Responsible Investment Review
Q1 2019

Contents

RI Developments 2018

2018 was another extremely positive year in which ever-increasing interest in sustainability was evident. The decision by the EU to integrate ESG considerations into all areas of its action plan on sustainable finance – from the investment advice industry through to pensions and insurance - was certainly one reason for this. Against this backdrop, Sparinvest has continued to bolster its responsible investment policies and activities (especially regarding active ownership).

At Sparinvest, during 2018, we have:

- Further enhanced the independence of our voting approach by introducing a new custom voting policy
- Pursued carbon-themed engagement with all value equity fund holdings, and ethical bond fund holdings
- Redesigned the RI section of our website
- Been recognised as being compliant with the new Danish Stewardship Code
- Added to our controversial weapons exclusion list
- Added three funds to the Luxembourg Green Exchange ESG window
- Promoted responsible investment at numerous event

Stewardship Report 2018

Danish Stewardship Code

During 2017, Denmark introduced a Stewardship Code - very similar in intention and requirements to the original, standard-setting UK Stewardship Code. In early 2018, Sparinvest submitted its Stewardship Policy to the Danish Committee on Corporate Governance (Komitéen for god Selskabsledelse) with a statement of compliance. In May 2018 the Committee confirmed Sparinvest to be compliant with the requirements of the Code.

New Custom Voting Policy

Sparinvest undertakes stewardship (voting and engagement) as a core element of responsible investment management in the belief that it can augment long-term investment returns. We have long been proud of our independent approach to voting but in 2018, we further enhanced it, by implementing a new custom voting policy with proxy voting service provider, ISS.

Sparinvest's voting policy – setting out, for example, how see issues of corporate governance – is available in the Stewardship section of our website. In turn, that policy informs a customized policy which ISS use as the basis for generating detailed analysis of agendas at shareholder meetings. This means that the recommendations we receive from ISS are inherently more independent than the standard 'benchmark' recommendations that ISS typically provide.

That customized research drives voting decisions in our passive and quant funds. In our active fundamental funds, we go a step further: all meeting agendas and related research are reviewed by our investment team, who make a final voting decision based on our voting policy and the best interests of long-term shareholder value. This explains why we sometimes do not follow the customized recommendations from ISS.

As an example of voting policy, we believe that shareholder interests are best served when companies are held accountable to strong and independent boards, and our policy encourages board independence, diversity, and reviews of board effectiveness. There are inherent links with Sustainable Development Goals, such as goals 16 (Peace, Justice and Strong Institutions) and 4 (Gender Diversity). We continue to believe that voting is always stronger when combined with dialogue, so we aim to discuss such issues with our holdings. This voting-related correspondence has historically led to deeper dialogue, further enhancing our understanding of portfolio companies' governance and corporate culture.

Voting Report for Actively Managed Equity Funds - 2018

Voting Statistics 2018 (Actively managed equities)		
Total Votable Meetings	210	100.0%
Of which voted	201	95.7%
Proportion with votes against Management	102	50.7%
Proportion with votes against ISS standard benchmark recommendations	36	17.9%
Proportion with votes against ISS customized recommendations	19	9.5%
Total Agenda Items	2523	100.0%
Of which voted	2428	96.2%
Proportion with votes against Management.	278	11.4%
Proportion with votes against ISS standard benchmark recommendations	60	2.5%
Proportion with votes against ISS customized recommendations	51	2.0%
Shareholder Proposals	84	100.0%
Of which voted	83	98.8%
Of which supported	50	59.5%

Whilst we aim to vote 100% of our actively managed portfolios, our ability to do so is partially dependent upon market rules regarding Powers of Attomey, and timely communication from our service provider and custodians. There were some issues with this during 2018.

The table below gives an indication of the types of issue where we most commonly voted against management.

Issue	% of votes against Mgmt.
Reorganisation and Mergers	2.9%
Routine/Business	7.6%
Capitalization	12.6%
Directors Related	45.3%
Non-Salary Compensation	18.7%
Anti-takeover Related	1.8%
Shareholder Proposals	11.1%
Total	100.0%

Screening Report 2018

Controversial Weapons Screening

Sparinvest sets a clear baseline: none of our funds will invest in companies that are confirmed producers or distributors of controversial weapons. During 2018, Sparinvest added companies producing depleted uranium weapons to its controversial weapons exclusion list.

