Responsible Investment Review
Q1 2018

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The RI Year in Review

2017 was another exciting year for responsible investment, both within Sparinvest and the wider industry. Momentum has been building since late 2015, when the UN brokered ground-breaking agreements which led to over 190 nations adopting the Sustainable Development Goals or 'SDGs' and ratifying the Paris Accord on Climate Change.

Within Sparinvest, the Responsible Investment Commit-tee has, of course, spent time considering these important developments: how they could influence the flow of investment capital and translate into risks or opportunities for asset classes or individual securities, and whether they offer elements that could be constructive in our own investment processes.

In many ways, we view the Sustainable Development Goals as a reasonable and rational framework for considering the challenges faced by the world, but also – just as importantly – for considering the ESG issues faced by individual companies. We are considering the best ways to utilize the SDGs as a framework to augment and in-spire our strategies and processes for dealing with ESG risks and opportunities. This includes a review of the research and methodologies being introduced by our service providers to monitor companies' contributions towards the SDGs.

Similarly, with regards to the Paris Climate Accord, we agree that the most appropriate response to climate change risks is to support an orderly process of energy transition. Carbon risk has been high on our agenda for some time. We signed the Montreal Carbon Pledge on behalf of our range of ethical funds in 2015 and consideration of issues such as carbon risk/clean-tech opportunities is an integral part of our fundamental analysis of companies. A key priority for our responsible investment team in 2018 is to further develop our engagement programme relating to climate change risk. As part of this, we have already joined the UN PRI Climate Action 100+ collaborative engagement (See page 4).

It genuinely feels as though we are on the cusp of an era in which sustainable and responsible investment will become mainstream. We expect both a 'push and pull' effect. The push will be top-down - coming from legislation and comply-or-explain initiatives requiring asset owners and institutional investors to integrate sustainability considerations in their manager selection and asset allocation. The pull will come from a groundswell of support for sustainable investments from end-investors, including the 'Millennials'. Although we should be wary of generalisations, research has shown that this, one of the largest generations in history is about to move into its prime spending/investing years and that it wishes to invest its money in ways that will not only secure financial returns, but also 'real world impact'.

IFB Recommendations

During 2017, the IFB – the representative body for the Danish investment fund industry - issued four 'Recommendations for Responsible Investment'. These came into effect on 1st Jan 2018, and Sparinvest has implemented them across all funds.

1. Funds should screen for illegal weapons – specifically cluster munitions and landmines.
   Sparinvest has excluded companies involved with illegal weapons from all its funds – including passive funds – since 2009
2. Funds should be subject to norms-based screening at least annually with a view to either engaging with or divesting companies in breach.
   Sparinvest has for many years been screening in-vestments for normative issues. This includes screening of new investments and 6-monthly screens of entire portfolios. In our ethical fund range, these screens lead to certain companies being excluded. Across our fund range, the screens lead to engagement with some companies. Our engagement policy describes this, and how we handle situations where companies are unresponsive to dialogue.
3. Sovereign Bond funds should consider a country's status with regard to EU and UN sanctions as well its record on

compliance with international norms (especially human rights)
In order to obtain greater clarity about the human rights records of nation states, Sparinvest subscribes to the country screening service offered by ISS-Ethix. On the basis of this information, a number of countries are categorized as uninvestable.

4. Asset Managers should report annually on their Norms-based screening results, their fund engagement policy and implementation and their engagement results.
We provide this information below.

Norms-based Screening Results

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 2017, within a screening universe of 170 nations, 17 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.

All Other Sparinvest Funds

Across the rest of our range of funds, Sparinvest holds a total of 3,891 companies. The December 2017 screening of all funds showed that 34 (0.87%) of these 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 203 (5.22%) were assessed as being 'Norms Amber' - Amber is a diverse category, including some companies that are alleged, but not con-firmed, 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 676 companies across 28 funds. The number of Norms Red holdings was 12 (1.78%) and the number of Amber holdings was 73 (10.8%)

Ethical Funds

Our ethical funds invest in a total of 276 companies. 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 some-times 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 10 (3.62%) 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.

