Pareto
Asset Management

Responsible investments

Report 1-2024

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And it's no sacrifice

Introduction
Finn Øystein Bergh, Chief economist & strategist

In April, we hosted the Pareto Investor Conference 2024 in Stockholm, with speakers and attendees from seven different countries. The theme of the conference was "Pareto improvements in the agile Nordic markets". Besides the obvious play on our company name, the title may need a bit of explanation for those who did not participate.

Vilfredo Pareto (1848-1923) was an Italian engineer, economist and sociologist who is probably best known for the concept of Pareto optimality: a state of affairs where no one can be made better off without making at least one other person worse off. While originally developed to describe income distribution, the concept has morphed into a more generic description of efficiency in everything from industrial production to, well, finance.

A Pareto improvement, then, entails improving at least one thing without impairing anything else. If such a move is possible, things are not Pareto optimal at the outset – meaning we can still do better. I'd like to believe that this is always the case.

In our line of business, a most relevant application of the concept would be looking for ways to improve sustainability without sacrificing profits. Standard textbook theory would have you believe that excluding parts of the investment universe will come at the expense of profits, as you limit your choice of securities. Any statement to the contrary – which we wholeheartedly second – implies a belief in active portfolio management.

Getting back to the conference, the speakers presented many alternative approaches to the concept of Pareto improvements, with sustainability a recurring theme. The general idea was that you could further sustainability in your investments without in any way sacrificing profits.

A closely related concept, purposeful business, was discussed on the first day of the conference. Keynote speaker Alex Edmans, finance professor at London Business School, held a presentation labelled "How great companies deliver both purpose and profit".

To the general public, prof. Edmans is probably best known for the book “Grow the Pie: How Great Companies Deliver Both Purpose and Profit”, which was named one of the best books in 2020 by Financial Times. His presentation drew on the lessons presented in that book, from scientific evidence to illustrative examples. I may add that it was an entertaining, engaging presentation.

The overarching theme was that there is no trade-off between serving a purpose and making a profit. On the contrary, businesses driven by purpose are consistently more successful in the long term. I have no hesitation in stating that he drove his conclusion home in a memorable way.

This concurs well with our understanding of sustainability. First, with the long-termism inherent in our understanding of sustainability, if is not sufficient for a company to reduce harm and act in an ethical way. For a company to endure and prosper, it must deliver products or services of value to its customers and society. It must fulfil needs that need fulfilling. It must be there for a good reason.

Indeed, it must have a purpose.

Second, we fully endorse the view that there is no inherent trade-off between sustainability and profits. On the contrary, as we have stated on so many occasions, we believe that sustainability has a positive effect on the risk-adjusted returns in our mandates. That risk bit is not trivial; even if it doesn't reduce volatility, true sustainability may still reduce risk as we generally know it – risk of something going wrong. Risk of an environmental disaster. Risk of a corporate governance scandal. And so on.

Let me iterate, again, that this is not about altruism. Paraphrasing Adam Smith, it is not from the benevolence of business that we expect our returns.

We simply believe that owning truly sustainable companies, serving a valuable purpose, will serve our investors better.

Balancing purposeful investments with decarbonisation:

Long-term impact over short-term showcases

Nawel Boukedroun, responsible for ESG and sustainable investments
&
Gustaf Tegell, portfolio manager Pareto Nordic Cross Credit

Our day with Alex Edmans at the Pareto Asset Management institutional investor conference in Stockholm was both highly educational and insightful. A key takeaway from our discussion was the importance of purposeful action in investments decisions. We unanimously agreed with Edmans' perspective that long-term value creation hinges on investing in companies with a clear, meaningful purpose.

However, while this principle is clear, there remains debate on the best approach to achieve it, particularly in sustainable investing. Originally intended to identify long-term value creation, the topic has become increasingly contentious, creating discordance. There is significant subjectivity in interpretations and numerous challenges related to data accuracy. Despite these hurdles, we continue to believe these challenges should not serve as an excuse for inaction.