Norm-based Screening Results

In addition to reporting on Stewardship activity, Sparinvest reports on Norms-based screening results below.

Sovereign Bond Funds

Country-level norms-based screening applies only to our sovereign bond strategies. For all other funds, we screen for norms breaches on an individual security basis. In 2018, the results from screening a universe of 170 nations were the same as in 2017. Seventeen countries were considered uninvestable because their governments were either subject to broad multilateral sanctions or else were unwilling or unable to protect basic human rights. Our list of uninvestable countries is therefore unchanged since 2017.

All Other Sparinvest Funds

Across the rest of our range of funds, Sparinvest holds a total of 3808 companies. The December 2018 screening of all funds showed that 43 (1.1% of the total number) companies were flagged by our screening services provider as being 'Norms Red' - meaning that they were in confirmed breach of the international global normative framework covering human rights, labour standards, the environment, and anti-corruption, with no attempt to address the situation. A further 253 (6.6%) were assessed as being 'Norms Amber' - Amber is a diverse category, including some companies that are alleged, but not confirmed, to have breached an international norm, and other companies that have confirmed breaches, but have taken steps to remediate the situation.

Actively Managed Fundamental Funds

In our actively-managed fundamental strategies (those where our fund managers select individual stocks or bonds on the basis of fundamental security analysis, including ESG risks), we invest in a total of 1536 companies across 20 funds. The number of Norms Red holdings was 14 and the number of Amber holdings was 97.

Actively Managed Ethical Funds

Our actively managed ethical funds invest in a total of 274companies. In these funds, our policy is to divest any holdings that are declared Norms Red as soon as reasonably practicable. Therefore these funds hold no companies that are in confirmed and unaddressed breach of international norms in the relevant areas.

Whilst our policy is to exclude all companies from our ethical funds that are assessed as Norms Red, we sometimes go further and choose to exclude some Norms Ambers too, depending on the risk severity of their assessment. Amber represents a spectrum of risk, ranging from 'imminent failure to respect international norms' at the higher end to 'fragmentary information about involvement' at the lower end. A total of 18 (6.6%) Norms Amber companies were held in these funds. Where amber companies are held in ethical funds, it is after approval from the Responsible Investment Committee and with the understanding that engagement will be undertaken.

Engagement Report 2018

The following is a summary of Sparinvest Group's engagement activities across all asset classes. Our Stewardship Policy, which gives details of how and why we engage is published on our website.

	Companies Engaged in 2018
Direct engagements - Equities	97*
Direct engagements – Fixed Income	69**
Collaborative engagements	224***
Of which Sparinvest in lead / co-lead role	4
Collaborative Service Provider engagements supported	98
Of which engagements with holdings	43

**Direct engagements by Value Equities team covered ESG issues - in particular carbon related, Norms issues and voting-related issues*
***Direct engagements by our Value Bonds team were on carbon emissions and Norms issues.*
**** Cyber security targets 63 companies, Climate Action 100+Targets 161.*

Engagement by issues

	Environmental	Social	Governance
Individual Equity*	6	5	101
Individual Fixed Income	62	3	4
Collaborative	161		63
Service Pro vider*	31	64	25

**Engagement with a company can be on more than one issue, hence totals here may be higher than previous table.*

Carbon Themed Engagement

Climate transition is a process that will take time and encouragement, particularly for those companies whose business models require the greatest adaptation. To encourage investee companies to transition to a more sustainable future with lower carbon emissions, Sparinvest does not believe it is necessary to be 'best-in-class' ESG or aggressively low carbon investors. Instead, we use a combination of ESG integration, engagement and exclusions to achieve this long term goal. We recognize that the transition to a 2° compliant economy represents risks and opportunities to the businesses in which we invest, and we analyze these issues carefully when measuring long-term risk against reward.

In our ethical funds, we exclude two of the most carbon-intense energy exposures - oil sands and thermal coal. However, companies held in our ethical portfolios are also held in our core range of funds. During 2018, we began a carbon themed engagement which addresses portfolio companies held in all value equity funds and in our ethical high yield bond fund. We expect this engagement to continue for some time, but we would like to report on the initial results which are encouraging.

Equity Funds Carbon Engagement Results to date

The equity engagement targeted 175 portfolio companies and is at the early stage of first round communications with a current response rate of 29%.

