This was a pivotal year and the market offered a fairly good amount of sustainable opportunities enabling us to primarily select companies with strong sustainability profiles. On a general note, companies are intensifying efforts towards both developing sustainable practices and reporting extra-financial data. This led us to upgrade certain ESG scores on the annual analysis update.



Focus on two names

Faurecia

Faurecia is a French global automotive supplier. The company is a leading global manufacturer of vehicle interiors and emission control technology. One in three automobiles worldwide include Faurecia.

- The group is on track to become CO2 neutral for scopes 1 and 2 by 2025 and to reduce by 50% its scope 3 controlled GhG emissions in 2030 before reaching net zero by 2050 with GhG emission reduction targets approved by The Science Based Targets initiative ("SBTi") .

- In 2021, Faurecia also launched the "Seat for the planet" initiative dedicated to improving industrial processes, material use and seat design to reduce lifecycle CO2 footprints. Faurecia continued to structure its industrial footprint for hydrogen activities and reaffirmed its ambitious roadmap to become a Zero-Emission Hydrogen leader.

- In March 2021, the company announced a 165 million euros investment in an industry platform in France. With high-performance industrial capacity, this new site will support the growth of Faurecia's hydrogen storage system.

- During the period Faurecia received the Top Employer Europe label for the fourth time. The company is also working on inclusion. Faurecia is a signatory of the UN Global Women's Empowerment Principles and commits to promoting gender equality and women's empowerment in the workplace.

O-I Illinois

- O-I Glass is an American Fortune 500 company that operates in container glass products. The company holds the position of largest manufacturer of glass containers in North America, South America, Asia-Pacific and Europe. Approximately one of every two glass containers made worldwide is made by O-I, or its affiliates.

- O-I uses recyclable material. O-I collaborates with suppliers and customers and relevant stakeholders to make recycling available. More than 80% of the bottles that are recycled are used to make new bottles with recycled content. About a third of the group production is currently using at least 50% recycled content.

- O-I is the first glass packaging company to receive approval from the SBTi for its emission reduction targets. O-I commits to reduce absolute scope 1,2 and 3 GHG emissions by 25% by 2030.

- This year the company was named by the Forbes best employer list and became a signatory of the CEO Action Pledge to support diversity and inclusion.

About the 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.

Active management

Engagement and ownership have historically been an equity investor remit. Pareto ESG Global Corporate Bond is a fixed income fund, so per definition we have no voting rights. However, it is generally easier for fixed income investors to reach companies seeking for capital on the debt market. This is the reason why we believe that fixed income fund managers have an important role to play in positively influencing bond issuers in the right direction.

This year companies have been completely open to talking about sustainability and eager to understand our expectations including those related to the new regulations. Engagement outcome is an important tool part of our overall extra financial analysis.

"We believe that fixed income fund managers have an important role to play in positively influencing bond issuers in the right direction."

The investment team would expect companies to comply with our governance criteria as we are convinced that quality of corporate governance is revealed by the transparency and accountability of the firm's governance-related issues. Divestment is known as the best option when companies fails to comply with our expectations.

Emergent Biosolutions was originally set to become the only US manufacturer of vaccines for both Johnson & Johnson and AstraZeneca. In March, it was discovered that coronavirus vaccines produced by Emergent BioSolutions were contaminated as a result of "human failure". The US Food & Drug Administration, which investigated the case, decided to withhold more than 170 million doses and limited the company's rights to further production.

The investigations revealed not only a lack of thorough investigations of unexplained discrepancies, but also poor cleaning and sanitation. After receiving information about the case, Pareto ESG Global Corporate Bond sold its bonds in Emergent BioSolutions. **The lack of transparency led the management team to conclude that the company no longer lived up to our corporate governance requirements.**

This autumn, many months after the position was sold, the FDA announced that it had cancelled its entire contract with Emergent Biosolutions.

More details on our engagement activities are available upon request.

New regulations

The IPCC's sixth assessment report gave a clear emergency warning: The society needs rapid action to mitigate the worst effects of climate change. The conclusions reiterated the need to limit warming to below 1.5°C, a scenario adopted by the COP26 held in Glasgow in the autumn of 2021.

The finance industry has a key role to play in this common journey to reach a low carbon economy. Large-scale investments is the only option to significantly reduce emissions and companies need to fit investors' sustainable requirements in order to last.

The three following disclosure requirements will create one coherent framework for a more sustainable finance. 2021 was a pivotal year as regulations started to come into forces.