During our discussions, we also addressed the pressure from regulators and the "tick-the-box" exercises we are currently facing. We explored how regulators could provide financial market participants with more freedom to make genuine progress, rather than focusing solely on achieving the best short-term outcomes and marketing appealing actions.

To illustrate this point, carbon emissions serve as a relevant example and specifically the pace of decarbonisation. Today, there is a significant challenge balancing the immediate need for investors to decarbonise their portfolios and demonstrate results with the long-term objective of supporting companies in their gradual transition to sustainability. Indeed, continuously chasing the lowest carbon footprint in the short term could prevent us from supporting companies that are making meaningful progress in reducing their carbon emissions over time.

We acknowledge that some investors need or want to significantly reduce their footprint. This comes clearly across when we discuss our fossil-free funds, such as Pareto Global, Pareto ESG Global Corporate Bond, and Pareto Nordic Cross Credit, with clients.

Beyond fossil fuels, there are companies in sectors deemed "highly carbon-intensive" by the market, such as agriculture, silicon, and steel, which contribute significantly to the overall carbon footprint of the funds that hold them. Yet, we believe it is crucial to understand the progress these companies are making in their decarbonisation efforts and their positive impact on the real-world economy. These companies are considered key enablers driving the transition within their respective markets and value chains. They need funding to develop their ambitious projects, which is where choices made by asset managers like us enter the picture.

In the end, we must ask ourselves whether it is better to have a low-carbon-footprint portfolio achieved in the short term, or to have a greater impact by funding companies that play a critical role in transitioning our economy. We believe that the latter could drive more substantial and lasting change, but we acknowledge the need for our investors to balance their allocation and reduce their own footprint. It is this strategic balance that we must strive to achieve in our investment decisions.

At Pareto Asset Management, we have chosen to support the very companies that can make a contribution to the green transition, provided a critical look can convince us of their commitment. Elkem, SSAB and Nortura may serve as useful illustrations.

Elkem
– reuse of energy for Norway's hospitals

Elkem is a global leader in advanced silicon-based materials, with a strong focus on innovation. Silicon material production is crucial in supporting the green shift, as these materials are needed in numerous industries, such as automotive and green mobility, electronics, construction, and renewable energy (e.g. EVs, solar panels). Silicone is derived from silicon, which is extracted from silica.

The process of converting silica into silicon involves high-temperature smelting in electric furnaces, requiring significant energy. The high-temperature exhaust gases from these furnaces are used to supply three hospitals in Norway with electricity generated at Elkem's plants. The Climate Disclosure Project (CDP) has rated Elkem among the world's top-performing companies in environmental transparency and performance on climate, awarding it a grade of A-.

Greenhouse Gases reduction target	-28% scope 1&2 and -39% scope 3 by 2031
SBT status	Framework not defined by SBTI for this sector
Scope 1 (in tco2)	2 210 000 (YoY: -8,68%)
Scope 2 (in tco2)	830 000 (YoY: -11,70%)
Scope 3 (in tco2)	6 810 000 (YoY: -7.72%)

SSAB
- crucial decarbonisation efforts in Sweden's GHG battle

SSAB is Sweden's largest single emitter of carbon dioxide, accounting for 12% of the country's total emissions. These emissions arise from the chemical process of steel production through the reduction of iron ore in large blast furnaces. Despite SSAB's significant emissions, the company's steel production is one of the most carbon-efficient in the world. However, the technical possibilities for further optimisation of the traditional production method are very limited.

To reduce its emissions at a pace consistent with Sweden's and the world's climate goals, SSAB must fundamentally revolutionise its ancient steel production. This is precisely what the company aims to achieve with the HYBRIT project, conducted in collaboration with LKAB and Vattenfall.

