



Sparinvest Responsible Investment Policy

Returns. Transparency. Values

Sparinvest

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Why Do We Invest Responsibly? Returns. Transparency. Values.

Returns



At Sparinvest, investing responsibly is central to our aim of providing clients with strong and sustainable long-term investment returns. Environmental, social and governance issues present companies, and countries, with a variety of opportunities and risks, and the way these are handled can materially impact long-term value. We think thoughtful understanding of the sustainability of our investments, and working to help holdings improve on issues which materially affect them, can help boost those long-term investment returns. This mind-set is deeply engrained in our investment teams.

Transparency



We also recognize that many investors wish not only to see what their investments are achieving in terms of financial returns, but also to understand their impact on broader society. We are committed to providing our investors with that understanding.

Values



We also offer a variety of funds for those who wish to go further, and explicitly align their investments with personal values, or goals for wider society. This includes our ethical range of funds. These funds do have more explicit sustainability aims, but we do not think this means compromising financial returns. On the contrary, those companies which are more pro-active in exploiting ESG opportunities, or mitigating ESG risks, can often combine a positive impact on society, with strong long-term value creation.

How Do We Invest Responsibly?

Our many years of experience mean that environmental, social and governance considerations are deeply integrated into our way of thinking. Investing responsibly is not a simple question of investing in only a few 'perfect' companies, and the underlying issues are usually not black and white. So, our range of funds gives clients access to various asset classes and a diverse range of underlying securities. Our strength lies in our analysis and understanding of ESG issues, and factoring that understanding into our investment strategies. We strongly believe in working with companies to encourage sustainability and long-term value creation.

We invest responsibly across all of our funds, and use three key tools to do this: ESG integration, stewardship, and exclusions. We also report on all of these activities, to provide transparency to our clients.

You can read more on these tools by following the links below.



[ESG Integration](#)



[Stewardship](#)



[Exclusions](#)



[Transparency
Governance, Policies & Reporting](#)

The precise way we use these tools varies a little by asset class and investment strategy. For example, a passive fund cannot normally integrate ESG considerations in the same way that an active, stock-picking fund can – but both funds can use Stewardship to influence holdings. Regarding exclusions, no Sparinvest funds invest in confirmed producers or distributors of controversial weapons – but we also offer some funds – such as our ethical range – that exclude a wider range of companies. We explain these differences in the [Policy Variations](#) section of this document.

ESG Integration



Throughout our long history of investing on behalf of our clients, our consistent aim has been to provide healthy long-term investment returns. When we design funds, carry out analysis, and make investment decisions, we consider a wide range of risks and opportunities, to ensure we can provide sustainable returns. We consider questions ranging from the short term to the long term, from macro-economic and political, to detailed questions about companies' business models and balance sheets.

Across all these, we recognise that environmental, social, and governance issues can have a significant impact. These are often called "ESG issues" – but even though they have their own label, we do not see them as some separate category of risks. Rather, they form part of the various fundamental issues we consider in our investment work. They can present companies with risks, and opportunities, which can have serious impacts on the investment's financial prospects and long-term value.

For example, at the level of an individual company, we may consider how the board and management structures can positively or negatively influence long-term strategy. How does handling of labour relations influence both efficiency and the cost base? How does the company seize environmental opportunities, or fall foul of environmental risks, such as climate change and carbon emissions? Equally, when we consider country risk, governance is always important, but social and environmental issues can also have significant impact. At the portfolio level, it is not only a question of the combined effect of these individual issues, but also one of how the portfolio is likely to react to short, medium and long-term shifts in the environment, and in social and governance issues.

Our investment team approaches ESG considerations alongside other fundamental considerations, seeking relevant information from company reporting and contact with the company. Our internal analysis is also informed and augmented by insights from external research providers, including specialised ESG research providers. This provides ESG research covering industry-level, country-level, and thematic ESG issues, and also company-specific research for many securities.

All holdings and potential investments at Sparinvest undergo norms-based analysis of companies, which is carried out on a continuous basis on our behalf by an external service provider. This feeds into the overall ESG research that our investment teams consider as they carry out fundamental analysis and security selection for actively managed funds. Norms based analysis is also one of the triggers for engagement as described in Sparinvest's Stewardship Policy. However, in our range of ethical funds, the analysis also leads to the exclusion of certain securities.

What Issues Do We Consider?

The issues we look at vary considerably, but materiality is a key concept underpinning our responsible investment policies. Depending on the context – such as the sector in which a company operates – certain ESG issues can be considerably more material than others, and we prioritise those in our analysis for fundamental funds. The below table highlights some of the ESG issues we frequently find to have material impact, and which receive attention both in our internal ESG analysis and stewardship work, and in research and ESG data which we receive from service providers.

