

Value Bonds – Global Ethical High Yield

FIXED INCOME

Mind the gap

Fund Update

Coronavirus limits interaction: In terms of engagement activity, Q1 has been very quiet, mainly due to the turmoil caused by the coronavirus. Both internally and for the companies we are involved in, focus has been on ensuring the daily critical operations; hence direct dialogue has been limited. Active engagements are very time-consuming and usually require following up and constant reminders in order to achieve meaningful results. Companies are seldom pro-active on these matters, so if we do not reach out, nothing happens, which has been the case in Q1.

In early January, in the initial phase of the outbreak, we managed to arrange a meeting with a large U.S. pharmaceutical company, involved in the high-profiled opioid crisis. The company was among a group of other blue-chip pharma companies accused of misconduct in relation to improper and unethical product marketing and inadequate compliance procedures. Although the company has been very vocal about its remediation efforts and commitments, we still lack transparency on the actual measures taken by the company to address the issues. During the call the company provided significant details as to its processes and programmes in place to ensure truthful promotional activities, which include: implementation of risk assessment programme, aimed at identifying risks associated with the sales, marketing and promotion of products, third party reviews of both branding material and processes and finally changes to sales staff where unethical behavior has been observed. All in all, we were very satisfied with the feedback we received at the call. The main issue that we raised was the lack of transparency and publicly providing more specifics of the actual factors reviewed in the risk assessment model, statistics on rejected and approved proposed actions etc. The company is currently reviewing our comments.

We identified several discrepancies in terms of the remediation actions taken by the company and the assessment report made by our service provider. Unfortunately, it is not uncommon to see a gap or time lag in the information flow and therefore we always

aim to bridge the contact between the company and the service provider in order to have the assessment reports reflect the latest development. We expect to see more positive progress in Q2.

Exclusion criteria tightened: As part of our ESG policy, we continuously discuss the overarching exclusion criteria governing our fund range. Our approach has always been to balance the exclusion criteria with the opportunity cost of mechanically reducing the investment universe. We truly believe that only completely unapproachable companies or companies involved in extremely controversial sectors should be uninvestable from the outset. Being able to work constructively with challenged companies would benefit both investors and society. So as of Q1, we have decided to tighten our policy even further and include unresponsive norm violators and extreme transition laggards as part of our criteria. Both are within the category of companies that are not receptive or responsive to our engagements. It is important to note that companies do not have to comply with our requirements, but at least enter into a constructive dialogue in order to remain investable.

Monthly ESG report expected to be published by end-Q2: During the past 12 months, we have been working on a dedicated ESG reporting framework with the aim to provide more transparency and insight into the ESG profile of the portfolio and the engagement activities. Although our approach to ESG risks is not best-in-class, we believe it is crucial for our investors to know the characteristics and the magnitude of active ownership. We are excited to present the report on our website by the end of Q2.

Other News/Group Engagements

UN PRI reporting for 2019 completed: One of the major ESG tasks in Q1 is the annual UN PRI reporting. As signatory and believer in more qualitative assessment and score of ESG efforts, we are very committed to providing full transparency on our policies and activities within this area. We have been in the top range of the table for many years now and continuously use the annual assessment to strengthen our weak areas.

Responsible Investments at Sparinvest

At Sparinvest, analysts and portfolio managers will engage directly with selected portfolio companies. Furthermore, we work with ISS-Ethix, a service provider of ethical screening and collaborative engagements. Via ISS-Ethix, we participated in pooled engagements, targeting companies in confirmed or alleged breach of international norms. In addition to ISS-Ethix, we use ESG research, ratings and analysis as well as carbon foot printing services from MSCI. The development and implementation of responsible investment practices are driven by our Responsible Investment Committee, which includes representatives from Equity and Fixed Income investment teams, and reports to both the Investment Committee and the Board of Directors.

**We do not disclose the name of portfolio companies involved in neither our direct nor our service provider engagements.*

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