In recent years, significant progress has been made in the project, which aims to result in carbon-free steel with only water as a by-product. The progress has been so substantial that the company has revised its forecast for achieving carbon-free steel production by a full 15 years and now expects to achieve this around 2030. This marks a significant development for Sweden's major emitter of greenhouse gases.

Greenhouse Gases reduction target	-48% scope 1&2 by 2033
SBT status	Approved (scope 1&2)
Scope 1 (in tco2)	9 915 000 (YoY: +0,72%)
Scope 2 (in tco2)	1 157 000 (YoY: -1,87%)
Scope 3 (in tco2)	N/A (Calculations under review for SBTi application)

Nortura
– leading example of Norway's efforts to reduce agricultural emissions

Nortura is one of the largest food producers in Norway. Norway's agriculture contributes 9.4% of the nation's greenhouse gas emissions, but Nortura's localized approach is contributing to minimise this adverse impact. Norwegian food production is world-leading when it comes to reducing carbon emissions associated with transportation and supporting local economies.

The company is commited to sustainability. Owned by 16,000 Norwegian farmers, the company sources locally, reducing its environmental impact. Nortura also optimises resources by utilising 70% of the beef from the same cows that are milked, addressing emissions from digestion, feed, and energy use. Additionally, Nortura is setting science-based climate goals and partnering for sustainable transport solutions. By 2027, the company aims to transport 60% of its goods using zero-emission vehicles.

Greenhouse Gases reduction target	Net zero scope 1&2 by 2040
SBT status	Committed
Scope 1 (in tco2)	18 105 (YoY: -3,72%)
Scope 2 (in tco2)	4 429 (YoY: -1,93%)
Scope 3 (in tco2)	2 252 250 (YoY: -3,73%)

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

[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.

precautionary principle in connection with investments in biotechnology companies, weapons, gambling and alcohol.

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:

PRI Principles for Responsible Investment

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.

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

Active ownership is not limited to voting or dialogues with portfolio companies. Sometimes, dialogues with other shareholders may be more effective.

We have stated time and time again that we believe concentrated portfolios limit idiosyncratic risk. The better we understand our portfolio companies, the more we can feel confident about their ability to deliver good risk-adjusted returns. Here, risk certainly includes sustainability risk factors.

Being in contact with key people in these companies is an obvious channel of information. For active fund managers like us, it is an indispensable tool. It is also a good way, in many cases the best, of letting our views be known to the same people. We may vote at general assemblies, but while our vote may tip the scale, it is not likely to make anyone change their mind. Dialogues, on the other hand, may initiate a process of reflection and influence future management decisions.

Admittedly, our share of the companies' equity or bonds is generally quite low. While we still believe that we have very good dialogues with a lot of portfolio companies, sometimes we need to coordinate our actions with other investors. And in a few instances, we can do both.

Our involvement with the Swedish private equity company is an interesting case in point. EQT is a Swedish private equity company, investing in infrastructure, real estate, growth equity, and venture capital in Europe, North America, and Asia Pacific. EQT is one of the largest private equity firms in the world.

For us, it is a portfolio company. A few years ago, Pareto ESG Global Corporate Bond made the decision to participate in EQT's Sustainability-Linked notes and the fund has remained invested since then. In addition, EQT also has ownership in some of the credit issuers in which we invest.

Engaging with privately owned issuers can present challenges, primarily due to a lack of required transparency. To overcome this hurdle, we placed emphasis on direct communication with EQT as the owner of several of our holding companies.

Cerba Health Care

Our engagement journey with EQT started a couple of years ago, starting with a dialogue concerning Cerba Health Care, a leading medical diagnostics and laboratory testing company. EQT facilitated our introduction to their partner and the team overseeing Cerba Health Care. In our initial meeting, we shared our suggestions and strove to influence in a positive way by requiring factors crucial for analysis. This dialogue took place when the company decided to appoint a CSR director. This helped the company to understand investor requirements. Cerba received the feedback well and initiated follow-up dialogues.