Environmental Risks	Social Risks	Governance Risks
Climate Change <ul style="list-style-type: none"> ▪ Carbon emissions ▪ Product carbon footprint ▪ Financing environmental impact ▪ Climate change vulnerability 	Human Capital <ul style="list-style-type: none"> ▪ Labour management ▪ Health & safety ▪ Human capital development ▪ Supply chain labour standards 	Corporate governance <ul style="list-style-type: none"> ▪ Board structure ▪ Executive pay ▪ Ownership & control ▪ Accounting
Natural Capital <ul style="list-style-type: none"> ▪ Water stress ▪ Biodiversity and land use ▪ Raw material sourcing 	Product liability <ul style="list-style-type: none"> ▪ Product safety & quality ▪ Chemical safety ▪ Financial product safety ▪ Privacy & data security ▪ Responsible investment ▪ Insuring health & demographic risk 	Corporate behaviour <ul style="list-style-type: none"> ▪ Business ethics ▪ Anti-competitive practices ▪ Tax transparency ▪ Corruption & instability ▪ Financial system instability
Pollution and waste <ul style="list-style-type: none"> ▪ Toxic emissions and waste ▪ Packaging materials & waste ▪ Electronic waste 	Stakeholder opposition <ul style="list-style-type: none"> ▪ Controversial sourcing 	
Environmental Opportunities <ul style="list-style-type: none"> ▪ Clean tech ▪ Packaging material & waste ▪ Electronic waste 	Social Opportunities <ul style="list-style-type: none"> ▪ Access to communication ▪ Access to finance ▪ Health & nutrition 	

At a broader level, we also consider overarching issues that typically have most potential for material impact across portfolios. This includes mega-trends such as climate change, and key governance questions such as board quality. More information and examples can be found in the reporting materials that are available to download from our website.

The precise way in which these ESG considerations are integrated varies by fund class: for example, a passive or quantitatively managed fund cannot take the same approach as an actively managed fund selecting individual equities or credits. In those active funds, ESG plays a role throughout the process, from idea generation and screening, to qualitative case analysis, valuation, and discussion, to investment decision making and portfolio construction. Our focus is on identifying which issues are material to which company and how this may impact corporate value. This knowledge naturally feeds into our stewardship work.

Sources of ESG Information

In our active fundamental funds – such as value equities and value bonds – we focus on internal analysis. In our quant funds, our main source of ESG information is externally generated quantitative ESG data.



The internal analysis uses publicly available information on fundamental (including ESG) issues from the company in question. This can be found on websites, in financial reports, annual reports, CSR reports, or given in company meetings. Our analysis also considers input from external service providers, as listed below. Our core provider of fundamental data is Bloomberg LLP. In addition, we typically write to new investments detailing our voting policy and general approach to investment, and take this opportunity to further stress our interest in ESG issues and raise certain questions (which may lead to more detailed engagement).

We also use external service providers as follows:

MSCI ESG Research provides us with both quantitative data and qualitative research regarding companies, industry sectors, and countries

MSCI Carbon Metrics provides carbon footprinting for those of our funds that have signed the Montreal Carbon Pledge

ISS ESG provides our screening services and is thus a source of norm-based and sector-based ESG risk information, both at corporate and country level.

ISS provides proxy voting related corporate governance research and voting advice.

Sell-side research occasionally provides insight on ESG issues (particularly governance)

Press and NGO investigations and reports as they come to our attention

ESG information from service providers is accessible to all investment staff. We find that the various sources of ESG information complement each other and can inform different parts of the process. For example, ISS reports can give useful pre-investment insight into corporate governance; MSCI IVA reports can provide useful insight for engagement on specific ESG or voting-related issues; and so on.

Stewardship



Responsible investment does not end with an investment decision. After buying a position, we continue monitoring our investments and their risks and opportunities. But it goes further than that. We have the mind-set that our funds do not just temporarily own pieces of paper, but have a real interest in the underlying entity. For example, equity investors are part owners of real companies. This implies that we have both the opportunity but also the responsibility to be active owners, communicating with the companies in which we invest, and potentially influencing their behaviour. The aim is to foster long-term corporate value. In doing this, our guiding light is our duty to work for the long-term benefit of our clients.

In practice, active ownership boils down to two key elements: exercising voting rights on shareholdings, and engagement. Engagement involves dialogue with companies – but also other bodies – with the aim of increasing our understanding, and potentially influencing behaviour.

Triggers for engagement include:

Specific ESG Risks or Opportunities. Various specific ESG risks and opportunities are identified through the analysis and monitoring of potential and existing holdings. Issues are selected for engagement based on their materiality, the potential for meaningful change, and an estimation of the resources required for the dialogue.

Climate change: One of the ESG issues that we consider to be most significant is climate change, both in terms of its impact on society, and on the economy and corporate values. While relevant to all sectors, is particularly material in certain sectors such as oil & gas exploration and electric utilities. The global need for, and momentum towards, transition to less carbon intense energy sources is well established (and recognised in agreements such as the Paris Climate Accord (2015)). Failure to respond to this need for transition may impact companies negatively, with significant financial implications in ‘stranded assets’ or an increasingly high cost of emitting carbon. Therefore, where we consider it appropriate, we engage with portfolio companies in these sectors, focussing on carbon emissions, energy transition, and climate policies.

Voting-related. We believe that votes are more powerfully exercised in conjunction with dialogue. It is arguably not particularly constructive if investors simply vote against management proposals at a company’s AGM, but do not explain their rationale. We seek to engage with companies where agenda items breach our voting policy or are contentious for other reasons. Where time permits, this happens before the ballot. Outcomes include the company amending the agenda to our satisfaction, a change in our voting decision based on new information from the company, or a vote against the item, followed by further dialogue seeking change.