SFDR

The Sustainable Finance Disclosure Regulation (SFDR), applied from March 10 2021s 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 distinguishes disclosure requirements for:

Article 8:
Products that promote environmental and or social characteristics, referred to as "Light Green" products.

Article 9:
Products that have 'sustainable investment' as their objective, referred to as "Dark Green" products.

CSRD

The Corporate Sustainability Reporting Directive (CSRD ex NFRD).

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 starting from January 2022.

EU Taxonomy

The EU Taxonomy regulation starting 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 recognises '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.

Sustainable objective

Pareto ESG Global Corporate Bond is qualified as an Article 9 product under SFDR. The fund's investment strategy is designed to create long-term positive returns in sustainable investment which combines:

- The classic requirements of risk and financial return
- The low carbon transition requirements in line with The Paris Agreement as signed on 22 April 2016 (the "Paris Agreement")
- The Sustainable development goals ("SDGs") developed by the United Nation

The fund selects companies aligned with the objectives of the Paris Agreement. At this stage, the reference scenario selected is the IEA Sustainable Development Scenario, which is built on a decarbonisation trajectory in line with the Paris Agreement.

After having reduced the universe to not including fossil fuel and power generation companies, we determine how a business activity could contribute to an unacceptable level of greenhouse gas emission. The fund looks at the company's commitment to carbon emission reduction.

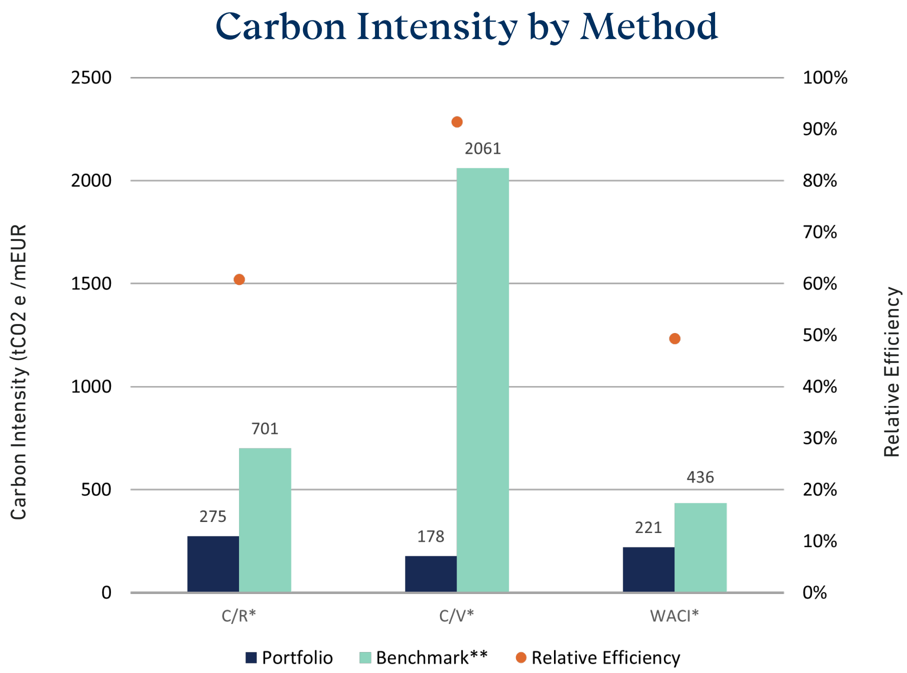
As part of our carbon emission reduction strategy, we have accredited Trucost to perform the fund's carbon footprint.

The carbon footprint analysis allows us to use the latest available data in order to quantify the greenhouse gas emissions embedded within our invesmtents, 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 intensity that enables comparison between companies or benchmark, irrespective of size or geography.The metrics represent the first step towards understanding the climate-related risks and opportunities in a portfolio, as well as for engagement processes.

In 2021, Trucost concluded that the fund was less carbon intensive than the benchmark under the three common methodologies used to assess carbon footprint (carbon to revenue, carbon to value and the Weighted average carbon intensity).

The greatest difference observed was under the Carbon to value methodology, where the fund was 91% less carbon intensive than the benchmark due to a combination of "*positive sector allocation*" and "*company selection*".

The scopes used were Scope 1 and Scope 2 emissions.



