


The image shows two overlapping forms from the PRI LEA (Leadership Engagement) toolkit. The top form is LEA 02, titled 'Discretionary Monitoring', and the bottom form is LEA 03, titled 'Gateway'. Both forms are designed for monitoring and reporting on engagement activities.

Type of engagement	Reason for interaction
Individual/ internal staff engagements	<input checked="" type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input checked="" type="checkbox"/> To encourage corporate practice for identifying the need to address ESG issues <input type="checkbox"/> Other: specify _____ <input type="checkbox"/> We do not engage via internal staff <input type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input type="checkbox"/> To encourage corporate practice for identifying the need to address ESG issues <input type="checkbox"/> Other: specify _____
Collaborative engagements	<input checked="" type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input checked="" type="checkbox"/> To encourage corporate practice for identifying the need to address ESG issues <input type="checkbox"/> Other: specify _____ <input type="checkbox"/> We do not engage via collaborative engagements <input type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input type="checkbox"/> To encourage corporate practice for identifying the need to address ESG issues <input type="checkbox"/> Other: specify _____
Service provider engagements	<input checked="" type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input checked="" type="checkbox"/> To encourage corporate practice for identifying the need to address ESG issues <input type="checkbox"/> Other: specify _____ <input type="checkbox"/> We do not engage via service providers <input type="checkbox"/> To support investment decision-making in a company's investment ESG issues <input type="checkbox"/> To encourage corporate practice for identifying the need to address ESG issues <input type="checkbox"/> Other: specify _____

# RI TRANSPARENCY REPORT

## 2018

Sparinvest Group

## About this report

The PRI Reporting Framework is a key step in the journey towards building a common language and industry standard for reporting responsible investment (RI) activities. This RI Transparency Report is one of the key outputs of this Framework. Its primary objective is to enable signatory transparency on RI activities and facilitate dialogue between investors and their clients, beneficiaries and other stakeholders. A copy of this report will be publicly disclosed for all reporting signatories on the [PRI website](#), ensuring accountability of the PRI Initiative and its signatories.

This report is an export of the individual Signatory organisation's response to the PRI during the 2018 reporting cycle. It includes their responses to mandatory indicators, as well as responses to voluntary indicators the signatory has agreed to make public. The information is presented exactly as it was reported. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory to select are presented in this report. Presenting the information exactly as reported is a result of signatory feedback which suggested the PRI not summarise the information. As a result, the reports can be extensive. However, to help easily locate information, there is a **Principles index** which highlights where the information can be found and summarises the indicators that signatories complete and disclose.

## Understanding the Principles Index

The Principles Index summarises the response status for the individual indicators and modules and shows how these relate to the six [Principles for Responsible Investment](#). It can be used by stakeholders as an 'at-a-glance' summary of reported information and to identify particular themes or areas of interest.

Indicators can refer to one or more Principles. Some indicators are not specific to any Principle. These are highlighted in the 'General' column. When multiple Principles are covered across numerous indicators, in order to avoid repetition, only the main Principle covered is highlighted.

All indicators within a module are presented below. The status of indicators is shown with the following symbols:

Symbol	Status
✓	The signatory has completed all mandatory parts of this indicator
☑	The signatory has completed some parts of this indicator
🔒	This indicator was not relevant for this signatory
-	The signatory did not complete any part of this indicator
🔍	The signatory has flagged this indicator for internal review

Within the table, indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.

# Principles Index

Organisational Overview				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
OO TG		✓	-							
OO 01	Signatory category and services	✓	Public							✓
OO 02	Headquarters and operational countries	✓	Public							✓
OO 03	Subsidiaries that are separate PRI signatories	✓	Public							✓
OO 04	Reporting year and AUM	✓	Public							✓
OO 05	Breakdown of AUM by asset class	✓	Asset mix disclosed in OO 06							✓
OO 06	How would you like to disclose your asset class mix	✓	Public							✓
OO 07	Fixed income AUM breakdown	✓	Private							✓
OO 08	Segregated mandates or pooled funds	⚡	n/a							✓
OO 09	Breakdown of AUM by market	✓	Private							✓
OO 10	Active ownership practices for listed assets	✓	Public							✓
OO 11	ESG incorporation practices for all assets	✓	Public							✓
OO 12	Modules and sections required to complete	✓	Public							✓
OO LE 01	Breakdown by passive, quantitative, fundamental and other active strategies	✓	Private							✓
OO LE 02	Reporting on strategies that are <10% of actively managed listed equities	⚡	n/a							✓
OO FI 01	Breakdown by passive, active strategies	✓	Private							✓
OO FI 02	Option to report on <10% assets	⚡	n/a							✓
OO FI 03	Breakdown by market and credit quality	✓	Private							✓
OO SAM 01	Breakdown by passive, quantitative, fundamental and other active strategies	⚡	n/a							✓
OO PE 01	Breakdown of investments by strategy	⚡	n/a							✓
OO PE 02	Typical level of ownership	⚡	n/a							✓
OO PR 01	Breakdown of investments	⚡	n/a							✓
OO PR 02	Breakdown of assets by management	⚡	n/a							✓
OO PR 03	Largest property types	⚡	n/a							✓
OO INF 01	Breakdown of investments	⚡	n/a							✓
OO INF 02	Breakdown of assets by management	⚡	n/a							✓
OO INF 03	Largest infrastructure	⚡	n/a							✓
OO End	Module confirmation page	✓	-							

Strategy and Governance				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
SG 01	RI policy and coverage	✓	Public							✓
SG 02	Publicly available RI policy or guidance documents	✓	Public						✓	
SG 03	Conflicts of interest	✓	Public							✓
SG 04	Identifying incidents occurring within portfolios	✓	Private							✓
SG 05	RI goals and objectives	✓	Public							✓
SG 06	Main goals/objectives this year	✓	Private							✓
SG 07	RI roles and responsibilities	✓	Public							✓
SG 07 CC	Climate-issues roles and responsibilities	✓	Private							✓
SG 08	RI in performance management, reward and/or personal development	✓	Private							✓
SG 09	Collaborative organisations / initiatives	✓	Public				✓	✓		
SG 09.2	Assets managed by PRI signatories	🔒	n/a	✓						
SG 10	Promoting RI independently	✓	Public				✓			
SG 11	Dialogue with public policy makers or standard setters	✓	Private				✓	✓	✓	
SG 12	Role of investment consultants/fiduciary managers	✓	Public				✓			
SG 13	ESG issues in strategic asset allocation	✓	Public	✓						
SG 14	Long term investment risks and opportunity	✓	Private	✓						
SG 15	Allocation of assets to environmental and social themed areas	✓	Private	✓						
SG 16	ESG issues for internally managed assets not reported in framework	✓	Public							✓
SG 17	ESG issues for externally managed assets not reported in framework	🔒	n/a							✓
SG 18	Innovative features of approach to RI	✓	Public							✓
SG 19	Communication	✓	Public						✓	
SG End	Module confirmation page	✓	-							

Direct - Listed Equity Incorporation				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
LEI 01	Percentage of each incorporation strategy	✓	Public	✓						
LEI 02	Type of ESG information used in investment decision	✓	Private	✓						
LEI 03	Information from engagement and/or voting used in investment decision-making	✓	Private	✓						
LEI 04	Types of screening applied	✓	Public	✓						
LEI 05	Processes to ensure screening is based on robust analysis	✓	Public	✓						
LEI 06	Processes to ensure fund criteria are not breached	✓	Private	✓						
LEI 07	Types of sustainability thematic funds/mandates	🔒	n/a	✓						
LEI 08	Review ESG issues while researching companies/sectors	✓	Public	✓						
LEI 09	Processes to ensure integration is based on robust analysis	✓	Private	✓						
LEI 10	Aspects of analysis ESG information is integrated into	✓	Private	✓						
LEI 11	ESG issues in index construction	✓	Private	✓						
LEI 12	How ESG incorporation has influenced portfolio composition	✓	Private	✓						
LEI 13	Measurement of financial and ESG outcomes of ESG incorporation	✓	Private	✓						
LEI 14	Examples of ESG issues that affected your investment view / performance	✓	Private	✓						
LEI End	Module confirmation page	✓	-							