Breach of International Norms. We use screening services provider ISS ESG to screen our portfolios for companies which are alleged or confirmed to have breached international norms in human rights, labour rights, corruption, the environment. Where such breaches are identified, we adopt a two-pronged approach to engagement. We engage directly with the company, partly to make it clear to the company that we – as investors – attach significance to the issue. However, we also join collaborative engagements run by ISS ESG. For us it makes sense that their specialist knowledge of the issues is carried through into constructive dialogue with the companies, giving them ideas and targets for risk mitigation.

In recognition of our role as stewards of our investors’ capital and long-term interests, Sparinvest complies with the Danish Stewardship Code. Our detailed approach to stewardship is set out in our [Sparinvest Stewardship Policy](#)

Exclusions & Ethical



At Sparinvest, our approach to investing responsibly is driven by a focus on returns, transparency, and values. Across our entire fund range, we firmly believe that ESG integration and stewardship are powerful tools, allowing investors to maintain diversified portfolios while considering both the risks and opportunities created by environmental, social and governance issues. These approaches can benefit both sustainability, and returns. In our active strategies, these considerations can lead our teams to select or reject potential investments.

However, we also set a clear baseline: none of our strategies will invest in companies that are confirmed producers or distributors of controversial weapons. We also have funds which go further, designed for those investors who explicitly wish to align their investments with personal values or goals for wider society – for example, by excluding certain investments. Such funds do have more explicit sustainability aims, but we do not think this means compromising financial returns. On the contrary, those companies which are more proactive in exploiting ESG opportunities, or mitigating ESG risks, can often combine a positive impact on society, with strong long-term value creation.

Sparinvest has over a decade of experience in screening funds and applying various exclusionary filters to some of our most popular investment strategies, in order to create products that reflect the values of different investors. In our Ethical range of funds, our exclusionary criteria are based on consideration of the underlying investment strategy, developments in responsible investment, and consultation with clients on their preferred balance between ESG integration, stewardship and exclusion. We can also tailor segregated solutions for clients who wish to establish more specific exclusionary criteria.

Our 'Ethical' funds make use of varying combinations of the following types of exclusions.

- **Sanctions:** naturally our funds comply with EU and UN sanctions, which can apply to countries or specific securities
- **Universal:** across all funds:
 - Exclusion of companies with confirmed involvement in controversial weapons
 - Exclusion of state-issued securities and state-owned entities that fail to pass our country screening process
- **Norms Based:** relating to agreed international frameworks for corporate behaviour
- **Sector Based:** relating to involvement in certain sectors, industries or products (alcohol, tobacco, etc)
- **Climate Based:** relating to carbon intense activities and companies' approach to energy transition
- **Ratings Based:** relating to quantitative ESG ratings. These can be used to exclude companies that are 'worst in class' or focus on those that are 'best in class'

We also offer some funds which use sustainable indexes as benchmarks, meaning that certain securities are already effectively excluded from the investment universe.

Segregated Solutions

Sparinvest can also tailor segregated solutions for clients who wish to establish more specific exclusionary criteria. This can be achieved in a choice of investment vehicles. Implementation of these exclusionary screens is carried out in partnership with external ESG service providers.

Our detailed approach to exclusions may be found in our [Policy on Exclusions and Ethical Fund Criteria](#)

Transparency: Governance, Policies & Reporting

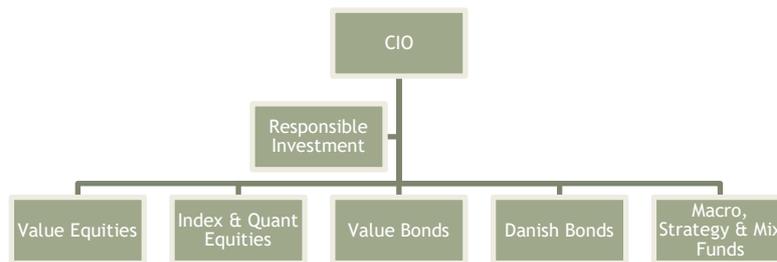
Governance

Sparinvest’s Responsible Investment Committee (RIC) drives the development and implementation of responsible investment strategy and practice at Sparinvest.

Responsible Investment Organisation Chart

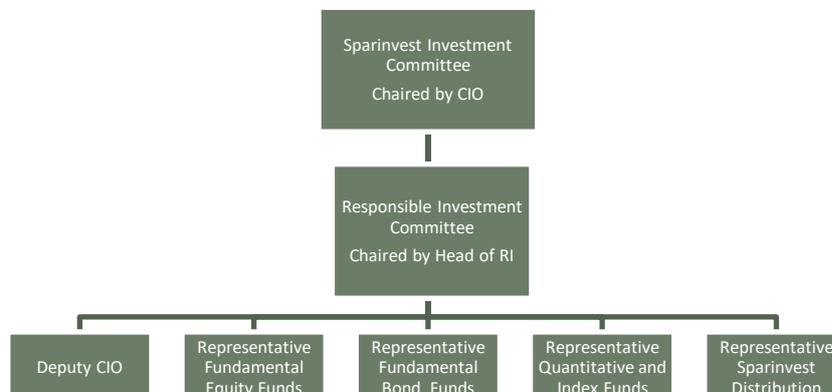
The Head of Responsible Investment is part of the Asset Management team and reports directly to the Chief Investment Officer.