Stewardship

Stewardship activities (voting and engagement) are a core element of Sparinvest's management of its investment funds, which we believe can serve to augment long-term investment returns.

Voting Report 2017 – Actively-Managed Equities

Voting Statistics

Total Votable Meetings	213	100%
which voted	211	99.1%
Of which voted against Management	84	39.4%
Of which voted against ISS Recommendation	20	9.4%
Total Agenda Items	2620	100%
Of which voted	2580	98.5%
Of which voted against Management	196	7.6%
Of which voted against ISS Policy	67	2.6%
Shareholder Proposals	121	100%
Of which supported	36	29.8%
Of which voted against Management	34	28.0%

As usual, during 2017, our voting was conducted in accordance with our published voting policy. Sparinvest uses the proxy advisory company Institutional Shareholder Services (ISS) to assist with the operational practicalities of voting, and to provide research and analysis on the voting agendas.

With regard to our actively managed funds, our investment team reviews the analysis internally, and voting decisions are then made on a case-by-case basis at the discretion of Sparinvest's investment team, based on our voting policy. Our decisions will not necessarily follow ISS benchmark recommendations. On controversial items, such as a decision to vote against management we are keen to have a constructive dialogue with the company in question. As has been the case in previous years, during 2017, this voting-related correspondence paved the way for deeper dialogue with a number of portfolio companies that enhanced our understanding of their governance matters and corporate culture. An example of this is given in the Engagement Case Studies below (Page 7).

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

Issue	No. of votes against Mgmt.	% of votes against Mgmt.
Capital Structure/Company Restructuring	44	22.4%
Board/Committee Composition	70	35.7%
Executive/Board Remuneration	36	18.4%
Other Business/Routine	13	6.1%
Shareholder Proposals	34	17.3%
Total	196	100%

Summary of Engagements 2017

The following is a summary of Sparinvest's engagement activities across all asset classes. Our engagement policies are published on our website.

	Companies Engaged in 2017
Direct engagements - Equities	86*
Direct engagements – Fixed Income	5**
Collaborative engagements	132***
Service Provider engagements supported	105
Of which engagements with holdings	44

*Direct engagements by Value Equities team covered ESG issues, Norms issues and voting-related issues

**Direct engagements by our Value Bonds team were on Norms Issues.

*** Collaborative engagements 'Human Rights in the Extractives Sector' targeted 32 companies with Sparinvest as joint lead investor in dialogue with one portfolio company. The collaborative engagement on cyber security targeting 100 companies began at the end of 2017, so we have not included it here.

Engagement by issues

	Environmental	Social	Governance
Of which engagements with holdings	11	12	86
Of which engagements with holdings	1	1	3
Of which engagements with holdings		32	
Of which engagements with holdings	18	26	10

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

Direct Engagements

Direct engagements are those implemented by members of our investment teams. We see it as a strength that our portfolio managers and analysts enter into direct engagements and run dialogue with portfolio companies on ESG issues, as they well-placed to contextualise the specific issue within the overall investment case and corporate value. It also sends a clear message to the investee company that ESG issues run to the heart of investment decisions. Triggers for direct 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 and the potential for meaningful change.

- ### Voting-related:

Votes are blunt tools, which we believe are more powerfully exercised in conjunction with dialogue. We seek to engage with companies where agenda items breach our voting policy or are contentious for other reasons. Where time permits, this happens be-fore the ballot.

- ### Breach of International Norms:

Where companies are alleged to have breached norms, we rely on our established screening services provider, ISS-Ethix, to determine the veracity and ex-tent of the allegations against the company and to engage on our behalf. However we follow the progress of these dialogue closely and - particularly in cases where portfolio companies are involved and we feel we can add value - we will also engage directly.

Service Provider Engagement 2017

We participated in pooled engagement via our service provider, targeting 105 companies - 28 of which were red flagged and 77 were amber.

