Pareto
Alternative Investments

PARETO ALTERNATIVE INVESTMENTS AND SUSTAINABILITY

Summary

Pareto Alternative Investments (PAI) understands a sustainability risk as "an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of an investment". Collectively, such events or conditions are termed by PAI as "ESG issues" or "ESG factors" and any references to such are intended to encompass the concept of sustainability risks.

Sustainability risks may result from the investments made by PAI on behalf of its investment mandates but may also be exogenous risks that could pose challenges to the investments and their projected returns in the future.

PAI believes that adverse sustainability impacts are important to avoid as they will reduce the risk adjusted returns in its investment portfolios.

1) Integration of sustainability risks in the decision-making process

PAI has several policies that deal with the integration of sustainability risks in the decision-making process for its products:

- Responsible Investment Policy stating that environmental, social and governance issues shall be considered as part of the due diligence when assessing new investment opportunities and that the performance shall be monitored during the holding period of the investment. You can find more information on the Responsible Investment Policy **here**.

- Internal Regulation regarding Environmental, Social and Governance aspects, which states that ESG Issues shall be incorporated into investment analyses and investment processes.

- References to sustainability risks and sustainability matters in the investment mandates for the vehicles PAI manages, promoting a reduction in energy usage, reducing adverse sustainability impacts, ensuring that assets are "state of the art" with regards to energy usage, energy mix and technical solutions, as well encouraging counterparts and suppliers to consider sustainability factors in their business.

2) Due diligence to uncover principal adverse impacts of investment decisions on sustainability factors

The requirements for the due diligence carried out by PAI as investment manager for Alternative Investment Funds and for Discretionary Portfolio Management mandates are part of the Internal Regulations for PAI:

- Internal Due Diligence Regulation requiring PAI to perform due diligence to uncover all relevant risks to an investment, which shall be considered in relation to the investment decision and any risk tolerance parameters that may be part of the relevant investment mandate
- Internal ESG Regulation that specifies that ESG is an integral part of the due diligence process and that standardized ESG Due Diligence questionnaires have been developed for each type of investments that PAI is involved in.

3) Policies on the identification and prioritization of principal adverse sustainability impacts and indicators

Pursuant to PAI's policies and internal regulations, all investment decisions are subject to a rigorous ESG-analysis that include all relevant ESG factors and all decision-making bodies consider this as part of the overall investment decision. The ESG-analysis covers a wide range of factors, such as:

Environmental:

- Compliance with relevant local and international standards and legislation
- Energy efficiency, sound resource management and pollution prevention
- Monitoring of other material environmental issues, such as climate resilience
- Investments, measures and activities that help reduce the environmental impact of investments

Social factors:

- Safe and healthy working conditions
- Compliance with international conventions on human rights
- The elimination of child labor
- Employees' right to freedom of association and collective bargaining
- Avoidance of discrimination based on age, race, gender, religion, sexual orientation or disability
- Positive involvement with stakeholders and community

Governance factors:

- Awareness and compliance with relevant laws and regulation
- Avoidance of corruption and unethical business practices
- High standards of business ethics

The actions taken in relation to the ESG-analysis findings depends on the relevant investment mandate and may include, inter alia:

- Declining the investment opportunity
- Offering terms and condition that incentivize counterparts to improve on key factors
- Engagement with counterparts to rectify issues and risks that are considered important

Some investment mandates offer sustainability-linked terms, some have investment restrictions that impose negative screening on the investment process, while some are without specific requirements and therefore adhere to PAI's general policies and internal regulations.

Pursuant to its policies and regulations, PAI adheres to the following investment principles:

- The UN Principles for Responsible Investments (member since 2019)
- The UN Global Compact
- The Task Force for Climate Related Financial Disclosure (TCFD)
- The Council of Ethics for the Government Pension Fund Global (GPFG) of Norway

4) The integration of sustainability risks into PAI's remuneration policy

The Board of Directors have the overall responsibility for PAI's ESG-activities, including setting annual targets. The employees' contribution to implementing ESG in the investment management activities of PAI is part of the general guidelines for PAI's remuneration policy. It is also part of the remuneration criteria for the compliance & risk manager of PAI.

5) Engagement on sustainability related matters

PAI invests in real assets and are rarely involved in traditional corporate investments. It has two distinct lines of investment; equity investments and credit investments and the engagement policy reflect this.

a) Engagement for equity investments

PAI's mandates are generally 100% owners of real estate owning companies and these companies are typically single purpose vehicles owning just the properties. Engagement covers 3rd party property managers, where contractual arrangements reflect PAI's Suppliers' Code of Conduct. Engagement also covers the tenants of the properties to agree on sustainability improvements that can benefit both the property owners and the tenants. The cost of such improvements may be split between the owners and tenants. PAI may also engage with the tenants to promote a general adherence to relevant principles for sustainability.

b) Engagement for credit investments

Within credit investments, most of the engagement therefore takes place during the investment process. As a rule, negative covenants are placed on borrowers regarding material sustainability issues, for example reporting requirements. Some mandates may have positive covenants that link sustainability performance to the loan terms to incentivize the borrowers to improve. In such instances, there will be regular engagement with the borrowers to monitor the performance.

PAI intends to publish an annual statement pursuant to Regulation (EU) 2917/2088 on Sustainability Related Disclosures in the Financial Services Sector (SFDR). The first full statement will be published as of 31/12/2021. However, PAI is already providing a full product disclosure statement for any of its products that has sustainability characteristics. You can find more information on this **here**.