ASSET MANAGEMENT REPORTING HIERARCHY

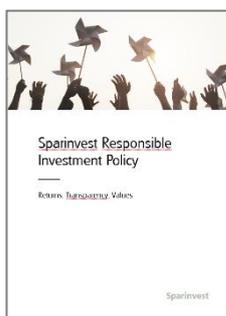


The Responsible Investment Committee (RIC) is chaired by the Head of Responsible Investment and includes the Deputy CIO and investment team representatives from all of our asset classes - Fundamental Equities, Quantitatively- and Passively-invested Equities and Fixed Income (covering corporate, sovereign and Danish bonds) as well a representative from our client-facing distribution team. Two analysts (one from value equities team and one from value bonds team) as well as two ESG assistants also attend RIC meetings, but without decision-making powers. As and when industry developments require it, external responsible investment experts may be invited to Committee meetings to help inform Responsible Investment policy decisions.

The Responsible Investment Committee reports to Sparinvest’s Investment Committee on responsible investment matters and is asked to give a formal progress report twice per year. The Committee also reports annually to the Board of Sparinvest to give an update on Group progress towards achieving responsible investment goals.



Policies



Responsible Investment Policy (This document)

- Overview of approach to responsible investment
- Policy variations across different strategies.
- To be read in conjunction with Stewardship Policy



Stewardship Policy

- Voting policy and procedures
- Engagement policy
- Escalation policies
- Statement of Compliance with Danish Stewardship Code



Policy on Exclusions and Ethical Fund Criteria

- Exclusionary screening criteria in Sparinvest Ethical funds.
- Ethical divestment policy

Reporting

We provide investors with regular updates on responsible investment topics in our regular [RI Review](#). The first review of each year provides an overview of the previous year's voting and engagement work.

As signatories of UN PRI, we also complete annual PRI Transparency Reporting. Both our latest [PRI Transparency Report](#) and the PRI's resulting [Assessment Report](#) are available to view on our website.

For four funds whose assets are signed up to the Montreal Carbon Pledge, we supply a carbon footprint report annually on our websites

In addition, our Value Bonds team provides quarterly ESG reporting for investors in the Ethical High Yield Value Bonds Fund.

Sustainable Development Goals



The Sustainable Development Goals represent aims for global society as a whole. But they are also highly relevant for investors. As society shifts in order to make progress towards the goals, actions will be taken, and behaviours changed, in ways that can significantly alter the operating environment for companies. This is already happening, presenting companies with both opportunities to exploit, and risks to mitigate.

At Sparinvest, we recognise that, as investors, it is increasingly important to understand how this can influence investment values over the short, medium and long term. We also recognise that many investors wish to understand not only what their investments are achieving in terms of financial returns, but also to understand the impact those investments have on broader society. We are committed to providing that understanding.

Of course, many of the underlying issues addressed by the Sustainable Development Goals are not new. Our investment teams have a long track record of integrating environmental, social and governance considerations into their investment processes.

We also work with the companies in which we invest, aiming to help foster long-term value through our stewardship programme of voting and engagement. In that context, the SDGs are both a useful framework for considering ESG issues, and a lens that offers global, long-term perspective. As we analyse those underlying issues, we consider whether the companies in which we invest, and our portfolios overall, are aligned with the likely long-term developments implied by the SDGs. The SDGs also help to highlight that looking at ESG is not purely a question of risk control, but can also help identify and unlock significant opportunities for long-term investors.

The specific ways in which we address the SDGs naturally vary by asset class and investment approach. We look forward to providing further insights on how our investments are aligned with the SDGs.

Climate Change



When looking at individual investments, we employ a materiality-based approach to considering ESG issues. However, certain issues and ESG mega-trends are so significant that they can have material impacts to society as a whole and across entire portfolios, and this applies to climate change.

Climate change considerations feed into all three of our main responsible investment tools – ESG Integration, stewardship, and exclusions. We have also carbon footprinted a number of our portfolios since 2015.

ESG Integration



The investment risks and opportunities associated with it are taken into account as part of our investment process, especially for our actively managed funds. In seeking out value investments, we find opportunities across various sectors, and we do not only seek out companies in businesses with inherently low carbon footprints. The carbon footprint of our portfolios can be strongly influenced by our relative exposures to different industries. However, we aim to understand how companies are exposed to carbon emissions and climate change, and how they work to mitigate the risks or exploit opportunities. As we balance various considerations, our analysis can be significantly influenced by the extent to which companies are aware of, and actively addressing, the transition to a low carbon economy. This is because our investment process measures long-term risk against reward. The transition to a 2°-compliant economy may increasingly leave some companies with stranded assets or outdated business models – and provide others with attractive growth potential.

Stewardship



We frequently vote in favour of resolutions calling for greater disclosure of climate-related risks. In addition, as mentioned on page 6, the global need for, and momentum towards, transition to less carbon intense energy sources is well established (and recognised in agreements such as the Paris Climate Accord (2015)). Failure to respond to this need for transition may impact companies negatively, with significant financial implications in ‘stranded assets’ or an increasingly high cost of emitting carbon. While relevant to all sectors, it is particularly material in certain sectors such as oil & gas exploration and electric utilities. Therefore, where we consider it appropriate, we engage with portfolio companies in these sectors, focussing on carbon emissions, energy transition, and climate policies. We have also joined Climate Action 100+, a broad-based collaborative engagement with strong support from institutional investors like ourselves.