Number of companies responded	50	
Of the above:		
Number of companies that completed questionnaire	49	98%
Number of respondents participating in CDP	39	78%
Number from developed markets	44	88%
Reporting on scope 1 and 2, but not on scope 3	9	18%
Reporting on scope 1, 2 and 3	34	68%
Not reporting at all	3	6%
Companies where responsibility is at Board Level	33	66%

Bond Fund Carbon Engagement Results

The bond engagement targeted 119 companies and has progressed somewhat further, with second and third reminders sent to encourage a higher response rate – currently 69%.

Number of companies that responded	82	
Of the above:		
Number of companies that completed questionnaire	51	62%
Number of respondents participating in CDP	25	30%
Number from developed markets	74	90%
Reporting on scope 1 and 2, but not on scope 3	25	30%
Reporting on scope 1, 2 and 3	0	0%
Not reporting at all	4	5%
Companies where responsibility is at Board Level	26	32%

We aim to encourage investee companies to improve sustainability in the face of climate change challenges and opportunities, which we believe can benefit long-term investment performance – and also contribute to the low carbon transition.

Service Provider Engagement 2018

We participated in pooled engagement via our service provider, targeting 99 companies - 17 of which were in confirmed breach of international norms (red flagged) and 82 were subject to allegations (amber flagged).

Sparinvest joins these pooled engagements in order to lend our voice to the effort to get them to remedy and mitigate ESG risks. Where our active fundamental funds invest in these companies, we will also engage directly. In 2018, 44 companies responded (44%) to pooled engagement efforts by our service provider, providing information on their efforts to manage the specific environmental, social and governance risks associated with their operations.

Predominantly as a result of its index funds, Sparinvest invests in 26 of the 99 companies targeted by the service provider engagement. Bearing in mind that an engagement with one company can cover overlapping issues, those raised with our portfolio companies were as follows: Human Rights – 38 issues, Environment - 31 issues, Labour Rights - 26 issues and Anti-corruption 25 issues.

PRI-Led Collaborative Engagements

Cyber Security (commenced 2017)

Please see updates on this collaborative engagement from our equities team on page 7 and from our bonds team on page 9.

Climate Action 100+

In addition to the above, Sparinvest has joined 225 investors overseeing $26.3 trillion in assets as part of Climate Action 100+. This engagement targets 161 companies, identified as being the world's largest greenhouse gas emitters. The idea is to drive swift corporate action on climate change through demands for transparent climate disclosure.

Supra-Company Engagement

Sustainable Stock Exchanges

In addition to the engagements noted above, Sparinvest also participates in supra-company initiatives designed to promote sustainability.

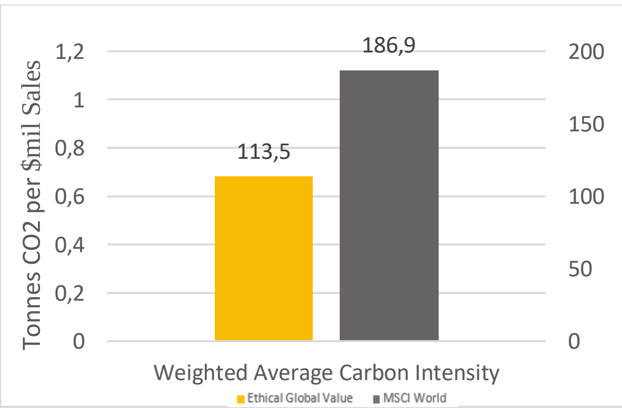
The UN PRI's Sustainable Stock Exchanges (SSE) initiative aims to leverage the crucial role that stock exchanges can have in promoting a sustainable financial system. The latest ESG survey of the World Federation of Exchanges shows great progress in the number of exchanges embracing ESG initiatives.

As a member of the advisory group of the Sustainable Stock Exchanges initiative, Sparinvest assisted in the production of an SSE Report entitled: "How securities regulators can support the Sustainable Development Goals" which comprises an action plan for securities regulators wishing to support the Sustainable Development Goals.

Carbon Footprints

The assets of all three of our ethical funds (a total value of USD 281 million) are committed to the Montreal Carbon Pledge. For each of these funds, we publish a carbon footprint on our websites. We measure the carbon footprint in various ways, but we consider that Weighted Average Carbon Intensity is the most appropriate measures of a portfolio's exposure to carbon risk – for example, relating to energy transition or carbon taxation. The carbon profiles of individual portfolio companies are used to inform our engagement activities, and are also considered within our portfolio construction considerations. A snapshot of the footprints is shown below, but more details can be found on our website.