Direct - Listed Equity Active Ownership				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
LEA 01	Description of approach to engagement	✓	Public		✓					
LEA 02	Reasoning for interaction on ESG issues	✓	Public	✓	✓	✓				
LEA 03	Process for identifying and prioritising engagement activities	✓	Public		✓					
LEA 04	Objectives for engagement activities	✓	Public		✓					
LEA 05	Process for identifying and prioritising collaborative engagement	✓	Public		✓					
LEA 06	Objectives for engagement activities	✓	Public		✓					
LEA 07	Role in engagement process	✓	Public		✓		✓			
LEA 08	Monitor / discuss service provider information	✓	Public		✓				✓	
LEA 09	Share insights from engagements with internal/external managers	✓	Public	✓	✓					
LEA 10	Tracking number of engagements	✓	Public		✓					
LEA 11	Number of companies engaged with, intensity of engagement and effort	✓	Private		✓					
LEA 12	Engagement methods	✓	Private		✓					
LEA 13	Companies changing practices / behaviour following engagement	✓	Private		✓					
LEA 14	Examples of ESG engagements	✓	Private		✓					
LEA 15	Voting policy & approach	✓	Public	✓	✓	✓				
LEA 16	Typical approach to (proxy) voting decisions	✓	Public		✓					
LEA 17	Percentage of voting recommendations reviewed	🔒	n/a		✓					
LEA 18	Confirmation of votes	✓	Private		✓					
LEA 19	Securities lending programme	✓	Private		✓					
LEA 20	Informing companies of the rationale of abstaining/voting against management	✓	Public		✓					
LEA 21	Percentage of (proxy) votes cast	✓	Public		✓					
LEA 22	Proportion of ballot items that were for/against/abstentions	✓	Public		✓					
LEA 23	Shareholder resolutions	✓	Private		✓					
LEA 24	Examples of (proxy) voting activities	✓	Private		✓					
LEA End	Module confirmation page	✓	-							

Direct - Fixed Income				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
FI 01	Incorporation strategies applied	✓	Public	✓						
FI 02	ESG issues and issuer research	✓	Private	✓						
FI 03	Processes to ensure analysis is robust	✓	Public	✓						
FI 04	Types of screening applied	✓	Public	✓						
FI 05	Negative screening - overview and rationale	✓	Public	✓						
FI 06	Examples of ESG factors in screening process	✓	Private	✓						
FI 07	Screening - ensuring criteria are met	✓	Public	✓						
FI 08	Thematic investing - overview	🔒	n/a	✓						
FI 09	Thematic investing - themed bond processes	🔒	n/a	✓						
FI 10	Thematic investing - assessing impact	🔒	n/a	✓						
FI 11	Integration overview	✓	Public	✓						
FI 12	Integration - ESG information in investment processes	✓	Public	✓						
FI 13	Integration - E,S and G issues reviewed	✓	Public	✓						
FI 14	ESG incorporation in passive funds	✓	Private	✓						
FI 15	Engagement overview and coverage	✓	Private		✓					
FI 16	Engagement method	✓	Private	✓	✓					
FI 17	Engagement policy disclosure	✓	Private	✓	✓					
FI 18	Financial/ESG performance	✓	Private							✓
FI 19	Examples - ESG incorporation or engagement	✓	Private	✓	✓					
FI End	Module confirmation page	✓	-							

Assurance				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
CM 1 01.1	Assurance, verification, or review	✓	Public							✓
CM 1 01.2 & 01.8	Assurance of this year's PRI data	✓	Public							
CM 1 01.3 & 01.9	Assurance of last year's PRI data	✓	Public							✓
CM 1 01.4, 10-12	Other confidence building measures	✓	Public							✓
CM 1 01.5	External assurance	🔒	n/a							✓
CM 1 01.6	Assurance or internal audit	🔒	n/a							✓
CM 1 01.7	Internal verification	✓	Public							✓
CM 1 01 End	Module confirmation page	-	n/a							

## Basic information

OO 01	Mandatory	Public	Gateway/Peering	General
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### OO 01.1 Select the services and funds you offer

☒ Fund management

% of assets under management (AUM) in ranges

- ☐ <10%  
☐ 10-50%  
☒ >50%

- ☐ Fund of funds, manager of managers, sub-advised products  
☐ Other, specify

Further options for investment managers (may be selected in addition to the above)

- ☐ Execution and advisory services  
☐ Hedge funds  
☐ Fund of hedge funds

OO 02	Mandatory	Public	Peering	General
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### OO 02.1 Select the location of your organisation's headquarters.

Luxembourg

### OO 02.2 Indicate the number of countries in which you have offices (including your headquarters).

- ☐ 1  
☒ 2-5  
☐ 6-10  
☐ >10

### OO 02.3 Indicate the approximate number of staff in your organisation in full-time equivalents (FTE).

FTE

140



OO 02.4 Additional information. [Optional]

We have offices in Denmark, France, Luxembourg and Sweden

OO 03 Mandatory Public Descriptive General

OO 03.1 Indicate whether you have subsidiaries within your organisation that are also PRI signatories in their own right.

- ☐ Yes  
☒ No

OO 03.3 Additional information. [Optional]

Our signature of the Principles applies to all parts of our organisation.

OO 04 Mandatory Public Gateway/Peering General

OO 04.1 Indicate the year end date for your reporting year.

31/12/2017

OO 04.2 Indicate your total AUM at the end of your reporting year, Exclude subsidiaries you have chosen not to report on and any advisory/execution only assets.

	trillions	billions	millions	thousands	hundreds
Total AUM		11	224	880	785
Currency	EUR				
Assets in USD		13	318	284	752

OO 06 Mandatory Public Descriptive General

**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

OO 06.1 Select how you would like to disclose your asset class mix.

☒ as percentage breakdown

	Internally managed (%)	Externally managed (%)
Listed equity	44	0

Fixed income	54	0
Private equity	0	0
Property	0	0
Infrastructure	0	0
Commodities	0	0
Hedge funds	0	0
Forestry	0	0
Farmland	0	0
Inclusive finance	0	0
Cash	2	0
Other (1), specify	0	0
Other (2), specify	0	0

○ as broad ranges

**OO 06.2**

Publish asset class mix as per attached image [Optional].

### Asset class implementation gateway indicators

OO 10	Mandatory	Public	Gateway	General
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**OO 10.1**

Select the active ownership activities your organisation implemented in the reporting year.

#### Listed equity – engagement

- ☒ We engage with companies on ESG factors via our staff, collaborations or service providers.
- ☐ We do not engage directly and do not require external managers to engage with companies on ESG factors.

#### Listed equity – voting

- ☒ We cast our (proxy) votes directly or via dedicated voting providers
- ☐ We do not cast our (proxy) votes directly and do not require external managers to vote on our behalf

#### Fixed income SSA – engagement

- ☐ We engage with companies on ESG factors via our staff, collaborations or service providers.
- ☒ We do not engage directly and do not require external managers to engage with companies on ESG factors. Please explain why you do not.

Please explain why you do not engage directly and do not require external managers to engage with companies on ESG factors.

SSA issuers are not companies, but governments. Across all asset classes, Sparinvest's preference is to exercise active ownership to influence better and more responsible behaviour from issuers. However, we recognize that it is both difficult and potentially undemocratic to attempt to influence nation states.

#### Direct Engagement Policy

Where the option exists to join coordinated initiatives targeting heads of state in order to raise awareness of ESG concerns or to improve human rights conditions in their nations, we will consider adding our voice to these.

Similarly, where appropriate to do so, we also undertake to use supra-company engagement with index providers and stock exchanges to highlight ESG issues.

#### Fixed income Corporate (financial) – engagement

- ☒ We engage with companies on ESG factors via our staff, collaborations or service providers.
- ☐ We do not engage directly and do not require external managers to engage with companies on ESG factors. Please explain why you do not.

#### Fixed income Corporate (non-financial) – engagement

- ☒ We engage with companies on ESG factors via our staff, collaborations or service providers.
- ☐ We do not engage directly and do not require external managers to engage with companies on ESG factors. Please explain why you do not.

#### Fixed income Corporate (securitised) – engagement

- ☒ We engage with companies on ESG factors via our staff, collaborations or service providers.
- ☐ We do not engage directly and do not require external managers to engage with companies on ESG factors. Please explain why you do not.

OO 11

Mandatory

Public

Gateway

General

OO 11.1

Select the internally managed asset classes in which you addressed ESG incorporation into your investment decisions and/or your active ownership practices (during the reporting year).

#### Listed equity

- ☒ We address ESG incorporation.
- ☐ We do not do ESG incorporation.

	Fixed income - SSA
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- ☒ We address ESG incorporation.
- ☐ We do not do ESG incorporation.

	Fixed income - corporate (financial)
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- ☒ We address ESG incorporation.
- ☐ We do not do ESG incorporation.

	Fixed income - corporate (non-financial)
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- ☒ We address ESG incorporation.
- ☐ We do not do ESG incorporation.

	Fixed income - securitised
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- ☒ We address ESG incorporation.
- ☐ We do not do ESG incorporation.

	Cash
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- ☒ We address ESG incorporation.
- ☐ We do not do ESG incorporation.

OO 12	Mandatory	Public	Gateway	General
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OO 12.1	Below are all applicable modules or sections you may report on. Those which are mandatory to report (asset classes representing 10% or more of your AUM) are already ticked and read-only. Those which are voluntary to report on can be opted into by ticking the box.
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	Core modules
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- ☒ Organisational Overview
- ☒ Strategy and Governance

	RI implementation directly or via service providers
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	Direct - Listed Equity incorporation
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- ☒ Listed Equity incorporation

	Direct - Listed Equity active ownership
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- ☒ Engagements
- ☒ (Proxy) voting

## Direct - Fixed Income

- ☒ Fixed income - SSA
- ☒ Fixed income - Corporate (financial)
- ☒ Fixed income - Corporate (non-financial)
- ☒ Fixed income - Securitised

## RI implementation via external managers

## Closing module

- ☒ Closing module

## Investment policy

SG 01

Mandatory

Public

Core Assessed

General

**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

SG 01.1

Indicate if you have an investment policy that covers your responsible investment approach.