Exclusions



Sparinvest’s range of ethical strategies excludes companies based on different exclusion criteria, including: violations of international norms, exposure to certain sectors, climate change, and ESG ratings. The Norm-based screen includes a consideration of environmental norms, which can include climate-related issues. The Sector-based screen includes an exclusionary filter for companies operating in the most carbon intense energy sectors.

Carbon Footprinting



This exercise gives an indication of the carbon intensity of our portfolios overall, and also boosts our understanding of where the greatest sensitivities are, whether in terms of emissions, or in other ways - such as the risk of stranded assets. The data from our carbon footprinting also plays a key role as we continue to develop our climate-related engagement programme.

We have also signed the Montreal Carbon Pledge for certain funds. Signing the Pledge commits an asset manager to measuring and disclosing the carbon footprint of some or all equity portfolios on an annual basis. The aim is that the Portfolio Manager will use this information either for engagement purposes or to set carbon reduction targets.

Sparinvest signed the Montreal Carbon Pledge for the following funds and their carbon footprints may be found on our website:

- [Sparinvest – Ethical Emerging Markets Value](#)
- [Sparinvest – Ethical Global Value](#)
- [Sparinvest – Value Bonds – Global Ethical High Yield](#)
- [Sparinvest – European Value](#)

Policy Variations

Sparinvest invests its entire fund range responsibly. In Sparinvest, responsible investing is embedded with our portfolio management teams, thus making it truly integrated. Of course, the potential for ESG integration and stewardship varies by asset class and by strategy.

Value Equities

(Actively managed stock-picking funds and strategies.)



ESG Integration

- Quantitative and qualitative ESG information – internally and externally researched – is considered alongside other fundamentals throughout the investment process, from screening and idea generation, to security analysis, to portfolio construction and ongoing portfolio management.
- Materiality is key. The aim is to understand the ESG issues faced by a company, assess implications for corporate value and whether opportunities and risks are appropriately reflected in current valuations.
- Potential use of stewardship to nurture corporate value and to encourage improvements in sustainability is considered.



Stewardship

- **Voting:** Equity funds vote all holdings under the direction of Portfolio Managers. Sparinvest's Voting Policy summarises the principles on which we base our voting decisions. Based on these, we have established a custom voting policy¹ at proxy voting service provider ISS, who provide us with AGM analysis and voting recommendations based on that custom policy. In turn, the investment team reviews each AGM and the ISS analysis, and makes a voting decision. Where we vote against management, we inform the company and seek dialogue.
- **Engagement:** Triggers for engagement can be material ESG issues, norms issues, material thematic issues and voting related. Our Portfolio Managers use different types of engagement, as they consider appropriate, in any combination offering efficiency and potential for impact.
 - **Direct engagement** is led by our investment teams, raising issues with portfolio companies, and seeking change.
 - **Collaborative engagement** is where we join other institutional investors, via forums like the PRI, to engage with a target group of companies on specific ESG themes. We typically lead an engagement with a portfolio company.
 - **Service Provider engagement** – in collaboration with other institutional investors but led by a service provider - is primarily used to address normative issues. For greater impact, we typically supplement this with direct engagement.

¹ Custom policy is based on ISS's standard policy but with various customisations. ISS provide us with research on voting agendas, based on this customised policy.



Exclusions

ESG integration can lead to the deselection of certain securities. However, our funds do also have certain hard exclusions.

- All funds exclude:
 - Companies with confirmed involvement in controversial weapons²
 - State-issued securities and state-owned entities that fail to pass our country screening process
- Ethical funds apply norms-³, sector⁴- and climate-related⁵ exclusions, as described on page 7 and in our [Policy on Exclusions and Ethical Fund Criteria](#).

Value Bonds

(Actively managed bond-picking funds and strategies.)



ESG Integration

- Quantitative and qualitative ESG information – internally and externally researched – is analysed alongside other fundamentals during credit analysis and throughout the investment process.
- Materiality is key. The aim is to understand the ESG issues faced by a company, assess implications for attractiveness of credit spread and whether risks are adequately compensated.
- Potential use of stewardship to nurture corporate value and to encourage improvements in sustainability is considered.



Stewardship

- **Engagement:** Triggers for engagement can be material ESG issues, norms issues and material thematic issues. Our Portfolio Managers use different types of engagement, as they consider appropriate, in any combination offering efficiency and potential for impact.
 - **Direct engagement** is led by our investment teams, raising issues with portfolio companies, and seeking change.
 - **Collaborative engagement** is where we join other institutional investors, via forums like the PRI, to engage with a target group of companies on specific ESG themes. Where a collaboration is targeting a core position or has a direct impact on the portfolio from a sector perspective, we would typically aim to lead an engagement with a portfolio company.
 - **Service Provider engagement** – in collaboration with other institutional investors but led by a service provider - is primarily used to address normative issues. For greater impact, we typically supplement this with direct engagement.