Source: Trucost S&P (complete report available upon request). *Carbon to Value Invested (C/V): Dividing the apportioned CO2e by the value invested. Carbon to Revenue (C/R): Dividing the apportioned CO2e by the apportioned annual revenues. Weighted Average Carbon Intensity (WACI): Summing the product of each holding's weight in the portfolio with the company level C/R intensity (no apportioning). 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, then they also 'own' 1% of the company's emissions. ** Benchmark: S&P US Dollar Global High Yield Corporate Bond.

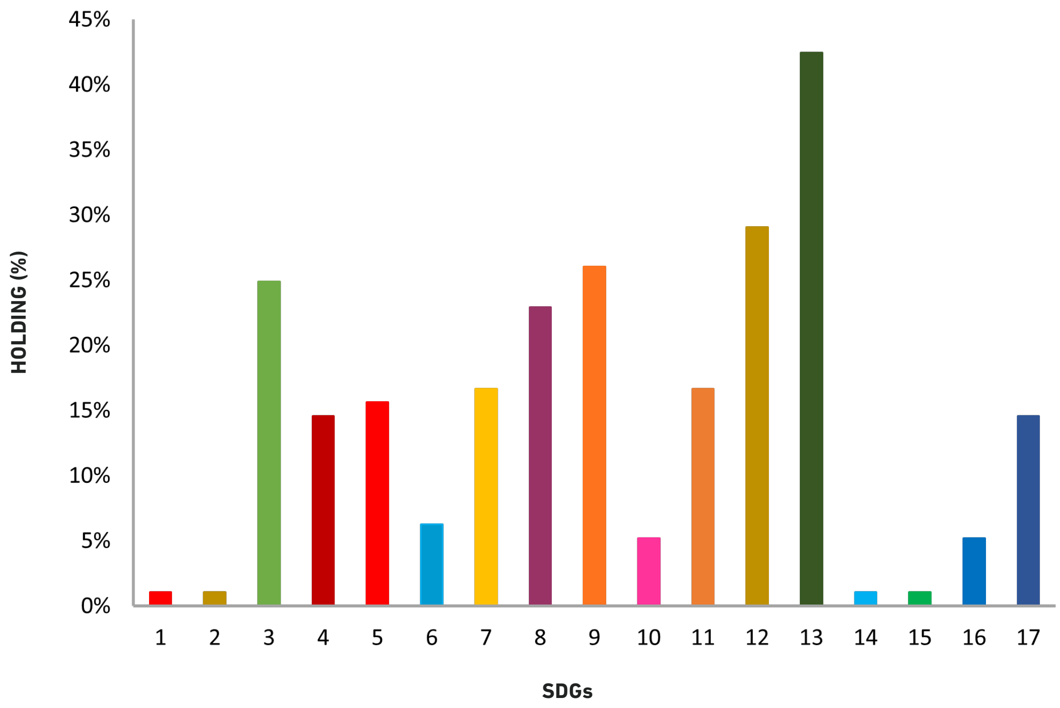
Sustainable development goals

More and more companies link their long-term sustainability goals and aspirations to the UN's 17 global sustainability goals. By selecting some of the 17 sustainability goals, each company can clearly highlight which sustainability issues or areas they have chosen to prioritise in their sustainability work. The companies' focus areas are often, given their business operations, where they believe they best can contribute to the transition towards a sustainable development and a sustainable society.

As part of our ESG analyses we analyse the companies' contribution to the SDGs. The contribution analysis is based on the companies' SDG-related information. Assessment implies clear materiality through concrete actions, investments or income generation achieved by the companies.

Pareto ESG Global Corporate Bond SDGs exposure

Source: Internal assessment based on companies´ disclosures.



SUSTAINABLE DEVELOPMENT GOALS

Top 3 contribution:

In 2021, 42% of our holding companies had a positive contribution to the SDG 13: Climate action goal.

29% had a positive contribution to the SDG 12: Responsible construction and production goal.

25% had a positive contribution to the SGD 3: Good health and well being.

Contributors example:

Hannon Armstrong SDG 13:
The first U.S public company focused on investment for climate change solutions. The company is dedicated to providing capital to leading companies in energy efficiency.

Modulaire SDG 12:
The company, headquartered in the United Kingdom, designs infrastructure recyclable modular solutions. The modular space can be modified up to 20 times during the product life cycle.

Davita SDG 3:
Headquartered in the U.S., the company provides kidney dialysis services to more than 200,000 patients in the United States and beyond.

Green bond and Sustainability linked bond

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 emerging of Sustainability-Linked Bonds ("SLBs") is perceived by certain investors as a way to prevent greenwashing and abuses related to the use of proceeds.