- ☒ Yes

SG 01.2

Indicate the components/types and coverage of your policy.

Select all that apply

Policy components/types	Coverage by AUM
<input checked="" type="checkbox"/> Policy setting out your overall approach <input type="checkbox"/> Formalised guidelines on environmental factors <input type="checkbox"/> Formalised guidelines on social factors <input type="checkbox"/> Formalised guidelines on corporate governance factors <input checked="" type="checkbox"/> Asset class-specific RI guidelines <input type="checkbox"/> Sector specific RI guidelines <input checked="" type="checkbox"/> Screening / exclusions policy <input checked="" type="checkbox"/> Engagement policy <input checked="" type="checkbox"/> (Proxy) voting policy <input checked="" type="checkbox"/> Other, specify (1) <b>Stewardship Policy</b> <input type="checkbox"/> Other, specify(2)	<input checked="" type="radio"/> Applicable policies cover all AUM <input type="radio"/> Applicable policies cover a majority of AUM <input type="radio"/> Applicable policies cover a minority of AUM

**SG 01.3**

Indicate if the investment policy covers any of the following

- ☒ Your organisation's definition of ESG and/or responsible investment and its relation to investments
- ☐ Your investment objectives that take ESG factors/real economy influence into account
- ☒ Time horizon of your investment
- ☒ Governance structure of organisational ESG responsibilities
- ☒ ESG incorporation approaches
- ☒ Active ownership approaches
- ☒ Reporting
- ☒ Climate change and related issues

**SG 01.3a  
CC**

Describe how your products or investment strategy might be affected by the transition to a lower-carbon economy.

Climate change is of course a major concern for us, and the investment risks and opportunities associated with it are taken into account as part of our investment process - especially for actively managed funds. In seeking out value investments, Sparinvest finds opportunities across all sectors of industry. We do not follow a 'best in class'/low carbon investment strategy and the carbon footprint of our portfolios will be strongly influenced by which types of companies we buy and sell and their relative weights.

Our investment policy does not specifically preclude investment in companies with high climate change risks attached to them. However, when performing security analysis, consideration of the risks attached to businesses that do not make adequate preparation for the transition to a lower carbon economy are likely to weigh against them. This is because our investment process measures long term risk against reward. The transition to a 2oC compliant economy will increasingly leave such companies with stranded assets. So, unless they are able to demonstrate willingness to dedicate R&D to clean technology solutions and a business plan that maps out a clear energy transition strategy, it is likely that our investment process would find that the risks of such an investment outweigh the rewards

Wherever possible, our voting activity supports resolutions calling for greater disclosure of climate-related risks. We have also been carbon footprinting a number of our portfolios since 2015. This exercise gives us an indication of which of our portfolio holdings are sitting on potential stranded assets and which are offering clean energy solutions or have aggressive carbon reduction targets. It is our intention to build on this knowledge through climate related engagement with portfolio companies as well as by participating in Climate Action 100+.

**SG 01.3b  
CC**

Describe how climate-related risks and opportunities are factored into your investment strategies or products.

- © We factor climate-related risks and strategies into our investment strategies or products.

Describe how climate-related risks and opportunities are factored into your investment strategies or products.

The analysis of climate-related risks and opportunities is an important element of ESG integration in the investment process of our actively managed equity and corporate bond funds. It therefore falls to the Portfolio Managers to assess and manage climate related issues.

Since signing the Montreal Carbon Pledge for its ethical funds in 2015, Sparinvest has been using the service provider MSCI Carbon Analytics to measure the carbon footprint of these funds on an annual basis. Companies held in these funds are also held in Sparinvest's core fund strategies. This means that company level carbon data from the footprinting exercise, combined with the broader ESG research provided by MSCI, and climate-related information available from Bloomberg, all give our portfolio managers access to a high level of information when assessing an investee company's preparedness for a 2oC compliant future.

The carbon footprint metrics of our ethical fund portfolios are already low in comparison to their benchmarks and the trend has been downwards since we began measuring. However, Sparinvest does not have a 'best in class'/low carbon investment strategy. Our footprint is strongly influenced by which types of companies we buy and sell and their relative weights. Given that the portfolio-

level carbon footprint is already low, there may come a point in time where it might no longer be realistic to have the constant aim of constantly reducing it. Instead, we think the most important thing is to focus on carbon efficiency at an individual company level and work to reduce carbon emissions relative to economic output. So if, for example, we were to buy into a new holding that was relatively carbon intense and pushed up our footprint, we would be looking to engage with Management on climate risks.

As mentioned above, Sparinvest aims to introduce a formal carbon engagement programme during 2018. The aims of this are a) to bolster companies' disclosure of carbon risk and related issues, (b) to encourage stronger structures and processes relating to carbon risk and (c) to lead to lower emissions at specific holdings. Over time, we do hope this leads to control of the overall footprint and even reduction, but we recognise that this is heavily dependent on where in our investment universe we find value and whether we find it in sectors that are carbon heavy or carbon light.[TBJ1]

Sparinvest is also participating in the major investor initiative Climate Action 100+

Describe how these risks and opportunities serve as an input to your investment strategies or products and the related time periods used.

Specific Guidance:

#### Asset Owners

This can be described from the perspective of the total fund or investment strategy or individual investment strategies for various asset classes.

#### Investment Managers

This can be described from the perspective of all investments strategies and products or individual investment strategies and products for clients

☐ We do not factor climate-related risks and strategies into our investment strategies or products.

☐ Other RI considerations, specify (1)

☐ Other RI considerations, specify (2)

### SG 01.4

Describe your organisation's investment principles and overall investment strategy, and how they consider ESG factors and real economy impact.

At Sparinvest we believe that investing responsibly goes to the heart of our fiduciary duty to clients to generate strong long-term investment returns. When considering investments our analysts and portfolio managers consider a wide range of risks and opportunities. Some are shorter term, with the potential for an immediate impact. Others are longer term, but no less significant to the intrinsic value of the investment. It is only natural that as part of this assessment, we consider ESG (Environmental, Social and Governance) issues, many of which tend to impact over the longer term. We aim to incorporate these considerations throughout our investment processes, across our asset classes. This means looking at ESG-related risks and opportunities at the individual security level, and also considering the impact of broader themes which may impact on values across an entire sector, country, or portfolio.

Responsible investment does not end with an investment decision. It is crucial to continue monitoring investments in their treatment of risks and opportunities. We also seek to foster the long-term value of our investments and - in our corporate bond and equity funds - to improve corporate behaviour, by being active owners through voting and engagement.

### SG 01.5

Provide a brief description of the key elements, any variations or exceptions to your investment policy that covers your responsible investment approach. [Optional]

Subject to the limitations imposed by certain strategies, Sparinvest invests its entire fund range responsibly. We see the integration of ESG issues in our investment process, along with an active stewardship programme involving both voting and engagement, as being part of our fiduciary duty.

ALL Sparinvest strategies apply the following overarching exclusions:

- Controversial weapons

- Securities prohibited by EU Sanction

Below we give a brief indication of the RI approaches used for each of our strategy groups.

More detailed information is available on the RI section of our website:

[Http://www.sparinvest.lu/strategies%20and%20solutions/responsible%20investing.aspx](http://www.sparinvest.lu/strategies%20and%20solutions/responsible%20investing.aspx)

### **Equity Funds**

In our **Actively-Managed Fundamental Equity** strategies, we aim to be responsible through:

- Exclusion of controversial weapons and securities under EU sanction
- Screening (non exclusionary, for information purposes)
- Integration of ESG
- Stewardship

We work to understand the ESG issues faced by a company, assess the implications for corporate value and whether risks are adequately compensated. We consider how stewardship can be used to nurture corporate value and to encourage improvements in sustainability. Portfolio Managers direct our engagement and voting activities. Engagement can be direct, collaborative and/or via our service providers. Where our service providers engage with portfolio companies, we aim for close supervision. Our policy is to vote on all holdings.

In our **Actively-Managed Ethical Equity** strategies, we aim to be responsible through:

- Exclusion of controversial weapons and securities under EU sanction
- Norms and Sector based screening (for negative exclusionary purposes)
- Integration of ESG
- Stewardship (Engagement and Voting)

Sparinvest's ethical strategies apply the same responsible investment approach as our core actively managed fundamental equity strategies. However, a growing number of clients seek to maintain certain ethical standards and values when they invest. For this reason Sparinvest makes some strategies available with an ethical overlay, adding further exclusionary criteria to our standard exclusionary screening. Our ethical screening criteria are designed to help us to create portfolios that avoid investment in companies in breach of international norms or operating in certain sectors.

Screening for our ethical funds is conducted independently by the external ESG screening services provider ISS-Ethix. Sparinvest has signed the Montreal Carbon Pledge on behalf these funds.