Sparinvest joins these pooled engagements regardless of whether we have investments in these companies, 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 2017, 67 companies responded (64%) to pooled engagement efforts by our service provider and, in doing so, these companies disclosed 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 44 of the 105 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 – 16 issues, Environment - 18 is-sues, Labour Rights - 10 issues and Anti-corruption 9 issues.

PRI-Led Collaborative Engagements

Human Rights in Extractives (ended 2017)

From 2015 to 2017, UN PRI coordinated one of its largest collaborative engagements, focusing on human rights in the extractive sector. 51 signatory asset managers (rep-resenting $7.3 trillion in AUM) targeted 32 oil, gas and mining companies considered to be particularly exposed to human rights risks – either because they were operating in high risk countries or because they had limited or no human rights policies in place or because human rights breaches had already occurred or been alleged.

The final report on the engagement as a whole is still being assembled by PRI, but early indications are that progress was made in encouraging the companies to strengthen their commitment to human rights, both through more robust internal policies, and through stronger public disclosure of human rights related issues.

At the beginning of the engagement in 2015, disclosure in human rights risk assessment in extractive companies was the exception, whereas now it is the norm.

Cyber Security (commenced 2017)

Cyber security is an increasingly important consideration for companies in any industry, with potentially serious ramifications for long-term corporate value. This is particularly true in sectors which have access to large volumes of customers' personal data. For this reason, we have joined the PRI-led collaborative engagement on cyber security governance, focusing on consumer, healthcare and financial sectors. The engagement has a target list of 100 companies and will provide an opportunity for investors to establish how companies are positioned in terms of their policies and governance structures to demonstrate their cyber resilience and to encourage enhanced corporate disclosure on cyber security. We see cyber security as a risk that can impact investors on both sides of the capital structure, and as such Sparinvest's Equity and Fixed Income teams will both be participating in this engagement.

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. In February 2017, Sparinvest was invited to join the Advisory Committee of the initiative's Investor Working Group. The first objective was to encourage the 83 members of the World Federation of Exchanges to guide their listed companies on how best to disclose ESG information to investors. Throughout 2017, Sparinvest led that dialogue with a European stock exchange. In December 2017, the exchange became the 35th Exchange to issue guidance to listed companies.

During the year, Sparinvest also engaged with a major exchange group in Asia to encourage their participation in the SSE initiative. This exchange has now agreed to become an SSE Partner Exchange.

Eurosif

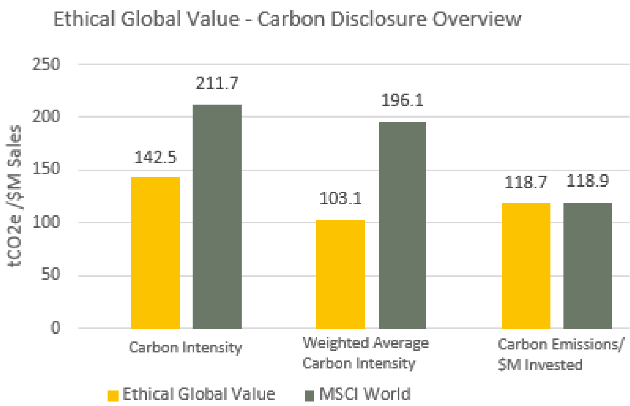
As an individual corporate member of Eurosif, Sparinvest participates in a number of its working groups. During 2017, the European Transparency Code Working Group provided input on redrafting the Code to take into ac-count the new energy-transition reporting requirements in France. The new Transparency Code is expected to be launched in Q1 2018.