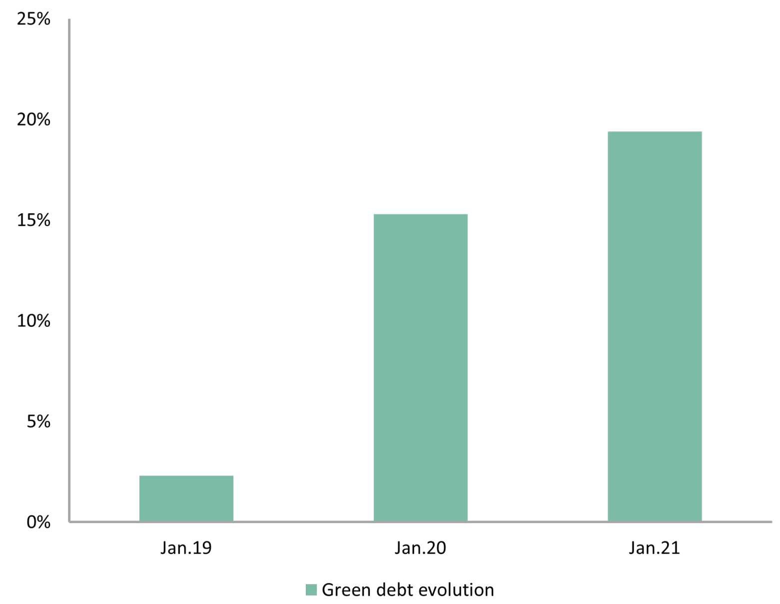
In 2019, following the path of the Sustainability Linked-Loans, the first Sustainability-Linked Bond was issued by the Italian energy distributor ENEL. The International Capital Market Association ("ICMA") defines SLBs as any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability or ESG objectives. Although SLBs is a viable alternative, the instruments presents 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 maner. As investors, we acknowledge that is our duty to use make our best effort to assess the bond framework , second party opinion and the capability of companies in reaching the pre established sustainability targets. For us, this analysis work is the only way to prevent greenwashing.

During the period we have taken part in several green and sustainable issuances. The need for climate change led the market to offer a broder spectrum of sustainable opportunities. The EU Taxonomy is taking the sustainable and green issuance to the next level. Indeed, it gives companies the possibility to increase the proportion of capex and opex aligned with the EU's environmentally sustainable ojectives.

In 2021, we managed to increase the proportion of our green and Sustainability-Linked Bonds by 4.4% to reach a total exposure of 19.6%.

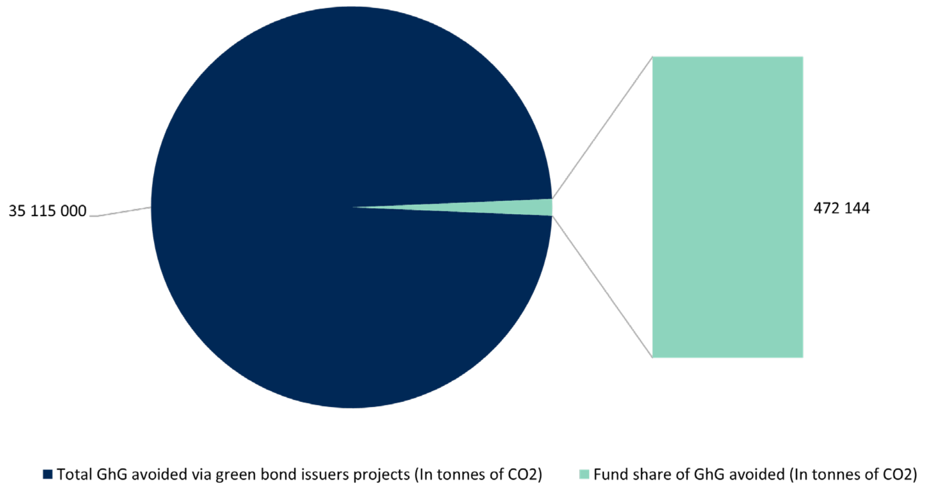
Green debt evolution



Green Bond - CO2 avoided

The Green Bond framework established by the ICMA on Green Bond Principles is the set standard including a second party opinion involvement to assess the green probity of the proceeds. This framework also requires a periodic report enabling investors to measure their impact on capital allocation. Avoided emissions is the most common impact indicator used by green bond issuers to drive positive progress.