In our **Quantitatively-Managed Equity** strategies, we aim to be responsible through:

- Exclusion of controversial weapons and securities under EU sanction
- Integration of ESG (at a total portfolio level)
- Stewardship (Collaborative Engagement and Voting on significant holdings)

In our quantitative strategies, the emphasis is on overall portfolio characteristics rather than on the individual holdings. Accordingly, consideration of ESG-factors is integrated in the investment process at the total portfolio level, with the aim of improving the portfolio's ESG score over time. On behalf of these funds, we participate in collaborative engagements and vote at companies where our shareholding is valued at EUR 1 million or more.

In our **Passively-Managed Equity** strategies, we aim to be responsible through:

- Exclusion of controversial weapons and securities under EU sanction
- Stewardship (Voting on significant holdings, and Collaborative Engagement)

In Denmark, Sparinvest offers a range of passively-managed index funds for which the sole objective is to mimic the returns achieved by a given index. On behalf of these funds, we participate in collaborative engagements and vote at companies where our shareholding is valued at EUR 1 million or more. This enables us to maintain the low charging structure that Danish clients demand of these strategies

### **Fixed Income Funds**

In our **Actively-Managed Corporate Bond strategies**, we aim to be responsible through:

- Exclusion of controversial weapons and securities under EU sanction



- Screening (non exclusionary, for information purposes)
- Integration of ESG
- Stewardship (Engagement - collaborative and direct)

We aim to strengthen portfolios by minimizing exposure to downside risk. Thus, consideration of environmental, social and governance issues is part of our fundamental credit analysis process. Our customized 'red flags'- investment check list includes ESG metrics alongside traditional financial key metrics. We believe that potential governance problems form the most severe risk to credit investors, and thus it is our clear fiduciary duty to focus on identifying these prior to investment. The majority of engagements for Sparinvest's fixed income funds are conducted, on a collaborative basis, by our engagement services provider.

In our **Actively-Managed Ethical Corporate Bond** strategies, we aim to be responsible through:

- Exclusion of controversial weapons and securities under EU sanction
- Norms and Sector based screening (for negative exclusionary purposes)
- Integration of ESG
- Stewardship (Engagement)

Our Ethical Corporate Bond strategies apply the same responsible investment approach as our core corporate bond strategies described above. However, there is also an additional independent ethical screening conducted independently by the external ESG screening services provider ISS-Ethix. Sparinvest has signed the Montreal Carbon Pledge on behalf of Sparinvest Corporate Value Bonds.

In our **Actively-Managed Sovereign Bond** strategies, we aim to be responsible through:

- Exclusion of countries under multilateral sanction
- Country screening for Human Rights
- Integration of ESG

The formal consideration of governance risk factors is a vital and integral part of - the process of evaluating the credit spread. From a fiduciary perspective, we believe that the G part of ESG analysis is of paramount importance when investing in Sovereigns because a well-governed country is more likely to repay its debts (as well as look after its people and protect the environment). An externally conducted country screening and World Governance Indicators are used as input, with adjustments on the basis of other, more forward-looking data.

In our **Actively-Managed Securitized Bond** strategies, we aim to be responsible through:

- Exclusion of securities or countries under EU sanction
- Norms-based screening of issuer banks
- Integration of ESG
- Stewardship (Engagement)

Sparinvest's investments in covered/securitized bonds are currently restricted to a universe consisting entirely of Nordic covered bonds, as well as government bonds. These issuers are subject to rigorous regulatory requirements and strong governance systems operating in nations with strong environmental and social legislation. The Danish covered bond system is perhaps the most sustainable method for financing property purchase yet invented. In more than two centuries of existence, there has never been a default on a Danish mortgage bond.

☐ No

Your responses to this indicator will be used to determine if you meet the minimum requirements of being a PRI signatory introduced for the first time in 2018. Signatories have until 2020 to meet these requirements.

You can find out more information on the PRI website.

There are two minimum requirements for this indicator SG 01.1 and SG 01.2:

- A policy, or similar document, that: Sets out your overall approach to responsible investment; or
- Formalised guidelines on environmental factors; or
- Formalised guidelines on social factors; or

- Formalised guidelines on governance factors.
- 

The PRI recognises that RI "policies" can take many different forms and can have a variety of titles. Please see the explanatory notes for this indicator to see further explanation of this and further guidance.

- This policy/document should cover more than 50% of your AUM

If you have any questions or need support please contact [reporting@unpri.org](mailto:reporting@unpri.org) or call on + 44 (0) 203 714 3187.

SG 02	Mandatory	Public	Core Assessed	PRI 6
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**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

SG 02.1	Indicate which of your investment policy documents (if any) are publicly available. Provide a URL and an attachment of the document.
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- ☒ Policy setting out your overall approach

	URL/Attachment
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- ☒ URL

	URL
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<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20ri%20policy.ashx>

- ☒ Attachment (will be made public)

	Attachment
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[File 1:03-04-2018 RI Policy.pdf](#)

- ☒ Asset class-specific RI guidelines

	URL/Attachment
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- ☒ URL

	URL
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<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20ri%20policy.ashx>

- ☒ Attachment (will be made public)

	Attachment
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[File 1:03-04-2018 RI Policy.pdf](#)

- ☒ Screening / exclusions policy

	URL/Attachment
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☒ URL

	URL
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<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20ri%20policy.ashx>

☒ Attachment (will be made public)

	Attachment
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[File 1:03-04-2018 RI Policy.pdf](#)

☒ Engagement policy

	URL/Attachment
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☒ URL

	URL
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<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20stewardship%20policy.ashx>

☒ Attachment (will be made public)

	Attachment
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[File 1:03-04-2018 Stewardship Policy.pdf](#)

☒ (Proxy) voting policy

	URL/Attachment
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☒ URL

	URL
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<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20stewardship%20policy.ashx>

☒ Attachment (will be made public)

	Attachment
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[File 1:03-04-2018 Stewardship Policy.pdf](#)

☒ Other, specify (1)

	Other, specify (1) description
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Stewardship Policy

	URL/Attachment
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☒ URL

	URL
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<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20stewardship%20policy.ashx>

☒ Attachment (will be made public)

	Attachment
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[File 1:03-04-2018 Stewardship Policy.pdf](#)

☐ We do not publicly disclose our investment policy documents

## SG 02.2

Indicate if any of your investment policy components are publicly available. Provide URL and an attachment of the document.

☒ Your organisation's definition of ESG and/or responsible investment and it's relation to investments

	URL/Attachment
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☒ URL

	URL
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<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20ri%20policy.ashx>

☒ Attachment

	File Attachment
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03-04-2018 RI Policy.pdf [238KB]

☐ Time horizon of your investment

☒ Governance structure of organisational ESG responsibilities

	URL/Attachment
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☒ URL

	URL
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<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20ri%20policy.ashx>

☒ Attachment

	File Attachment
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03-04-2018 RI Policy.pdf [238KB]

☒ ESG incorporation approaches

	URL/Attachment
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☒ URL

	URL
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<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20ri%20policy.ashx>

☒ Attachment

	File Attachment
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03-04-2018 RI Policy.pdf [238KB]

☒ Active ownership approaches

	URL/Attachment
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☒ URL

	URL
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<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20stewardship%20policy.ashx>

☒ Attachment

	File Attachment
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03-04-2018 Stewardship Policy.pdf [462KB]

☒ Reporting

	URL/Attachment
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☒ URL

URL
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<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20stewardship%20policy.ashx>

☒ Attachment

File Attachment
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03-04-2018 Stewardship Policy.pdf [462KB]

☒ Climate-related issues

URL/Attachment
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☒ URL

URL
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<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20ri%20policy.ashx>

☒ Attachment

File Attachment
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03-04-2018 RI Policy.pdf [238KB]

☒ Climate change and related issues

URL/Attachment
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☒ URL

URL
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<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20ri%20policy.ashx>

☒ Attachment

File Attachment
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03-04-2018 RI Policy.pdf [238KB]

☐ We do not publicly disclose any investment policy components

<b>SG 02.3</b>	Indicate if your organisation's investment principles, and overall investment strategy is publicly available
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☒ Yes

	URL
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<http://www.sparinvest.lu/strategies%20and%20solutions/investment%20solutions.aspx>

☐ No

SG 03	Mandatory	Public	Core Assessed	General
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<b>SG 03.1</b>	Indicate if your organisation has a policy on managing potential conflicts of interest in the investment process.
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☒ Yes

<b>SG 03.2</b>	Describe your policy on managing potential conflicts of interest in the investment process.
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Sparinvest trades in securities and other financial instruments for Danish and international clients. As is required by national legislation, when providing investment and related services, both **Sparinvest S.A., Luxembourg branch** **ID-Sparinvest, Filial af Sparinvest S.A., Luxembourg**, are committed to maintaining appropriate arrangements to identify, manage and mitigate actual and potential conflicts of interest with the objective of ensuring that our clients and shareholders are not adversely affected.

It is our duty to act in the best interests of our shareholders and clients in the conduct of our investment business, including when engaging with investee companies and exercising our rights as shareholders. We maintain a detailed **Conflicts of Interest Policy** that applies to conflicts of interest that may arise anywhere within Sparinvest Group as a result of any Sparinvest Group entities' organizational structure, ownership and business activities. The policy document is available in both English and Danish.