In 2022, the company extended their corporate socially responsible team and we have observed a significant improvement in disclosure practices, complemented by commitment taken to reduce the carbon footprint.

Zayo

Later, we initiated discussions with EQT concerning the absence of women on the board of our portfolio company Zayo, a communication infrastructure company, which EQT acquired in 2019. This marked a significant concern for us, contradicting the sustainability claims asserted by EQT in public disclosure.

During our discussion, the top management at EQT not only acknowledged these apprehensions but also committed to proactively addressing the matter within a reasonable time frame. Not long after, the company took a positive step by nominating a woman as a board member and appointing another female in top management.

Following this development, last year, another female was appointed as a director, marking further significant step towards achieving greater gender diversity on the board of directors.

Covanta & First Student

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

In 2021, EQT became the first private equity firm to achieve an approved Science Based Target (SBT), committing to a 50% reduction in direct emissions and a 30% cut in business-travel-related indirect emissions. When updating our analysis on EQT, we observed that the company was not on the right track, having a substantial increase in scope 3 emissions and especially where they had clear reduction targets: business-travel related emissions. The rise in Scope 3 emissions, particularly from post-corona business travel, was attributed to the presentation of these emissions in absolute figures. The company pointed to workforce growth and explained that it actively promotes remote meetings to offset the trend.

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

Challenges in engaging U.S. companies were discussed, emphasising the consistent application of rigorous standards. During the presentation, EQT also showcased achievements, with nearly 30% of portfolio companies securing SBT approval, and 18 publicly committing to goals, including notable contributions from Covanta and Zayo, which means that these companies must submit their science-based targets plan for 2024.

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

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.

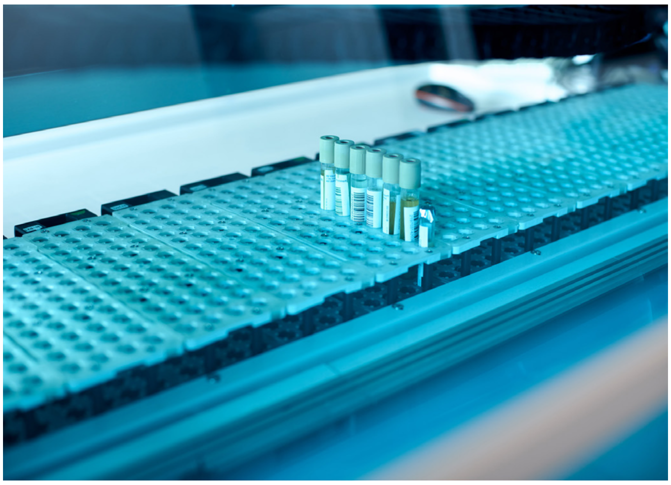
In 2023, Scatec continued efforts a by entering a collaborative alliance with Position Green, an advisory firm renowned for its expertise in fostering resilience through implementation of ESG software to track sustainability advancement. Scatec proactively collaborates with both their supply chain and 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.

Previous mentions

Catalent – safety issues

US company Catalent is a global provider of delivery technologies, development, drug manufacturing, biologics, gene therapies and consumer health products. In April 2023, Catalent flagged productivity issues and announced a profit warning following a slower- than-expected ramp up in production capacity. After further analysis, it was found that the slowdown was due to a third-party investigation on safety management in one



of the factories.

At that time, Pareto ESG Global Corporate Bond owned bonds in the company but decided to sell, as the company was no longer in line with their expectations of good governance practices. There was no decision to exclude the company, however, and the fund would still stay informed of company developments.

Provided clearance from competition authorities, it is now clear that Catalent is being acquired by Novo Holdings, whereupon production capacity will be transferred to Novo Nordisk – the Danish pharmaceutical company in which both Pareto Nordic Equity and Pareto Total own shares.

In our estimation, the safety issue does not now pose an obstacle to investing in this company.

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 that may come in handy:

- **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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