² Anti-personnel mines, cluster munitions, biological and chemical weapons, depleted uranium, nuclear weapons outside the Nuclear Non Proliferation Treaty

³ Human rights, labour conditions, corruption, environment. Automatically exclude confirmed and unaddressed violations. Discretionary exclusion of other categories.

⁴ For ethical funds: alcohol, tobacco, gambling, pornography, weapons. Mostly based on revenue tolerance of 5% for distribution, 0% for production.

⁵ Climate related exclusions cover thermal coal, unconventional oil and gas extraction, conventional oil and gas transition laggards and electric utilities transition laggards.



Exclusions

ESG integration can lead to the deselection of certain securities. However, our funds do also have certain hard exclusions.

- All funds exclude:
 - Companies with confirmed involvement in controversial weapons²
 - State-issued securities and state-owned entities that fail to pass our country screening process
- Ethical funds apply norms³, sector⁴ and climate-related⁵ exclusions, as described on page 7 and in our [Policy on Exclusions and Ethical Fund Criteria](#).

Emerging Market Sovereign Bonds



ESG Integration

- In the Emerging Market universe of sovereign debt, issuers are governments and state-owned enterprises.
- Sovereign debt analysis is based on publicly-available issuer information, World Governance Indicators and externally-sourced research information relating to international norms.



Stewardship

- In recognition that it is difficult and to attempt to influence nation states through engagement, we apply exclusions. (see below)
- Where appropriate, we will consider joining coordinated initiatives to alert heads of state to ESG or human rights concerns in their nations and other options, such as engagement with index providers.



Exclusions

- We use a norms based screening for countries, carried out by an external service provider (as described on pages 7 and 22). This covers over 170 UN member states and takes into account governments' commitments to key international instruments within five norm areas – human rights, international humanitarian law, labour rights, environment and corruption. The overall score from these indicators is used to inform which countries should be excluded from our strategies

² Anti-personnel mines, cluster munitions, biological and chemical weapons, depleted uranium, nuclear weapons outside the Nuclear Non Proliferation Treaty

³ Human rights, labour conditions, corruption, environment. Automatically exclude confirmed and unaddressed violations. Discretionary exclusion of other categories.

⁴ For ethical funds: alcohol, tobacco, gambling, pornography, weapons. Mostly based on revenue tolerance of 5% for distribution, 0% for production.

⁵ Climate related exclusions cover thermal coal, unconventional oil and gas extraction, conventional oil and gas transition laggards and electric utilities transition laggards.



ESG Integration

- These funds invest in Danish mortgage bonds and EU sovereigns - meaning that they confine their investments to a universe that is subject to rigorous regulatory requirements and strong governance systems in countries that meet the highest ESG standards. We nevertheless monitor for lapses in these standards.



Stewardship

- Whilst we do not engage with sovereign issuers, there is potential for engagement with mortgage institutions on ESG opportunities.



Exclusions

- All funds exclude:
 - Companies with confirmed involvement in controversial weapons²
 - State-issued securities and state-owned entities that fail to pass our country screening process

However these exclusions are unlikely to affect the limited number of issuers in this universe.

Quantitative Funds and Strategies (Covers Equity and Convertible Bond funds)



ESG Integration

- Quantitative ESG information (MSCI IVA ratings) feeds into the security selection process.
- For quantitative equity strategies, the aim is – all things being equal – to optimize the portfolio IVA score at each portfolio rebalancing, which should lead to improvement over time.
- For quantitatively managed convertible bonds, ESG information is used to exclude the worst in class (bonds with MSCI IVA ratings of CCC)



Stewardship

- **Voting:** In quantitative equity, bearing in mind the overall focus on low costs, we vote only on holdings of a significant size - currently where Sparinvest has invested EUR one million, or more, across all funds. Where companies are also held in active fundamental equity funds, voting decisions will align. Otherwise, voting follows ISS recommendations, based on Sparinvest's customised voting policy¹.

¹ Custom policy is based on ISS's standard policy but with various customisations. ISS provide us with research on voting agendas, based on this customised policy.

² Anti-personnel mines, cluster munitions, biological and chemical weapons, depleted uranium, nuclear weapons outside the Nuclear Non Proliferation Treaty

- **Engagement:** The engagement focus is on breaches of international norms, as identified by an independent portfolio screening service. Where such breaches are identified, the same service provider will run collaborative engagements on behalf of Sparinvest and other institutional investors, thereby representing considerable combined assets under management. This is a scalable and efficient approach, whereby the service provider's specialist knowledge of the issues is carried through into constructive dialogue with the companies, giving them ideas and targets for risk mitigation.



Exclusions

- All funds exclude:
 - Companies with confirmed involvement in controversial weapons²
 - State-issued securities and state-owned entities that fail to pass our country screening process

Passively Managed Equity Index Funds and Strategies



ESG Integration

These funds invest with the intention of replicating the performance of their benchmark index. The requirement to mimic an index means that - unless the index itself is built upon environmental, social and governance (ESG) factors – ESG issues cannot usually be integrated in the investment process without altering the essence of the product.