Link to English version:

<http://www.sparinvest.lu/about%20us/governance.aspx>

☐ No

## Objectives and strategies

SG 05	Mandatory	Public	Gateway/Core Assessed	General
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<b>SG 05.1</b>	Indicate if and how frequently your organisation sets and reviews objectives for its responsible investment activities.
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- ☒ Quarterly or more frequently
- ☐ Biannually
- ☐ Annually
- ☐ Less frequently than annually
- ☐ Ad-hoc basis
- ☐ It is not set/reviewed

**SG 05.2****Additional information. [Optional]**

How RI goals are set/measured:

Formed in Q3 2014, Sparinvest's Responsible Investment Committee meets 6 times per year and drives the development and implementation of responsible investment practices at Sparinvest. The focus of this Committee is to:

- Continuously monitor and review RI Policy and processes and look for any improvements that can be made;
- Formally establish the RI goals that will ensure that the relevant RI strategy is adopted and understood throughout the organisation.

Formal RI goals are set at the beginning of the year. However, the objective of improving RI processes is ongoing and regularly discussed at RI Committee meetings. Action points are set and followed up in subsequent meetings.

The Committee 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 as well a representative from our client-facing distribution team. The meetings are also attended in a non-voting capacity by other interested parties, including two ESG assistants and an analyst. As and when industry developments require it, external RI experts may be invited to Committee meetings to help inform RI policy decisions.

The Head of RI reports to Sparinvest's Investment Committee on RI matters and is asked to give a formal progress report twice per year. Once per year the Head of RI will appear before the Board of Sparinvest to give an update on Group progress towards achieving RI goals.

## Governance and human resources

**SG 07****Mandatory****Public****Core Assessed****General****SG 07.1**

Indicate the roles present in your organisation and for each, indicate whether they have oversight and/or implementation responsibilities for responsible investment.



## Roles present in your organisation

- ☒ Board members or trustees
  - ☒ Oversight/accountability for responsible investment
  - ☐ Implementation of responsible investment
  - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☒ Chief Executive Officer (CEO), Chief Investment Officer (CIO), Investment Committee
  - ☒ Oversight/accountability for responsible investment
  - ☐ Implementation of responsible investment
  - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☐ Other Chief-level staff or head of department, specify
- ☒ Portfolio managers
  - ☒ Oversight/accountability for responsible investment
  - ☒ Implementation of responsible investment
  - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☐ ESG portfolio manager
- ☒ Investment analysts
  - ☐ Oversight/accountability for responsible investment
  - ☒ Implementation of responsible investment
  - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☒ Dedicated responsible investment staff
  - ☒ Oversight/accountability for responsible investment
  - ☒ Implementation of responsible investment
  - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☒ External managers or service providers
  - ☐ Oversight/accountability for responsible investment
  - ☒ Implementation of responsible investment
  - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☐ Investor relations
- ☒ Other role, specify (1)

## Other description (1)

### Middle Office

- ☒ Oversight/accountability for responsible investment
- ☒ Implementation of responsible investment
- ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☐ Other role, specify (2)

## SG 07.2

For the roles for which you have RI oversight/accountability or implementation responsibilities, indicate how you execute these responsibilities.

- Board Members/ trustees: Oversight gained via annual reporting at Board meeting by Head of RI
- CEO/CIO/Investment Committee: Oversight gained via monthly reporting at Investment Committee meetings by Head of RI or other member of Responsible Investment Committee.

- Portfolio Managers and Investment Analysts: All responsible for ESG analysis in investment process. Individual equity managers are assigned Active Ownership responsibilities
- Portfolio Manager: Title: RI Committee Deputy CIO: Oversight of RI policy implementation by Asset Management teams. Additionally involved with shaping RI policy/strategy as part of Responsible Investment Committee
- Portfolio Manager: Title: RI Committee representative (Equities): Responsible for ensuring that RI policy is adhered to by Equity team. Additionally involved with shaping RI policy/strategy as part of Responsible Investment Committee
- Portfolio Manager: Title: RI Committee representative (Quant and Passive funds): Responsible for ensuring that RI policy is adhered to by Quant and Passive team. Additionally involved with shaping RI policy/strategy as part of Responsible Investment Committee
- Portfolio Manager: Title: RI Committee representative (Fixed Income): Responsible for ensuring that RI policy is adhered to. Additionally involved with shaping RI policy/strategy as part of Responsible Investment Committee
- Dedicated RI Staff: Head of RI: Chairs RI Committee which drives the development and implementation of RI Policy, Reports to Investment Committee on RI matters. Supervises implementation of RI Policy across different asset classes and is responsible for internal RI education.
- Two ESG assistants and one Fixed Income Analyst: Assist PM with RI operations and attend the RI Committee meetings
- Head of Middle Office, in conjunction with Reporting and Portfolio Analysis department, maintain exclusionary watch lists to ensure funds abide by RI Policy.

External Service Providers: Charged with implementing voting on instruction plus collaborative dialogue.

<b>SG 07.3</b>	Indicate the number of dedicated responsible investment staff your organisation has.
----------------	--

	Number
--	--------

1

<b>SG 07.4</b>	Additional information. [Optional]
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Whilst only one member of staff is full-time dedicated to Responsible Investment, all of our investment strategies are responsible which means that RI is an integral part of the role of our Portfolio Managers and analysts. In particular, it is the investment teams running our actively managed fundamental equity and bond strategies that dedicate considerable time to RI implementation - namely the integration of ESG in the investment process, voting (for equities) and stewardship activities.

The Head of Responsible Investment is charged with ensuring that ESG issues are incorporated into investment policy, ensuring that investment strategies adhere to policy, maintaining oversight of engagement and voting activities, reporting to investors and engagement at a supra-company level.

Your responses to this indicator will be used to determine if you meet the minimum requirements of being a PRI signatory introduced for the first time in 2018. Signatories have until 2020 to meet these requirements.

You can find out more information on the PRI website.

There are two minimum requirements for this indicator SG 07.1:

- A role implementing responsible investment: Individuals with implementation roles are those charged with implementing specific aspects of the organisation's responsible investment practices, for example, conducting ESG-related research, incorporating ESG issues into investment strategies, voting shareholdings, engaging with companies and policy makers;

- This can be an internal staff or an external role;
- They do not have to be a dedicated RI/ESG investment staff (captured in 07.3); and
- They do not have to be allocating the majority of their time to RI/ESG activities.
- 
- Senior level oversight and accountability for RI implementation: Individuals with oversight roles are those with management or governance responsibility for ensuring that the organisation implements its policies, and achieves its objectives and targets in relation to responsible investment performance; and
- "Senior level" includes the roles: Chief level staff, head of department, CEO, CIO, Investment Committee and Board members or trustees.
- 

If you have any questions or need support please contact [reporting@unpri.org](mailto:reporting@unpri.org) or call on + 44 (0) 203 714 3187.

## Promoting responsible investment

SG 09	Mandatory	Public	Core Assessed	PRI 4,5
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**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

<b>SG 09.1</b>	Select the collaborative organisation and/or initiatives of which your organisation is a member or in which it participated during the reporting year, and the role you played.
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### Select all that apply

☒ Principles for Responsible Investment

	Your organisation's role in the initiative during the reporting period (see definitions)
--	--

- ☐ Basic
- ☐ Moderate
- ☒ Advanced

	Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]
--	--

Sparinvest acted as joint leading investor in a collaborative engagement on Human Rights in the Extractive Industries, facilitated by PRI. This initiative ended in Q3 2017.

During 2017, Sparinvest signed up to the following UN PRI collaborative engagements:

- Cyber security (as lead investor with two companies)
- Climate Action 100+ (dialogue partner still to be assigned)
- PRI-Ceres engagement on deforestation in cattle supply chains (supporting role only)
- Sparinvest is part of the Investor Working Group of the Sustainable Stock Exchanges Initiative.
- Sparinvest's 3 ethical funds have committed to the Montreal Carbon Pledge.

- ☐ Asian Corporate Governance Association
- ☐ Australian Council of Superannuation Investors
- ☐ AFIC – La Commission ESG
- ☐ BVCA – Responsible Investment Advisory Board
- ☐ CDP Climate Change
- ☐ CDP Forests
- ☐ CDP Water
- ☐ CFA Institute Centre for Financial Market Integrity
- ☐ Code for Responsible Investment in SA (CRISA)
- ☐ Code for Responsible Finance in the 21st Century
- ☐ Council of Institutional Investors (CII)
- ☐ Eumedion
- ☐ Extractive Industries Transparency Initiative (EITI)
- ☐ ESG Research Australia
- ☐ EVCA – Responsible Investment Roundtable
- ☐ Global Investors Governance Network (GIGN)
- ☐ Global Impact Investing Network (GIIN)
- ☐ Global Real Estate Sustainability Benchmark (GRESB)
- ☐ Green Bond Principles
- ☐ Institutional Investors Group on Climate Change (IIGCC)
- ☐ Interfaith Center on Corporate Responsibility (ICCR)
- ☒ International Corporate Governance Network (ICGN)

Your organisation's role in the initiative during the reporting period (see definitions)

- ☒ Basic
- ☐ Moderate
- ☐ Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative.  
[Optional]

ICGN seeks to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide. Two of our Portfolio Managers are members of ICGN and regularly attend events in order to keep abreast of latest developments in corporate governance and stewardship matters.