Focus on Climate

Montreal Carbon Pledge

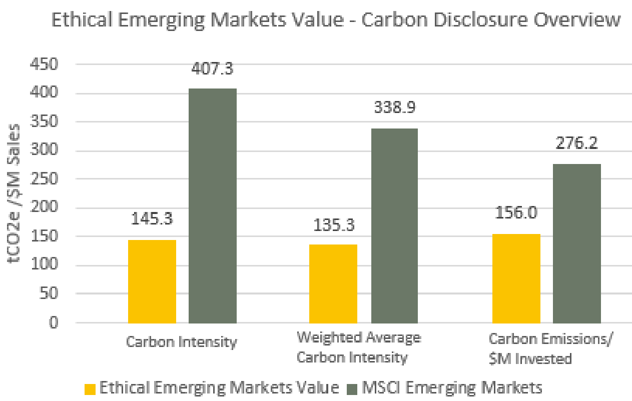
The assets of all three of our ethical funds (a total value of USD 281 million) are committed to the Montreal Car-bon Pledge. For each of these funds, we publish a car-bon footprint on our websites. These measurements help us to understand the carbon risk in the portfolio – for example, relating to energy 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: Ethical Global Value



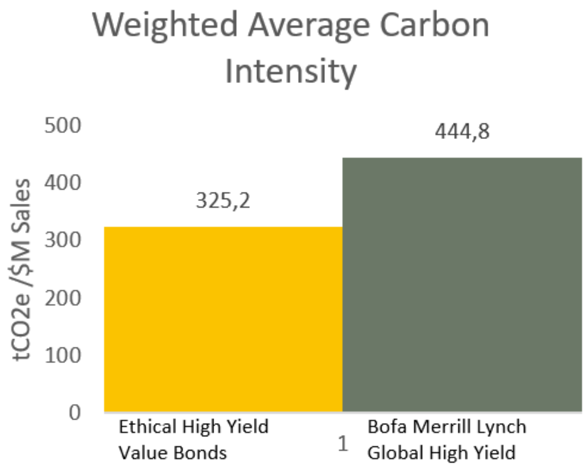
Source: MSCI Carbon Portfolio Analytics. Data as at 18/12/2017.

Carbon footprint: Ethical Emerging Markets Value



Source: MSCI Carbon Portfolio Analytics. Data as at 18/12/2017.

Carbon footprint: Ethical HY Value Bonds



Source: MSCI Carbon Portfolio Analytics. Data as at 18/12/2017.

Climate Action 100+ (commencing 2018)

In addition to the above, Sparinvest has chosen to join PRI's highest profile and most ambitious collaborative engagement to date. Climate Action 100+ already has the support of 225 investors overseeing $26.3 trillion in as-sets. The objective of the engagement is to target the world's 100 largest greenhouse gas emitting companies – as identified by PRI - plus a further 50 companies voted into the engagement by investors. The idea is to drive swift corporate action on climate change through demands for transparent climate disclosure.

This engagement is still at a very early stage and as yet investors have not been paired with target companies, but we look forward to our participation.

Climate Action 100+
Global Investors Driving Business Transition

Engagement Case Studies

During 2017, both our Value Equities and Value Bonds teams undertook direct engagements with portfolio companies with a view to enhancing their sustainability and thereby their corporate value. Some illustrations of these cases are given below.

Social Issue – Human Rights (Indigenous Peoples)
Company X, held in a number of funds, was involved in the development of the controversial Dakota Access Pipeline (DAPL). At the heart of the controversy was the proposed routing of the final section of pipeline under Lake Oahe (an area claimed by the Standing Rock Sioux Tribe as being sacred ancestral land and a former burial ground). The tribe also feared the risk of contamination of drinking water in the event of any leakage from the pipeline.

In 2016, the UN Special Rapporteur on the Rights of Indigenous Peoples had declared that the pre-development consultation process – whereby the DAPL consortium had sought to obtain Free, Prior, and In-formed Consent (FPIC) from the Tribe – had been 'inadequate'.

During 2016, our Service Provider issued a norms-based assessment that all companies in the DAPL consortium, including Company X, would breach international norms relating to human rights the moment work started on the Lake Oahe section. During 2016, Sparinvest supported the service provider's engagement with these companies

In November 2016 Donald Trump was the surprise victor in the US Presidential Election. At various stages during his campaign, he had made announcements about his commitment to US energy infrastructure, pledging to "unleash America's $50 trillion in untapped shale, oil, and natural gas reserves."

