Sparinvest Responsible Investment Review

Q1 2017

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Dear Investor,

2016 – SRI & Value in demand

Sparinvest's investment philosophy is characterised by the adoption of academically-proven, long-term outperformance strategies, coupled with a prudent attitude to risk. In this context, the integration of environmental, social and governance risk/opportunity analysis into our investment process is, to us, an obvious part of our fiduciary duty. 2016 was a year in which we saw a significant increase in the number of asset owners RfPs and fund of fund selectors indicating a preference for the fulfilment of mandates through responsible investment. This Responsible Investment Review will show that 2016 was a year in which Sparinvest sought to strengthen and consolidate its responsible investment activities and to build on the developments of 2015.

Sparinvest is known in the investment industry as being a traditional value investor of the Benjamin Graham school. We look for investment opportunities in companies whose shares are heavily discounted by the market in comparison with their real intrinsic value. This is a strategy requiring patience and one where, while we are waiting for the share-price reversion process to occur, we can own individual equity investments from 3-5 years on average. During the period in which we own a company's shares (or bonds) the primary aim of our active ownership is to nurture value, and this encompasses ESG risks and opportunities. As we have mentioned in previous RI Reviews, our value approach extends to the way we view ESG issues. We do not aim to invest in companies with best-in-class SRI profiles or the most impressive carbon metrics. Instead, we see the value of being involved with companies that still have room for improvement in these areas, working with them to raise awareness of the risks and opportunities they face.

It is difficult to gauge precisely the extent to which a strong performance for our value funds in 2016 has been attributable to the integration of ESG considerations in stock selection and portfolio allocation decisions. However, it is our firm belief that this process enhances the risk/reward profiles of our value funds and investors will increasingly recognize the attractions of a range of funds that combine value and SRI strategies.

Voting Report 2016 – Actively managed equities

Voting statistics – 2016 - Developed Markets		%
Number of votable meetings	157	
Number of meetings voted	156	99,4
Meetings with votes – Against management	65	41,7
Meetings with votes – Against ISS policy	16	10,3
Shareholder proposals	77	
Shareholder proposals supported	28	36,4
Shareholder proposals were we voted against MGMT	23	29,9

Voting statistics – 2016 - Emerging Markets		%
Number of votable meetings	84	
Number of meetings voted	79	94,0
Meetings with votes – Against management	39	49,4
Meetings with votes – Against ISS policy	3	3,8
Shareholder proposals	18	
Shareholder proposals supported	16	88,9
Shareholder proposals were we voted against MGMT	0	0,0

In 2016, voting was, as usual, conducted in accordance with our own voting policy, with two ESG assistants performing a triage of potentially contentious agenda items and referring them to Portfolio Managers for the final voting decision (sometimes in line with, and sometimes counter to the recommendations of ISS). We sought to bolster the effectiveness of our voting activities by writing to those portfolio companies where we voted against management resolutions to inform them of our reasons. We have frequently found this a fruitful way of eliciting a response that furthers our understanding of governance matters and corporate culture. The table below gives an indication of the types of issue where we most frequently vote against management.

ISSUE	Percentage of total votes against mgmt. 2016
Capital structure/Co. restructuring	22%
Board Composition/Independence	45%
Executive/Board remuneration	15%
Other (transact other business, etc.)	8%
Auditors	2%
Shareholder resolutions	8%

Summary of Engagements during 2016

The following is a summary of Sparinvest's engagement activities across all asset classes. We participated in pooled engagement via our service provider, targeting 106 companies in confirmed or alleged breach of international norms. We join these 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. However, in 2016, 50 companies appearing in (mainly our passive) portfolios were targeted by the collaborative engagement - 19 for Environmental issues, 24 for Social issues and 7 for Governance issues.

The majority of individual engagements were undertaken by our Value Equities team and of these, 10% were classed as 'comprehensive.' We will give some illustrations of these in our next RI Review. However, we are also pleased to note 2016 was the first year in which our Value Bonds team began direct engagement with companies on norms issues other than governance/corruption.

	Companies Engaged in 2016
Individual engagements - Equities	48
Individual engagements – Fixed Income	3
Collaborative engagements	32
Service Provider engagements with portfolio companies	50

Engagement by issues

	Environmental	Social	Governace
Individual Equity*	9	6	48
Individual FI	1	1	1
Collaborative		32	
Service Provider*	21	25	7

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

PRI-Led Collaborative Engagement on Human Rights in Extractive Industries.

PRI has arranged a collaborative engagement with various prominent companies within extractive sectors, with the aim of improving human rights policies, practices and performance. Key background resources to inform the engagement are the UN Guiding Principles on Business and Human Rights, and the UNGC/PRI Guidance on Responsible Business in High-Risk and Conflict-Affected Areas. Sparinvest is participating in this engagement as joint lead investor with a portfolio company.

Supra-Company Engagement

In addition, to the above, we also engage at a supra-company level. In this context, we have, during 2016 supported the Eurosif Position Paper on European draft legislation regarding the Capital Markets Union and the IORPS directive. Eurosif's lobbying position was that this legislation was a perfect opportunity to request greater ESG disclosure by companies without placing too great a burden on SMEs.