- ☐ Investor Group on Climate Change, Australia/New Zealand (IGCC)
- ☒ International Integrated Reporting Council (IIRC)

Your organisation's role in the initiative during the reporting period (see definitions)

- ☒ Basic
- ☐ Moderate
- ☐ Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

We are supporters and signatories of the IIRC Investor Statement (<https://integratedreporting.org/resource/investor-statement/>) in confirmation of the fact that we value integrated reporting and use it in our investment analysis.

- ☐ Investor Network on Climate Risk (INCR)/CERES
- ☐ Local Authority Pension Fund Forum
- ☐ Principles for Sustainable Insurance
- ☒ Regional or National Social Investment Forums (e.g. UKSIF, Eurosif, ASRIA, RIAA), specify Eurosif

Your organisation's role in the initiative during the reporting period (see definitions)

- ☐ Basic
- ☐ Moderate
- ☒ Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

Sparinvest has been a member of Eurosif since 2010, and is currently a corporate Individual Member. Sparinvest also holds a position in the following Eurosif Working Groups: The Eurosif Stakeholder Working Group, the European Transparency Label Working Group and the European SRI study Working Group.

During 2017, Sparinvest was actively involved in Eurosif's redrafting of the European Transparency Label questionnaire to reflect the requirements of France's Energy Transition Law.

- ☐ Responsible Finance Principles in Inclusive Finance
- ☐ Shareholder Association for Research and Education (Share)
- ☐ United Nations Environmental Program Finance Initiative (UNEP FI)
- ☐ United Nations Global Compact
- ☒ Other collaborative organisation/initiative, specify Association of the Luxembourg Funds Industry (ALFI)

Your organisation's role in the initiative during the reporting year (see definitions)

- ☐ Basic
- ☐ Moderate
- ☒ Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative.  
[Optional]

Sparinvest's Head of Responsible Investment is also a member of ALFI Responsible Investment Committee. The aim of this group is to promote the development of Responsible Investment funds in Luxembourg and elsewhere. In February 2017, Sparinvest participated in the ALFI Amsterdam roadshow as speaker in a panel discussion on the topic of 'Responsible Investing: the time is now!'

(RI experts will discuss ESG techniques and trends as well as climate finance and impact investing.)

Another ALFI initiative is the Luxembourg Finance Labelling Agency (LuxFLAG) which is designed to identify funds that have high ESG standards. In 2017, Sparinvest - Ethical Global Value and Sparinvest - Ethical Emerging Markets were re-awarded the LuxFLAG ESG label.

<http://www.alfi.lu/>

☒ Other collaborative organisation/initiative, specify

DANSIF

Your organisation's role in the initiative during the reporting year (see definitions)

- ☐ Basic  
☐ Moderate  
☒ Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative.  
[Optional]

Member of DANSIF. We participate in 3-4 meetings a year.

☒ Other collaborative organisation/initiative, specify

CSR Europe

Your organisation's role in the initiative during the reporting year (see definitions)

- ☐ Basic  
☐ Moderate  
☒ Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative.  
[Optional]

CSR Europe is the European Business Network for Corporate Social Responsibility. <https://www.csreurope.org/>. During 2017, Sparinvest participated in two workshops organised by CSR Europe for its member companies, both on the subject of integrated reporting.

☐ Other collaborative organisation/initiative, specify

SG 10

Mandatory

Public

Core Assessed

PRI 4

**SG 10.1**

Indicate if your organisation promotes responsible investment, independently of collaborative initiatives.

☒ Yes

**SG 10.2**

Indicate the actions your organisation has taken to promote responsible investment independently of collaborative initiatives. Provide a description of your role in contributing to the objectives of the selected action and the typical frequency of your participation/contribution.

☒ Provided or supported education or training programmes (this includes peer to peer RI support) Your education or training may be for clients, investment managers, actuaries, broker/dealers, investment consultants, legal advisers etc.)

#### Description

Sparinvest ran a day-long Responsible Investment Seminar for its entire asset management team to educate them about latest developments and thinking from the RI industry and regulators. We examined how these would impact on Sparinvest's RI policy development and, consequently, investment products.

#### Frequency of contribution

- ☐ Quarterly or more frequently
- ☐ Biannually
- ☒ Annually
- ☐ Less frequently than annually
- ☐ Ad hoc
- ☐ Other

☐ Provided financial support for academic or industry research on responsible investment

☐ Provided input and/or collaborated with academia on RI related work

☒ Encouraged better transparency and disclosure of responsible investment practices across the investment industry

#### Description

In February and November 2017, Sparinvest participated in workshops in Brussels run by CSR Europe, the European Business Network for Corporate Social Responsibility. The aim of both was to encourage ESG transparency through integrated reporting. The first workshop was titled the 'Hitachi Stakeholder Dialogue – The Future of Integrated Reporting'. Several listed companies were present to share their experience with the "Integrated Reporting" implementation process. Hitachi presented its first integrated report and requested feedback - which Sparinvest subsequently provided. The second workshop was on the topic 'Integrate sustainability in your company'. The intention was to help CSR/Sustainability managers to convince other departments in their organisations about the importance of integrated reporting to investors. Sparinvest participated as an investment group that uses integrated reporting in its investment analysis whenever possible. Subsequently, Sparinvest was invited by IIRC to sign its Investor Statement to confirm that institutional investors value integrated reporting.

Frequency of contribution
---------------------------

- ☐ Quarterly or more frequently
  - ☒ Biannually
  - ☐ Annually
  - ☐ Less frequently than annually
  - ☐ Ad hoc
  - ☐ Other
- ☒ Spoke publicly at events and conferences to promote responsible investment

Description
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In addition to the two CSR Europe workshops mentioned above, Sparinvest also spoke on the topic of 'Responsible Investing: the time is now!' at the ALFI Amsterdam Roadshow in February 2017.

Frequency of contribution
---------------------------

- ☐ Quarterly or more frequently
  - ☐ Biannually
  - ☐ Annually
  - ☐ Less frequently than annually
  - ☒ Ad hoc
  - ☐ Other
- ☐ Wrote and published in-house research papers on responsible investment
- ☐ Encouraged the adoption of the PRI
- ☐ Responded to RI related consultations by non-governmental organisations (OECD, FSB etc.)
- ☐ Wrote and published articles on responsible investment in the media
- ☒ A member of PRI advisory committees/ working groups, specify

Description
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Sparinvest is an active participant in the Investor Working Group within the PRI's Sustainable Stock Exchanges Initiative. During 2017 we provided input into what we thought should be the next stage of the SSE's work – especially in support of shareholder rights.



	Frequency of contribution
--	---------------------------

- ☒ Quarterly or more frequently
- ☐ Biannually
- ☐ Annually
- ☐ Less frequently than annually
- ☐ Ad hoc
- ☐ Other
- ☐ On the Board of, or officially advising, other RI organisations (e.g. local SIFs)
- ☐ Other, specify
- ☐ No

<b>SG 10.3</b>	Describe any additional actions and initiatives that your organisation has taken part in during the reporting year to promote responsible investment [Optional]
----------------	---

On Feb 17th 2017, Sparinvest attended the 'Ring the Bell for Gender Equality' event at the London Stock Exchange and subsequently gave feedback on the event to its SSE dialogue partner stock exchange in the hope that they will hold their own bellringing event in future.

## Outsourcing to fiduciary managers and investment consultants

<b>SG 12</b>	<b>Mandatory</b>	<b>Public</b>	<b>Core Assessed</b>	<b>PRI 4</b>
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**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

<b>SG 12.1</b>	Indicate whether your organisation uses investment consultants.
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- ☐ Yes, we use investment consultants
- ☒ No, we do not use investment consultants.

## ESG issues in asset allocation

<b>SG 13</b>	<b>Mandatory</b>	<b>Public</b>	<b>Descriptive</b>	<b>PRI 1</b>
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**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

<b>SG 13.1</b>	Indicate if your organisation executes scenario analysis and/or modelling in which the risk profile of future ESG trends at portfolio level is calculated.
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- ☐ We execute scenario analysis which includes factors representing the investment impacts of future environmental trends
- ☐ We execute scenario analysis which includes factors representing the investment impacts of future social trends
- ☐ We execute scenario analysis which includes factors representing the investment impacts of future governance trends
- ☐ We consider scenario analysis that includes factors representing the investment impacts of future climate-related risks and opportunities
- ☐ We execute other scenario analysis, specify
- ☒ We do not execute such scenario analysis and/or modelling

<b>SG 13.3</b>	Additional information. [OPTIONAL]
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We do not incorporate ESG issues in strategic asset allocation. Our active equity fund exposures are driven by a bottom-up stock selection process. However, the practical reality is that in different geographic markets we will see certain ESG trends or characteristics which may have an impact on our allocation to that market. An example would be Russia, which ranks poorly in World Governance Indicators and where ESG scores for individual companies tend to be relatively low: there is often concern over governance risk, and poor environmental track records at various companies. In combination, ESG risks are one key reason for the extremely low valuations at which the Russian market typically trades, and low valuations are typically attractions for a value investor. Consideration of governance, demographics, and other ESG factors are inherently part of our consideration of the appropriate country risk premium.