Sparinvest offers two passive funds, which are specifically designed to incorporate ESG considerations:

- Sparinvest INDEX DJSI World tracks the Dow Jones Sustainability World Index (excluding Alcohol, Gambling, Tobacco, Armaments & Firearms and Adult Entertainment) which, in addition to excluding the abovementioned sector exposures, limits investments to the top 10 percent of large- cap sustainable companies, based on their Total Sustainability Score (TSS) - as assessed by RobecoSAM, the founders of the DJSI Index series. This results in a 'best in class' portfolio.
- Sparinvest INDEX Globale Aktier - Etik tracks the MSCI All Country World Index but with a tolerance in tracking error, because the universe is subject to norms based screening to exclude verified breaches and a screening to exclude companies with a MSCI IVA rating of CCC.



Stewardship

- **Voting:** Bearing in mind the overall emphasis on low costs for these strategies, passive funds currently vote only on holdings where Sparinvest has invested EUR one million or more across all funds. Where companies are also held in active fundamental equity funds, voting decisions will align. Otherwise, voting follows ISS recommendations, based on Sparinvest's customised voting policy¹.

¹ Custom policy is based on ISS's standard policy but with various customisations. ISS provide us with research on voting agendas, based on this customised policy.

² Anti-personnel mines, cluster munitions, biological and chemical weapons, depleted uranium, nuclear weapons outside the Nuclear Non Proliferation Treaty

- **Engagement:** The engagement focus is on breaches of international norms - as identified by an independent portfolio screening service. Where such breaches are identified, the same service provider will run collaborative engagements on behalf of Sparinvest and other institutional investors, thereby representing considerable combined assets under management. This is a scalable and efficient approach, whereby the service provider's specialist knowledge of the issues is carried through into constructive dialogue with the companies, giving them ideas and targets for risk mitigation.



Exclusions

- All funds exclude
 - Companies with confirmed involvement in controversial weapons²
 - State-issued securities and state-owned entities that fail to pass our country screening process

Passively Managed - EM Sovereign Bonds



ESG Integration

- These funds invest with the intention of replicating the performance of their benchmark index. The requirement to mimic an index means that - unless the index itself is built upon environmental, social and governance (ESG) factors - ESG issues cannot usually be integrated in the investment process without altering the essence of the product.



Stewardship

- The requirement to mimic an index made up of sovereign bond issuers means that opportunities for engagement are limited - although engagement with the index provider is possible.



Exclusions

- Sparinvest ensures that all funds exclude controversial weapons² and securities and nations subject to EU sanctions - even if they are present in the index.

² Anti-personnel mines, cluster munitions, biological and chemical weapons, depleted uranium, nuclear weapons outside the Nuclear Non Proliferation Treaty

Supra-company Engagements

Sparinvest works collaboratively with a number of investment industry organisations to promote ESG integration and awareness and shape policy at a supra-company level. This can mean being involved in engagements conducted at an international level – for example, as active members of Eurosif who lobby for the integration of ESG considerations in pan-European financial legislation. We are also actively involved in the PRI Sustainable Stock Exchanges initiative, which encourages exchanges to issue guidance to listed companies about ESG and SDG reporting. Supra-company engagement can also be at an industry level. For example, we are signatories of the PRI Statement on ESG in Credit Ratings, which called up on the main credit rating agencies to recognize the importance of ESG elements in assessing the creditworthiness of borrowers.

About Sparinvest - Long Term Investors



Sparinvest's investment business is characterised by:

- Long-term focus and ability to block out short-term distractions;
- Style consistency with dedication to proven outperformance strategies;
- Focus on achieving lower fundamental risk and compensation for risk taking;
- A commitment to providing strong long-term investment returns for our clients.



A Range of Strategies and Solutions

We provide solutions for genuinely long-term investors. By remaining true to our strategies at all times, our investment solutions can fulfill their intended strategic role for clients, enabling us to fulfill our fiduciary duty.

Details of our strategies may be found at <http://www.sparinvest.lu/strategies%20and%20solutions/strategies.aspx>

RI Community

Where we see meaningful opportunities aligned with our responsible investment aims, we participate in external organisations and initiatives. This enables us to observe industry-wide sustainability trends, helping us to keep our Responsible Investment Policy up to date. It also gives us representation in the shaping of responsible investment legislation and involvement in supra-company initiatives designed to promote ESG transparency more widely.

Sparinvest abides by, is a member, signatory or affiliate of the following organisations, codes and guidelines:

- **OECD** 

Sparinvest abides by due diligence recommendations for institutional investors under the OECD Guidelines for Multinational Enterprises.
- **PRI** 

The UN-supported Principles for Responsible Investment (The PRI) is the world's leading proponent of responsible investment. Sparinvest first signed the Principles in December 2009.
- **Montreal Carbon Pledge**  (MCP)

The MCP commits an asset manager to measuring and disclosing the carbon footprint of some or all equity and fixed income portfolios on an annual basis. Sparinvest currently has four funds committed to the MCP.
- **CDP** 

Sparinvest is a signatory of the CDP and supports their global disclosure system that enables companies, cities states and regions to report on environmental data and measure and manage their impact.
- **Sustainable Stock Exchanges Initiative** 

Sparinvest has been an active participant in this initiative.
- **Eurosif** 

Eurosif (amongst other things) lobbies for the introduction of European regulation and legislation supporting the development of responsible investment. Sparinvest has been an individual corporate member since 2009.
- **Danish Stewardship Code**

Danish stewardship principles designed to promote long-term value creation for the companies and contribute to long term returns for investors. Sparinvest's compliance with the code was recognized in May 2018, and our Stewardship Compliance Statement is available on our website.
- **LuxFLAG ESG Label** 

Designed to reassure investors that ESG considerations are incorporated throughout the fund's investment process, an applicant fund must screen 100 percent of its invested portfolio according to one of the ESG strategies and standards recognised by LuxFLAG on an annual basis

- **Luxembourg Green Exchange (LGX)**



LGX is the World's leading exchange for Green Bonds. As such, it is also an information hub for investors seeking sustainable investments. In 2018, LGX launched an ESG funds window for funds with excellent ESG credentials. Sparinvest listed its three ethical funds.