Given the substantially increased danger that Trump would approves the DAPL and that Company X was set to breach human rights, Sparinvest engaged directly with the company. Primarily via email, we discussed issues including the consent of the Standing Rock Sioux Tribe, the costs of delays to the project and of potential rerouting, and reputational damage to the company which could affect the ability to secure future projects, or impact the cost of capital.

After a frank exchange of perspectives, Sparinvest divested its holding of Company X from all actively-managed funds. Our primary reason for doing so was our under-standing that management remained determined to press ahead with pipeline construction along the disputed Lake Oahe route. In the energy sector, Sparinvest believes that respect for the rights of indigenous peoples is a crucial part of long-term sustainability. The company's determination to continue pipeline construction despite allegations that the consultation process was inadequate gave us concerns over their approach to long-term sustainability.

Work re-started on the DAPL in February 2017 and the pipeline became fully operational in June. On behalf of our passively invested index funds which retain investments in Company X, our service provider continues to monitor and engage.

Social Issue – Human Rights in the Extractive Industry
As part of the PRI-collaborative engagement with 32 oil, gas and mining companies, Sparinvest, along with two other institutional investors, led engagement with a Japanese oil and gas company held in actively-managed portfolios. The company has a long history of involvement in various projects as a non-operator, but in recent years has begun participating directly as an operator, most prominently through a major LNG project in Australia. While the company did not appear to have a poor history regarding human rights, as its business model shifted, it seemed important to work to ensure that its human rights policies, frameworks and practices were robust enough.

Initial work started in late 2015 and continued in the first half of 2016, consisting of research and fact-finding dialogue (via email and telephone conferences) to deter-mine the precise issues on which to engage. From July 2016, the engagement moved to more concrete proposals, made via telephone conference and face-to-face meetings, and supplemented by more detailed email follow-ups. Four focus areas were chosen:

- Overall governance, management and reporting structures relating to human rights
- Grievance mechanisms: structures for processing and monitoring grievances, and ensuring the effectiveness of the grievance mechanism
- Employee training, and monitoring training effective-ness.
- Business partners (suppliers, contractors, JV partners, etc) and how human rights issues& processes can be addressed in that context.

Most concretely, we aimed to encourage the company to create a standalone, overarching Human Rights Policy which would be supplemented by more detailed disclosures on implementation, and annual monitoring and reporting. We are pleased to report that, at the conclusion of the engagement, this overarching human rights policy had been put in place.

E, S and G issue – Promotion of Integrated Reporting
Sparinvest's involvement in this engagement was unusual in the sense that we were approached by the member-ship organization CSR Europe (a European business net-work for Corporate Social Responsibility) and asked to help educate member companies about how investors use ESG information when analyzing a company. This feedback can be used by companies to improve the relevance and quality of information provided to investors.

In February 2017, Sparinvest participated in a CSR Europe workshop on 'The Future of Integrated Reporting'. Six listed companies shared their experience in implementing integrated reporting. Company H (from Japan) presented its first Integrated Report and requested stake-holder feedback –

particularly from Sparinvest – as an investor with special knowledge about ESG reporting in a Japanese context. Sparinvest then followed up on this invitation with direct contact with the Investor Relations department of Company H in London where ESG issues were further discussed.

On publishing its second Integrated Report (2017), Company H notified Sparinvest.

We find Company H's 2017 Integrated Report considerably improved over the previous year's version. This is reflects well on the dialogue and on the company's willingness to respond to constructive criticism. We were particularly encouraged by three new developments:

- The establishment of a Sustainability Committee, chaired by the Chairman and CEOs of the different business units and showing more transparent and better governance.
- The inclusion of an SDG section in the Integrated Report.
- Improved reporting on the Environment and Society with clearly stated KPIs.

A further outcome is that Sparinvest has signed the IIRC's Investor statement, which shows institutional investor's support for integrated reporting.