## Asset class implementation not reported in other modules

<b>SG 16</b>	<b>Mandatory</b>	<b>Public</b>	<b>Descriptive</b>	<b>General</b>
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<b>Asset Class</b>	<b>Describe what processes are in place and the outputs or outcomes achieved</b>
Cash	Sparinvest's year end AUM shows a 2% cash holding. Sparinvest's cash is held by two custodian banks both of which operate in highly regulated countries (Luxembourg and Denmark). In order to monitor these institutions' compliance with international norms, we have run a norms-based screening which revealed no reported incidents. We will continue to monitor these institutions.

## Innovation

<b>SG 18</b>	<b>Voluntary</b>	<b>Public</b>	<b>Descriptive</b>	<b>General</b>
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<b>SG 18.1</b>	Indicate whether any specific features of your approach to responsible investment are particularly innovative.
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☐ Yes

**SG 18.2**

Describe any specific features of your approach to responsible investment that you believe are particularly innovative.

- The degree to which our responsible investment approach is embedded with the relevant portfolio management teams. PMs and analysts are directly involved in ESG research and assessment before new investments, in engagement with companies, and in making decisions on proxy voting and communicating with companies regarding that voting.
- The degree to which responsible investment principles are integrated across asset classes, including corporate bonds.

The response to this indicator could relate to any aspects of your responsible investment processes, activities, outputs or outcomes that you consider to represent significant developments and progress in the practice of responsible investment in general or in a particular market or asset class.

Illustrative examples include:

- the introduction of longer holding periods (or portfolio turnover limits) to encourage longer-term thinking;
- new ways of delivering information or reports to clients;
- the development of innovative KPIs or performance measurement tools (e.g., to track the carbon intensity or other ESG characteristics of portfolios or to link these to financial performance);
- the use of new engagement approaches that deliver better ESG or financial outcomes; and/or
- new partnerships or collaborations.

☐ No

## Communication

**SG 19**

**Mandatory**

**Public**

**Core Assessed**

**PRI 6**

**SG 19.1**

Indicate whether your organisation proactively discloses asset class specific information. Select the frequency of the disclosure to clients/beneficiaries and the public, and provide a URL to the public information.

Fixed income

- ☐ We do not disclose to either clients/beneficiaries or the public.
- ☐ We disclose to clients/beneficiaries only.
- ☒ We disclose to the public

The information disclosed to clients/beneficiaries is the same

- ☒ Yes
- ☐ No

<b>Disclosure to public and URL</b>	
	<div>Disclosure to public and URL</div> <div> <input type="radio"/> Broad approach to RI incorporation  <input checked="" type="radio"/> Detailed explanation of RI incorporation strategy used         </div>
	<div>Frequency</div> <div> <input checked="" type="checkbox"/> Quarterly  <input type="checkbox"/> Biannually  <input type="checkbox"/> Annually  <input type="checkbox"/> Less frequently than annually  <input type="checkbox"/> Ad hoc/when requested         </div>
	<div>URL</div> <div> <a href="http://www.sparinvest.lu/library/download.aspx">http://www.sparinvest.lu/library/download.aspx</a> </div>

	<b>Listed equity - Engagement</b>
	<div> <input type="radio"/> We do not disclose to either clients/beneficiaries or the public.  <input type="radio"/> We disclose to clients/beneficiaries only.  <input checked="" type="radio"/> We disclose to the public         </div>
	<div>The information disclosed to clients/beneficiaries is the same</div> <div> <input checked="" type="radio"/> Yes  <input type="radio"/> No         </div>

<b>Disclosure to public and URL</b>	
	<div>Disclosure to public and URL</div> <div> <input type="checkbox"/> Details on the overall engagement strategy  <input checked="" type="checkbox"/> Details on the selection of engagement cases and definition of objectives of the selections, priorities and specific goals  <input checked="" type="checkbox"/> Number of engagements undertaken  <input checked="" type="checkbox"/> Breakdown of engagements by type/topic  <input type="checkbox"/> Breakdown of engagements by region  <input checked="" type="checkbox"/> An assessment of the current status of the progress achieved and outcomes against defined objectives  <input checked="" type="checkbox"/> Examples of engagement cases  <input type="checkbox"/> Details on eventual escalation strategy taken after the initial dialogue has been unsuccessful (i.e. filing resolutions, issuing a statement, voting against management, divestment etc.)  <input type="checkbox"/> Details on whether the provided information has been externally assured  <input checked="" type="checkbox"/> Outcomes that have been achieved from the engagement  <input type="checkbox"/> Other information </div>
	<div>Frequency</div> <div> <input type="checkbox"/> Quarterly or more frequently  <input checked="" type="checkbox"/> Biannually  <input type="checkbox"/> Annually  <input type="checkbox"/> Less frequently than annually  <input type="checkbox"/> Ad-hoc/when requested </div>
	<div>URL</div> <div> <a href="http://www.sparinvest.lu/~media/international/downloads/ri/q12017_ri_review.ashx">http://www.sparinvest.lu/~media/international/downloads/ri/q12017_ri_review.ashx</a> </div> <div>URL</div> <div> <a href="http://www.sparinvest.lu/~media/international/downloads/ri/q22017_ri_review.ashx">http://www.sparinvest.lu/~media/international/downloads/ri/q22017_ri_review.ashx</a> </div>

	<b>Listed equity – (Proxy) Voting</b>
	<input type="radio"/> We do not disclose to either clients/beneficiaries or the public. <input type="radio"/> We disclose to clients/beneficiaries only. <input checked="" type="radio"/> We disclose to the public

The information disclosed to clients/beneficiaries is the same

☒ Yes

☐ No

#### Disclosure to public and URL

##### Disclosure to public and URL

- ☐ Explain all voting decisions
- ☐ Explain some voting decisions
- ☐ Only explain abstentions and votes against management
- ☒ No explanations provided

##### Frequency

- ☒ Quarterly
- ☐ Biannually
- ☐ Annually
- ☐ Less frequently than annually
- ☐ Ad hoc/when requested

##### URL

<http://www.sparinvest.lu/strategies%20and%20solutions/stewardship.aspx>

#### Listed equity - Incorporation

- ☐ We do not proactively disclose it to the public and/or clients/beneficiaries
- ☐ We disclose to clients/beneficiaries only.
- ☒ We disclose it publicly

The information disclosed to clients/beneficiaries is the same

☒ Yes

☐ No

<b>Disclosure to public and URL</b>	
	Disclosure to public and URL <input checked="" type="radio"/> Broad approach to ESG incorporation <input type="radio"/> Detailed explanation of ESG incorporation strategy used
	Frequency <input checked="" type="checkbox"/> Quarterly or more frequently <input type="checkbox"/> Biannually <input type="checkbox"/> Annually <input type="checkbox"/> Less frequently than annually <input type="checkbox"/> Ad-hoc/when requested
	URL <a href="http://www.sparinvest.lu/strategies%20and%20solutions/responsible%20investing.aspx">http://www.sparinvest.lu/strategies%20and%20solutions/responsible%20investing.aspx</a>

## ESG incorporation in actively managed listed equities

### Implementation processes

LEI 01	Mandatory	Public	Core Assessed	PRI 1
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**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

<b>LEI 01.1</b>	Indicate (1) which ESG incorporation strategy and/or combination of strategies you apply to your actively managed listed equities and (2) the breakdown of your actively managed listed equities by strategy or combination of strategies (+/- 5%)
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#### ESG incorporation strategy (select all that apply)

- ☐ Screening alone (i.e. not combined with any other strategies)
- ☐ Thematic alone (i.e. not combined with any other strategies)
- ☐ Integration alone (i.e. not combined with any other strategies)
- ☒ Screening and integration strategies

Percentage of active listed equity to which the strategy is applied	<div data-bbox="722 226 1401 286" style="background-color: #0070C0; color: white; padding: 5px; display: flex; align-items: center;"> <div style="width: 100px; height: 20px; background-color: white; margin-right: 10px;"></div> <span>%</span> </div> <div data-bbox="722 302 762 331">100</div>
---	---

- ☐ Thematic and integration strategies
- ☐ Screening and thematic strategies
- ☐ All three strategies combined
- ☐ We do not apply incorporation strategies

## Total actively managed listed equities

100%

## LEI 01.2 Describe your organisation's approach to incorporation and the reasons for choosing the particular ESG incorporation strategy/strategies.

Our actively managed equity fund range includes active fundamental stock-selecting funds and active quantitative funds.