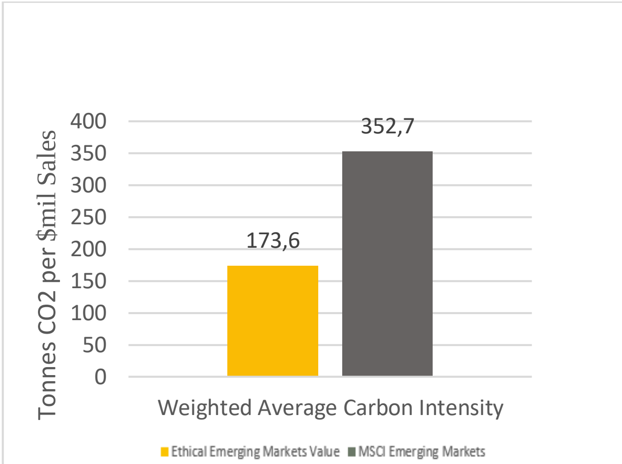
Carbon Footprint: Sparinvest Ethical Global Value



Source: MSCI Carbon Portfolio Analytics. Data as at 13/12/2018

The fund continues to register a low weighted average carbon intensity relative to its benchmark. In 2018, the fund's weighted average carbon intensity stood at 39.3% less than MSCI World.

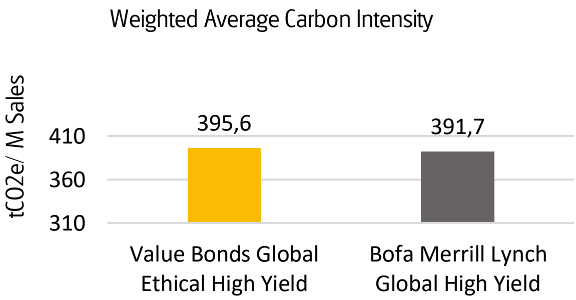
Carbon Footprint: Sparinvest Ethical Emerging Markets Value



Source: MSCI Carbon Portfolio Analytics. Data as at 13/12/2018

Since its first carbon footprint report in 2015, Ethical Emerging Markets Value fund has registered a carbon footprint which is extremely low compared with its benchmark. This continued in 2018 when the fund's weighted average carbon intensity was 50.8% less than MSCI Emerging Markets.

Carbon Footprint: Sparinvest Value Bonds – Global Ethical High Yield



Source: MSCI Carbon Portfolio Analytics. Data as at 13/12/2018

Sparinvest Value Bonds Global Ethical High Yield has seen an increase in its carbon footprint since last year which is as a result of its sector allocation which results from a bottom-up bond picking process. The fund is overweight in Energy and Utilities which are higher intensity sectors and underweight in Financials and Telecommunications which are low carbon intensity sectors. Since last year, our overweight in Energy has increased from +7.6% to +8.5% and in Utilities from -0.8% to +0.5%.

Promoting Responsible Investment

Website redesign

Another activity undertaken during 2018 was a redesign of the Responsible Investment section of our website with the aim of providing greater transparency. We feel that the new site not only perfectly articulates our approach to sustainability matters, it is also more user-friendly, being easier to navigate and easier on the eye than the previous one. Please take a look here.

Luxembourg Green Exchange (LGX)

Another new initiative that Sparinvest was pleased to be part of during 2018 was the launch by the Luxembourg Green Exchange of a new platform for publicising funds with strong sustainability credentials. LGX has quickly gained a reputation as being the principal global exchange for the listing and trading of Green Bonds. In creating the Fund Window on the exchange platform, LGX seeks to create greater visibility for funds with a focus on sustainability The LGX Funds appearing on the LGX ESG window must have already gained a recognised fund label. Sparinvest's range of three ethical funds are now all listed on LGX.

Industry Events

Sparinvest participated in a number of events to promote Responsible Investment. In May 2018, Sparinvest participated in the ALFI London roadshow as speaker in a panel discussion on the topic of: 'Sustainable Finance with perspectives from European Market Leaders.' In October 2018, Sparinvest participated in the ALFI Scandinavia roadshow as speaker in a panel discussion on the topic of: 'Sustainable Investing - from niche to mainstream.