Avoided emissions is an indicator expressed in tonnes of CO_2 equivalent. This is the difference between the emissions saved by the project and those induced by a fictive situation, called the reference situation, in which the project would not have been carried out. This indicator enables us to measure to what extent the fund is participating to GhG emissions savings.



Source: Companies´ disclosures and Pareto Asset Management
The calculation is based on the latest available data. The fund invested in several green bonds in 2021. At the time of writing, certain green bond reports were not yet available.

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.	In 2020, UPM received the validation by the Science Based Targets Initiative for 2030 responsibility target to decrease the CO2 emissions by 65%. UPM was listed as the most sustainable company of the Paper and Forest Products industry in the Dow Jones World Sustainability Index (DJSI) for 2021–2022.	Changes in operating environment.	upm.com	2.6%
Swiss Re	The Swiss Re Group is one of the world's leading providers of reinsurance, insurance and other forms of insurance-based risk transfer.	Swiss Re is a signatory of the UNPRI and the Principles for Sustainable Insurance. Swiss Re plans to phase-out thermal completely by 2030.	Data security.	swissre.com	2.4%
Iron Mountain	Iron mountain is dedicated to storing, protecting, managing information destruction, and data backup and recovery services. As of 2016 over 94% of Fortune 1000 companies use Iron Mountain's services .	Iron Mountain is listed on the FTSE4Good Index for meeting globally recognized corporate social responsibility standards and joined the RE100 and committed to 100 percent renewable energy and to reduce greenhouse gas emissions.	Data security and privacy.	ironmountain.com	2.2%
eurofins	Eurofins provides analytical testing services to pharmaceutical, food, environmental and consumer products industries and governments.	Eurofins Scientific is an international life sciences company which provides a unique range of analytical testing services to clients across multiple industries In 2020, Eurofins announced the ambitious goal of achieving carbon neutrality by 2025.	Absence of split CEO and chairman.	eurofins.com	2.2%
scan Global Logistics	A global logistics organisation offering the complete range of transport and logistics, focusing on providing personal advice and tailor-made logistics solutions.	Scan Global Logistics provides freight forwarding services worldwide. The company operates through four segments: Air, Sea, Road, and Solution Scan Global Logistics is part of the Exponential Roadmap Initiative 1.5°C and commits to the Science-Based Targets Initiative.	Environmental impact and economic instability.	scangl.com	2.2%

Updated: 31 December 2021

	Company description	Sustainable development	Sustainability risk	Link to website	Weight (%)
	Virgin Media Limited is a British company which provides telephone, television and internet services in the United Kingdom.	In 2021, Virgin Media launched the 2025 sustainability strategy. A zero waste operation and net zero emission on scope 1 and 2.	Dependence on regulatory approvals for telecom licenses.	virginmedia.com	2.2%
	Getlink (Eurotunnel Group's new corporate brand) is a key player in mobility infrastructures, international transport and leader in eco-responsible transport.	Getlink 2025 action plan aims to reduce direct CO2 emissions by 30% and received approval from the Science-Based Targets Initiative.	Changes in post-brexit regulations.	getlinkgroup.com	2.1%
	Catalent is a multinational corporation that provides delivery technologies and development solutions for drugs, biologics, and consumer health products.	In 2021, Catalent already achieved the initial goal of reducing its site-based carbon emissions by 15% by fiscal 2023. Catalent is working on a zero wast landfill to be reached in 2024.	Regulatory changes.	catalent.com	2.2%
	Energizer Holdings, Inc. Manufacturers dry cell batteries and flashlights. The company offers a full line of products, including alkaline, carbon zinc, miniature, and rechargeable batteries, as well as lightening products and razor shave products.	Energizer, is ine line with our social and governance requirements but need to intensify efforts on environmental aspects including the waste management and batteries recycling.	Negative impact on biodiversity .	energizer.com	2.1%
	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 part of the Net-Zero Banking Alliance. BBVA will reduce to zero the exposure to coal-related activities, stopping the financing of companies in this business by 2030 in developed countries, and by 2040 in the rest of the countries.	Robustness in consumar protection practices.	bbva.com	2.0%

Updated: 31 December 2021

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

Pareto Asset Management AS (HQ)
Dronning Mauds gate 3
Oslo, Norway

P.O. Box 1810, Vika
NO-0123 Oslo
Norway

t: 22 87 87 00
f: 22 01 58 50
e: post@paretoam.com

Org. nr.: 977 287 677