- **TCFD**  TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Sparinvest supports the TCFD reporting guidelines and encourages their adoption.

ESG Issue-Specific Policies

Materiality is a key concept underpinning our responsible investment approach, and this also applies to the below areas. They are among the issues which receive attention in our internal ESG analysis and stewardship work, and in research and ESG data which we receive from service providers

Nuclear Power. We recognize that nuclear power raises clear concerns, but also currently has a role to play in low-carbon electricity generation. This is taken into account in our general ESG analysis of relevant companies. Certain of our funds apply specific climate related exclusionary criteria, which includes a limitation on the carbon intensity of permitted electric utility companies. Where carbon intensity data is not available, the relevant funds will not invest in electric utility companies which generate more than 30% of their power from nuclear. This aims to balance the need for low carbon electricity generation, with a desire to encourage other forms of – ideally renewable – electricity generation. Given that the climate transition is a dynamic process, the role that nuclear power has to play in it may change over the years. We will regularly review this topic.

Biodiversity: All our strategies are subject to regular screening for alleged and confirmed violations of international norms, as detailed above, and in our Policy on Exclusions and Ethical Fund Criteria. This screening includes a consideration of compliance with international norms such as the 1992 Convention on Biological Diversity, and the 1992 Rio Declaration on the Environment and Development, as well as other broader ESG norms. The results of this screen can lead to securities being excluded from certain funds, or to engagement with companies. This includes both direct engagements, run by our investment teams, and collaborative engagements run by our service provider to address the issue and encourage stronger corporate due diligence procedures to prevent recurrence.

Water Use: All our strategies are subject to regular screening for alleged and confirmed violations of international norms, as detailed above and in our Policy on Exclusions and Ethical Fund Criteria. This screening includes a consideration of compliance with international norms on the environment, and as such considers issues such as water pollution. As with other norm issues, where concerns are identified this can lead to securities being excluded from certain funds, or to engagement with companies. In addition, we recognize that sustainable water use is a key issue, with significant environmental and economic implications. It is therefore among the ESG issues considered on a materiality-tested basis in our internal ESG analysis and stewardship work, and in research and ESG data which we receive from service providers.

Taxation: All our strategies are subject to regular screening for alleged and confirmed violations of international norms, as detailed above and in our Policy on Exclusions and Ethical Fund Criteria. However, tax avoidance (as distinguished from tax evasion) remains something of a gray area, and is not as explicitly addressed in international norms such as the UNGC principle, as other issues such as bribery. Our norm-based screening does consider both illegal activities such as tax evasion, and controversial and aggressive corporate tax practices (tax avoidance, tax optimisation or aggressive tax planning), and the failure to comply with the spirit or intent of tax laws. As with other norm issues, where concerns are identified this can lead to securities being excluded from certain funds, or to engagement with companies. Corporate approaches to taxation are also among the fundamental issues considered on a materiality-tested basis in our internal ESG analysis and stewardship work, and in research and ESG data which we receive from service providers.

Authoritarian Regimes and the Death Penalty:

Across all our strategies, we exclude state issued securities and state-owned entities that fail to pass our country screening process. The norm-based screening for countries – carried out by an external service provider - covers over 170 UN member states and takes into account governments' commitments to key international instruments within five norm areas – human rights, international humanitarian law, labour rights, environment and corruption. The screening applies key indicators to assess the nation's ability to protect basic human rights, including: use of the death penalty, and whether the country is run by an

authoritarian regime. It also assesses whether the country is in a trend of ESG improvement or not. The overall score from these indicators is used to inform which countries should be excluded from our strategies.

All our strategies are subject to regular screening for alleged and confirmed violations of international norms, as detailed above, and in our Policy on Exclusions and Ethical Fund Criteria. This screening includes a consideration of compliance with international norms such as the 1966 International Covenant on Civil and Political Rights (including the Right to Life), the Second Optional Protocol to the International Covenant, and UN Global Compact, Principle 2. The results of this screen can lead to securities being excluded from certain funds, or to engagement with companies. This includes both direct engagements, run by our investment teams, and collaborative engagements run by our service provider to address the issue and encourage stronger corporate due diligence procedures to prevent recurrence.

Forward contracts on agricultural commodities Sparinvest does not invest in agricultural forwards. Agricultural forwards can be an appropriate tool for hedging genuine risk for those operating within the agricultural sector, whereas certain uses of them for investment purposes may become speculative, and potentially contribute to pricing volatility, to the detriment of those using them for hedging genuine underlying risk.