Yours sincerely

Responsible Investment Committee

Equity Engagement Case Studies 2018

As a general rule, Sparinvest does not comment on ongoing engagements because we feel that public disclosure is not conducive to constructive dialogue. However, once a case is closed and there has been no new information to warrant a re-opening of dialogue on the same issue, we may consider it appropriate to share with investors the details of the case. Before doing so, we seek approval from the company engaged with.

Environment (pollution): example of a direct engagement by our value equities team

We invest in a global steel company with significant operations in several countries. In 2018, after a media investigation, the company was taken to court for an environmental failure in one of these countries, admitted fault, and was fined by the national government.

The norms based assessment was that the company had failed in maintaining environment standards. For Sparinvest the objective of the engagement was to understand the specific failings in this case, the remediation and investment performed on this specific asset by the company and also, more generally, to understand how this environmental issue - that fell below the company's own global standards – had arisen.

During 2018 Sparinvest Portfolio Managers began engagement with the company. We met with the company and also held conference calls with the Head of Sustainability Reporting. Through the engagement, we learned more about the specific asset that had caused the problems, and the investments that the company was making to prevent a reoccurrence.

We discussed with the company the time frame for environmental investments and potential for accelerating the time frame. Furthermore we discussed issue in the context of the company's overall spending on environmental improvements. Sparinvest believes that both adhering to existing standards as well as improving overall environmental standards is a critical element of sustainability with the steel industry.

The company was open with us as to the causes of the problems, the failings related to the specific asset and the challenges associated with improving the environmental performance of the asset. We were encouraged by the company's absolute commitment to environmental performance globally as well as the commitment to improving this particular (acquired) asset. We were also encouraged in the role the company was playing in bringing the local country environmental standards in this country up to higher global standards.

Social (human rights): example of a service provider engagement, escalated to direct engagement by our value equities team

Company X was involved in the construction of a wind farm in Kenya through a consortium. While the construction was ongoing, some NGOs made allegations that the consortium had violated the rights of the indigenous people. The violation, according to the NGOs, was that they had limited the freedom of movement of the indigenous people by putting up a fence around the construction site and that they did not seek free, prior and informed consent (FPIC) from the local tribes before commencing the initial phase of construction.

The norm assessment of Company X, due to its part ownership of the consortium, was based on an alleged human rights breach due to the allegations of limiting freedom of movement.

For Sparinvest, the objectives of the engagement were:

- To understand how Company X responded to these allegations.
- To understand what processes are in place to ensure that local populations are treated in a proper manner across all the projects that Company X is involved with.
- To ascertain whether Company X had learned anything from the project in Kenya and how that might affect their approach to future projects.

Initially, the allegations were made in 2016, after which ISS-Ethix engaged with Company X in late 2016, with ongoing dialogue since then. ISS-Ethix's interactions had been via e-mail - to get confirmation of information related to the Kenya project. Given the serious allegations, Sparinvest engaged directly with Company X prior to and after our initial investment in mid-2018. The engagement stretched over several months. Initially Sparinvest engaged via e-mail, which led to a meeting with the company. Subsequently we concluded that further investigation was necessary, and had an additional and more comprehensive meeting with Company X's Head of CSR. Following the engagement, we concluded that Company X had learned lessons from the project and had implemented new procedures to ensure a similar case would not happen in the future. To close the loop on the engagement, we also contacted ISS-Ethix with our findings.

Governance (anti-money laundering): example of a direct engagement by our value equities team

Bank Y was under investigation for money laundering at a subsidiary branch in another country. The norms-based assessment for Bank Y detailed allegations that the bank had failed to prevent money laundering in the subsidiary branch for an extended period of time. The bank was placed under formal investigation by regulators in the market where the subsidiary was based, as well as in its home market.

For Sparinvest the objective of the engagement was to assess the degree of severity of this money laundering as well as the level of complicity of the corporate office in both the money laundering and any attempted cover up. Finally we wished to understand the changes that had been made to prevent further occurrences, both in terms of controls as well as corporate culture.

During 2018, we initiated meetings with the bank and initially met with representatives to understand better the sequence of events. The company was able to help us understand the set of circumstances that had allowed this to happen, and the failings of the corporate office that allowed the money laundering to continue over an extended period. Subsequent to this meeting we communicated our views directly to the bank in writing. We addressed the failings of the board of directors, and our views around future board composition and oversight.