Sparinvest has also renewed its participation in the Sustainable Stock Exchanges initiative, (described by Forbes Magazine as 'one of the world's best sustainability ideas')

The SSE initiative aims to explore how exchanges, in collaboration with investors, regulators, and companies, can enhance corporate transparency – and ultimately performance – on ESG (environmental, social and corporate governance) issues and encourage sustainable investment.

In recognition of the fact that environmental, social and governance (ESG) factors can affect borrowers' cash flows and the likelihood that they will default on their debt obligations, Sparinvest also signed the PRI Statement on ESG in Credit Ratings. This initiative was aimed primarily at the credit ratings agencies, urging them to recognize that ESG factors are important elements in assessing the creditworthiness of borrowers.

Promotion of Responsible Investment

During 2016 Sparinvest has continued to promote acceptance and implementation of responsible investment both within the investment industry and to the broader investing public.

Our backtesting of correlations between good ESG ratings and good investment performance received significant coverage in the Danish mainstream media, including Børsen, TV2 Business and Berlingske.

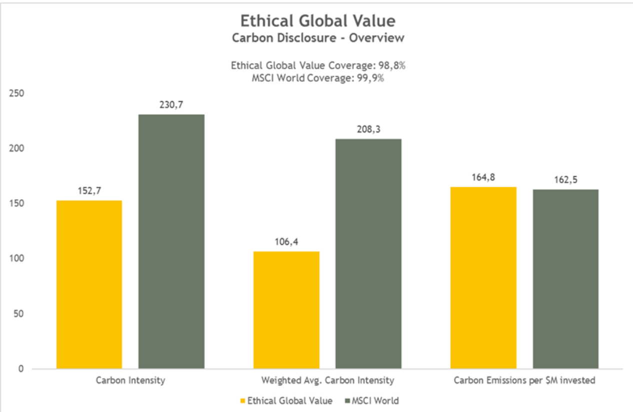
In an article for AGEFI, the Luxembourg Business Newspaper, we explained the basic concepts of responsible investment. Two articles appeared in the Japanese online financial news platform, Quick, describing the benefits of the constructive dialogue between Sparinvest and telecoms giant NTT as part of the PRI-coordinated anti-bribery and corruption engagement. The first was an interview with NTT describing the benefits that they had experienced as a result of engagement (including being admitted to the Dow Jones Sustainability Asia Index) and the second was an interview with Senior Portfolio Manager and RI Committee Member, David Orr, on the subject of what benefits engagement can bring to both companies and investors.

Montreal Carbon Pledge

We now have committed the assets of all three of our ethical funds (a total value of over USD 312 million) to the Montreal Carbon Pledge. This means that for each of these funds, we publish a carbon footprint on our websites. The carbon footprint measure enables us to work towards improving the carbon efficiency of our portfolios. We do this by considering the carbon profiles of individual portfolio companies and, where we find that their emissions are too high relative to their productivity, we may either seek alternative investments for the portfolio or else engage with the company to alert them to the environmental risk that they run and urge them to take measures to address it.

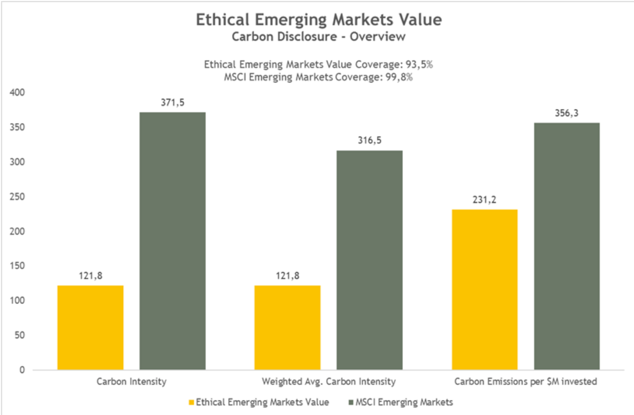
The full 2016 carbon footprints of the three ethical funds are now available to view on our website, with a snapshot below.

Carbon footprint Ethical Global Value



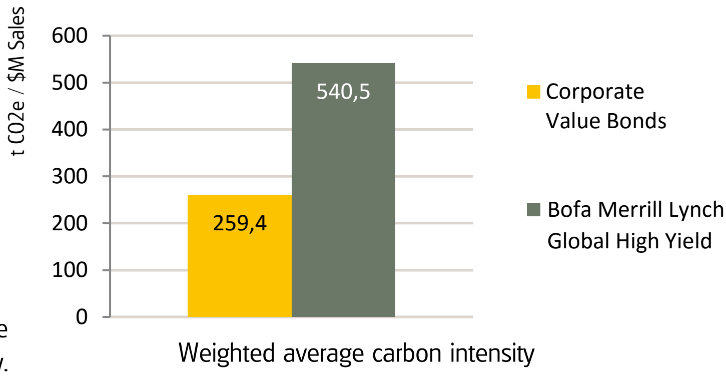
Source: MSCI Carbon Portfolio Analytics. Data as at 16/11/2016

Carbon footprint Ethical Emerging Markets Value



Source: MSCI Carbon Portfolio Analytics. Data as at 16/11/2016

Carbon footprint Corporate Value Bonds



Source: MSCI Carbon Portfolio Analytics. Data as at 16/11/2016

These funds could be of interest to investors seeking mainstream value investment vehicles where carbon risks are integrated in investment decisions and will form part of an active ownership strategy going forwards.

Yours sincerely

Responsible Investment Committee