Voting-related Engagement on Social and Govern-ance Issues (Labour Rights and Corporate Govern-ance)
Concerns had arisen during the voting season about the frequency with which this American technology company informed investors about executive pay, and about other issues relating to governance policies and disclosure. In addition, our ESG research had revealed a lack of published information about its labour and social policies and programmes. Given that the company had a concentration in labourintensive business activities, one objective of our engagement was to ensure that adequate labour policies were in place to reduce exposure to operational disruptions.

We wrote to the company – initially regarding our voting intentions but also to raise other issues and to establish whether the company had plans to prioritize clean tech and sustainable energy in its business plan.

The company responded that it welcomed further dialogue, indeed was curious to know more about what forms of disclosure shareholders wanted. In September 2017, we held a conference call with the company to discuss issue such as compensation, board structure, labour management and disclosure of policies in these areas.

The discussion reassured us that the company had formulated various policies to cover labour relations in the different jurisdictions in which it operated. The company had policies on specific areas such as ethics and equal opportunities but the main problem was that these had not been gathered together into a single overarching labour policy. We strongly encouraged the company to issue an overarching labour policy and provided examples of those in place at other companies.

We used the opportunity to convince the company that a positive approach to ESG issues, coupled with full transparency, could improve its standing with investors and thereby add shareholder value.

During 2017, the company disclosed more of its policies and this was picked up by Bloomberg. The company has also been in contact with MSCI about their governance score and is currently looking into joining the UN Global Compact. We intend to keep this engagement going in 2018 and hope to see further progress on these subjects.

Governance Issue – Anti-Bribery & Corruption
In July 2016, an oil and gas company held in a number of our bond funds was found to be in verified violation of anti-bribery and corruption norms. The company moved quickly and decisively to sack all discredited senior management implicated in the corruption scandal and to bring in a new Executive Team. The new CEO had a strong reputation for crisis management and business integrity. He quickly declared his intention to 'restore pride in the company'.

Because it was assessed to be in verified breach of norms, but undergoing remediation, the company was flagged in our ethical screening as being 'norms Amber' rather than 'norms Red'. As described earlier, amber assessments cover a spectrum of risk severity and for this reason, we often choose to exclude them. In this case, the Value Bonds team presented the case to the Responsible Investment Committee, arguing that the company had taken every action possible to root out corruption from its corporate culture and that direct engagement by them was the best way to ensure our satisfaction that the appropriate anti-corruption mechanisms and strong governance procedures would be enforced in future to ensure that such a scenario could not occur again.

Soon after his appointment, the new CEO announced that he had given himself a 120 day deadline to formalize the company's new strategy. Sparinvest awaited the publication of the new strategic plan and then began engagement with the company in March 2017. The dialogue was conducted principally through email exchanges but Spar-invest also offered to host an event in Denmark for the Company to present its new Strategic Plan and anti-corruption procedures to Nordic investors. (This has not yet happened, but the offer stands.)

Sparinvest has a track record of success and a methodical approach for engagement on anti-bribery and corruption (ABC) issues. We use a checklist to identify areas of weakness that we would like the company to address. We were aware that only time would tell whether there had been a real change in corporate culture and for this reason, we were particularly keen to see very public commitment by the CEO. In particular, Sparinvest wanted to see clear public statement from the CEO of a zero tolerance policy for anti-bribery and corruption.

The company proved very responsive to our request that all ABC policies should be brought up to date and endorsed and signed by the new CEO. At the end of 2017, Sparinvest received the transcript of a speech by the CEO which included a clear statement of zero tolerance. However, we will continue to press for such a statement to be included clearly on their website and in annual reports.

It takes time for a company to demonstrate that there has been a change in its culture. For this reason, and until the new regime of zero tolerance of ABC has stood the test of time and become embedded, we will continue to monitor and engage with this company, paying particular attention to indicators such as whistleblower statistics.

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.

Yours sincerely

Responsible Investment Committee