Finally during the year we met with the Head of the Financial Crime Compliance Unit. This meeting allowed us to understand better both the past failings but also the subsequent investment made by the bank to improve compliance. Some of the challenges of this type of compliance were reviewed, and industry best practices discussed. This is an ongoing engagement and we expect to engage further with the bank in the coming year to ensure that the longer term cultural shifts in behavior that are required have been made.

Governance (Cyber Security): example of a collaborative engagement, acting as lead investor with one company

In 2017, PRI initiated a collaborative engagement, focusing on cyber security risk. More than 50 signatories (representing over $10 trillion in AUM) targeted 63 companies in the IT, Health Care and Financial sectors.

The engagement had two overarching objectives: 1) to build investors' knowledge on the topic of cybersecurity and 2) to establish investor expectations on what a company can and/or should disclose regarding cyber risk governance.

The Sparinvest value equities team joined the engagement, acting as a lead investor in engaging with a multi-national financial holdings company. The engagement began with a request to the CFO for permission to establish contact with the operational people directly involved in the implementation of the Group's CyberSec policy. Over period of about 18 months Sparinvest was in contact with the company to better understand its policy, its degree of implementation and the supervision. At a later stage, we encouraged the company to improve public disclosure in this field. This is still work in progress, with the engagement formally set to end in 2019.

The project also involved various other (educational) calls with the other investors collaborating on the engagement as well as the opportunity to participate in conference calls led by other lead investors with other companies held in our equity portfolios.

Social (Human Rights): example of a Service Provider-led engagement

This engagement was conducted by our service provider for one of Sparinvest's passively managed index funds. One holding, the South African based platinum mining subsidiary of a multi-national exploration company, was under accusation since 2008 of breaching of Global Compact Principle 1 during the expansion of one of its mines. The company was accused of failure to ensure a thorough stakeholder consultation process, resulting in long-standing conflicts with local community groups. The UN Special Rapporteur on adequate housing, ActionAid and the South Africa Human Rights Commission all criticised the process whereby 1,000 families were resettled – apparently without genuine consent – resulting in decreased food security and loss of productive land. In 2015, unrest became violent following the company's decision to relocate a school.

The service provider has been in regular communication with the company over the years and was encouraged when, in 2015, the company confirmed that it had engaged two specialist external consultancy firms to conduct resettlement reviews, based on International Finance Corporation (IFC) Performance Standards. However, the company conceded that, due to setbacks during the review, the process was suspended in 2016. The aim of the engagement has been to track the reinstatement, progress and findings of the consultants' Resettlement Review.

At the beginning of 2018, the company informed investors that the consultants had been re-engaged to complete the review. The company stated its intention to use the findings of the review to address shortcomings pertaining to previous resettlements in a systematic manner, lessening the need for future crisis interventions. After a comprehensive process of data collection and analysis, a draft report and findings were expected by end of September 2018. In October 2018, the company informed investors that the report would be finalised by year-end. A programme of feeding back to host communities was planned as a part of the response.

The company added that based, on the review's findings and recommendations, an action plan would be developed and implemented *after engagement with stakeholders*.

Engagement is ongoing in this case, but updates during 2018 suggest continued openness and transparency by the company, both to investors and other stakeholders.

Fixed Income Engagement Case Studies 2018

Social (Human Rights – Capital Punishment): Example of a direct engagement

As a general rule, Sparinvest does not comment on ongoing engagements because we feel that public disclosure is not conducive to constructive dialogue. However, once a case is closed and there has been no new information to warrant a re-opening of dialogue on the same issue, we may consider it appropriate to share with investors the details of the case. Before doing so, we seek approval from the company engaged with. Below, we describe a completed engagement with Teva Pharmaceutical industries.

Objectives of the Engagement

Teva Pharmaceutical Industries Limited faced allegations that three of its drugs were in danger of being used for capital punishment by lethal injection in the USA. The company had previously gained widespread praise after acting decisively to control distribution of an anaesthetic, Propofol, after learning that it was potentially being used in capital punishment.

ISS-Ethix, Sparinvest's ethical screening and engagement service provider, had already been in dialogue with Teva on this issue but had failed to secure sufficient assurance about the robustness of Teva's distribution models across all 'at risk' products. This meant that they still viewed the company as being at risk of breaching international human rights norms.

Sparinvest's fixed income team held Teva bonds in our ethical high yield fund. Therefore, we began direct engagement to seek assurance that Teva was committed to doing its utmost – via robust distribution models and contracts – to prevent the use of its products for capital punishment purposes.

Sparinvest and Teva

Sparinvest wrote to Teva in September 2016, introducing ourselves as bondholders, confirming our relationship with ISS-Ethix and explaining our interest – as responsible investors – in mitigating norms risk in our investee companies. We then requested more information from Teva about its distribution controls and the language used in distribution contracts to prevent compounding pharmacies, and other third parties, from using Teva products for capital punishment purposes.

Teva responded. Amongst other things, they confirmed that all applicable distribution contracts had, since 2015, contained language designed to prevent onward selling to state penitentiaries for use in capital punishment.

Sparinvest continued to monitor the news on this topic and was reassured to hear that a UK-based anti-death penalty campaigning NGO that had been investigating the provenance of lethal injection drugs could find no new evidence of Teva's products being used.

In the light of this NGO report, ISS-Ethix reviewed the case in Feb 2017 and reassessed Teva as having responded solidly and effectively to mitigate this norms risk. The case was closed.

A Successful Dialogue

Sparinvest considers its engagement with Teva on this issue was successful, based on the acknowledgment of our concerns, a constructive dialogue with answers to many of our inquiries and the positive development of a case of potential breach of international human rights norms.

Conclusion

From this case Sparinvest learned that companies are willing to respond to the legitimate concerns of bondholders and that direct engagement can be a powerful approach in addressing ESG risks in corporate bond issuers.

Environmental Opportunity (Green Securitized Bonds): example of a proactive engagement to encourage sustainability in the Danish Mortgage Bond industry

The popularity of green covered bonds has been rising and, despite there being no such bonds in our covered bonds universe; we see the green bond market as being a potential opportunity for Danish securitized bond issuers. Denmark has a strong commitment to reducing carbon emissions and lowering dependence on fossil fuels. The housing, farming and shipping sectors are areas of the economy where covered bonds provide a significant part of the financing needed, and we believe a green bond taxonomy and structure that covered these sectors could be of benefit by providing financing earmarked for climate change adaptation or mitigation. We therefore started a dialogue with two of the largest issuers of Danish covered bonds to learn about the potential opportunity of green bonds in this market and express our interest for such instruments. The issuers acknowledged our interest and, while seeing a potential for such instruments, indicated that more progress is needed - in terms of there being taxonomy and verification processes that are widely accepted in the industry - for green bonds to become a part of the Danish covered bonds system.

This engagement was a proactive one, designed to highlight a potential ESG opportunity for our portfolio companies. We were encouraged by their receptiveness to this idea and, especially as there were no ESG or other negatives to concern us for these companies, we maintained our exposure.

Governance (Cyber Security): Example of a collaborative engagement, acting as lead investor with one company

The Value Bonds team joined the PRI cyber security engagement, acting as lead investor in engaging with one of the largest health insurers in the United States, selected because of its systemic importance for the sector. The engagement was an ambitious endeavour, given that the team had had no previous contact with representatives from the company, and therefore no rapport to build on. Added to this was the fact that US health care companies are very reluctant to disclose any details about their processes beyond what is required by regulation. Nevertheless, given that the company serves more than 100 million individuals, cyber security risk is one of the main priorities for the management. The company responded initially to the enquiries of the Value Bonds team but was reluctant to share meaningful details about their cyber security policies and processes and was not open for constructive dialogue on this topic. Despite several attempts by the team to clarify to them the goals of the collaborative engagement and to stress the benefits of an active discussion on this matter, the company remained unresponsive to a constructive dialogue. While this is not a successful engagement, the team is glad to have brought cyber security risk management on the agenda of company representatives and to have highlighted their non-responsiveness to the rest of the investment group in the process. Furthermore, the team benefitted from participation in the engagement – even with a non-responsive company – due to the educational input from various cyber security experts and discussions about best practice. The team will continue to monitor the company to follow relevant developments.

We hope that the above examples provide a flavour of the variety of ESG issues that we seek to address through direct engagement. We look forward to keeping you updated about our engagement activities in the year ahead.