**ALL FUNDS:** All Sparinvest funds apply an exclusionary screen for controversial weapons and securities subject to EU sanctions. All funds are screened on a regular basis to check for breaches of global norms relating to environmental, social and governance issues. This analysis aims to identify breaches of international initiatives and guidelines such as: UN Global Compact Principles, The UN Guiding Principles on Business and Human Rights, International Labour Organisation Conventions, United Nations Convention Against Corruption, OECD Guidelines for Multinational Enterprises and the Paris Climate Accord. This screening is conducted for the purpose of highlighting investments that may need to be included in engagement activities or divested - either for reasons of value destruction or ethical policy requirements.

**ACTIVE FUNDAMENTAL FUNDS:** In our active fundamental funds, our aim is to understand the long-term intrinsic value of company, and any risks to that value. We aim to assess the downside risk before the upside potential. Risks and opportunities that may impact a company in the short or long-term are considered highly relevant to our analysis, and this includes many environmental, social and governance issues. As such, we integrate ESG considerations into our security analysis, alongside other fundamental factors. We also engage with companies as deemed appropriate (see separate section on engagement).

In addition, certain of our equity funds (labelled 'Ethical') use a negative screen to exclude companies. The exclusionary criteria for these funds result from ongoing consultation with clients, but are broadly categorised as norm-based and sector-based criteria:

- Norm-based screen for violations of global norms: environmental protection, human rights, labour standards and anti-corruption.
- Sector-based screen for companies with certain exposures to sectors such as: alcohol, tobacco, gambling, pornography, weapons and thermal coal& oil sands.

**ACTIVE QUANTITATIVE FUNDS:** With our quantitative funds, there is an aim that the portfolio's ESG score gradually improves over time, so that at rebalancing quantitative ESG information is integrated into portfolio construction decisions on a ceteris paribus basis. We apply active ownership (Principle 2) to these funds, specifically proxy voting on holdings of EUR1 million+ and service provider engagement.

May include a discussion of the following:

- The main ESG strategies in use, and the motivation for its use.
- Who is responsible for the implementation of these strategies.
- How your ESG incorporation strategies differ (e.g. by sector, geography, etc.).
- If relevant, how combinations of strategies are used.



**LEI 01.3**

If assets are managed using a combination of ESG incorporation strategies, briefly describe how these combinations are used. [Optional]

As noted above in 01.2, ESG risk factors are integrated into our investment process and investment decisions, across all active equity funds. This extends to ongoing monitoring of existing holdings, exercise of proxy voting, and engagement with holdings, and supra-holding engagements. We use certain external service providers for ESG research and proxy voting advice, while ultimate decisions are made internally.

- All funds are subject to the controversial weapons and EU sanctions exclusionary screen.
- All funds are subject to a regular advisory norms-based screen and Portfolio Managers receive alerts regarding controversies and breaches as they occur.
- Funds labelled 'Ethical' have both norms and sector-based exclusions, as detailed in 01.2.

Note that negative results from these screens may result in a company being excluded from our Ethical funds, but not excluded from other active funds. Where the exclusion is based on normative issues, we choose to engage with the company in order to seek improvement and the prevention of recurrence.

Research for these weapons, norms and sector screens is provided by an external service provider, ISS-Ethix. We find that the research provided by ISS-Ethix in this regard has useful crossover application in our ESG integration strategy.

## (A) Implementation: Screening

**LEI 04****Mandatory****Public****Descriptive****PRI 1****LEI 04.1**

Indicate and describe the type of screening you apply to your internally managed active listed equities.

**Type of screening**

- ☒ Negative/exclusionary screening

**Screened by**

- ☒ Product
- ☒ Activity
- ☒ Sector
- ☐ Country/geographic region
- ☒ Environmental and social practices and performance
- ☒ Corporate governance

Description
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<p>Across all funds, we exclude companies involved in controversial weapons and securities in breach of EU sanctions. (On occasion, certain sanctions may have the effect of excluding specific countries, but we have no direct country exclusion screens ourselves).</p>
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<p>Across all funds we operate a norms-based screening procedure which is used to inform decisions regarding engagement, position size or divestment</p>
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<p>In addition, we provide certain funds which add an additional focus on "Ethical Investment", which is based on negative screening to exclude companies from the investment universe or investment shortlist, on certain specific grounds. These equity funds are easily identified by the label "Ethical" within the fund name, and are primarily used to meet client needs. The exclusionary criteria for these</p>
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funds result from ongoing consultation with clients, but are broadly categorised as norm-based and sector-based criteria:

- A norm-based screen for violations of global norms: environmental protection, human rights, labour standards and anti-corruption.
- A sector-based screen for companies operating within sectors such as: alcohol, tobacco, gambling, pornography, weapons, thermal coal and oil sands.

(In the above checklist, we reflect this latter sector-based screen as "Product", "Activity" and "Sector". Note that we do not have any broad GICS sector-level exclusions).

Describe which ESG screens are used, for which funds and whether they are used in combination with other screens.

☐ Positive/best-in-class screening

☒ Norms-based screening

#### Screened by

- ☒ UN Global Compact Principles
- ☒ The UN Guiding Principles on Business and Human Rights
- ☒ International Labour Organization Conventions
- ☒ United Nations Convention Against Corruption
- ☒ OECD Guidelines for Multinational Enterprises
- ☒ Other, specify

Paris Agreement on Climate Change

	Description
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Note that our Norm-Based screening is a negative exclusionary screen, as detailed above. It assesses companies' adherence to international norms for human rights, the environment, labor standards and anti-corruption. It adheres to the UN Global Compact Principles.

#### LEI 04.2

Describe how the screening criteria are established, how often the criteria are reviewed and how you notify clients and/or beneficiaries when changes are made.

A key role of the RI Committee is to be aware of potentially relevant new screening requirements. Any potential review to screening criteria is informed by ongoing consultation with clients, other industry participants and general industry trends.

Clients are notified of changes via both direct communication such as presentations or coverage in our Responsible Investment Review, and via our website.

LEI 05	Mandatory	Public	Core Assessed	PRI 1
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**LEI 05.1**

Indicate which processes your organisation uses to ensure screening is based on robust analysis.

- ☒ Comprehensive ESG research is undertaken or sourced to determine companies' activities and products.
- ☒ Companies are given the opportunity by you or your research provider to review ESG research on them and correct inaccuracies
- ☐ External research and data used to identify companies to be excluded/included is subject to internal audit by ESG/RI staff, the internal audit function or similar
- ☒ Third-party ESG ratings are updated regularly to ensure that portfolio holdings comply with fund policies.
- ☐ A committee or body with representatives independent of the individuals who conduct company research reviews some or all screening decisions
- ☒ A periodic review of the quality of the research undertaken or provided is carried out
- ☒ Review and evaluation of external research providers
- ☐ Other, specify
- ☐ None of the above

**LEI 05.2**

Indicate the proportion of your actively managed listed equity portfolio that is subject to comprehensive ESG research as part your ESG screening strategy.

- ☐ <10%
- ☐ 10-50%
- ☒ 51-90%
- ☐ >90%

**LEI 05.3**

Indicate how frequently third party ESG ratings are updated for screening purposes.

- ☒ Quarterly or more frequently
- ☐ Bi-annually
- ☐ Annually
- ☐ Less frequently than annually

**LEI 05.4**

Indicate how frequently you review internal research that builds your ESG screens.

- ☒ Quarterly or more frequently
- ☐ Bi-annually
- ☐ Annually
- ☐ Less frequently than annually

**LEI 05.5**

Additional information. [Optional]

Normative and sector-based screens are researched and implemented by an external service provider (ISS-Ethix). Internal staff, including both dedicated RI staff and portfolio managers and analysts will review the analysis alongside their own findings based on information from the company in question. Where necessary, more detailed or up-to-date analysis will be requested from the service provider.

## (C) Implementation: Integration of ESG issues

LEI 08	Mandatory	Public	Core Assessed	PRI 1
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LEI 08.1

Indicate which ESG factors you systematically research as part of your investment analysis and the proportion of actively managed listed equity portfolios that is impacted by this analysis.

ESG issues	Proportion impacted by analysis
Environmental	<div> <div></div> <div>Environmental</div> </div> <p> <input type="radio"/> &lt;10%  <input type="radio"/> 10-50%  <input type="radio"/> 51-90%  <input checked="" type="radio"/> &gt;90%         </p>
Social	<div> <div></div> <div>Social</div> </div> <p> <input type="radio"/> &lt;10%  <input type="radio"/> 10-50%  <input type="radio"/> 51-90%  <input checked="" type="radio"/> &gt;90%         </p>
Corporate Governance	<div> <div></div> <div>Corporate Governance</div> </div> <p> <input type="radio"/> &lt;10%  <input type="radio"/> 10-50%  <input type="radio"/> 51-90%  <input checked="" type="radio"/> &gt;90%         </p>

## Engagement

## Overview

LEA 01	Mandatory	Public	Core Assessed	PRI 2
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New selection options have been added to this indicator. Please review your prefilled responses carefully.

LEA 01.1

Indicate whether your organisation has a formal engagement policy.

☒ Yes

**LEA 01.2**

Attach or provide a URL to your engagement policy.

☐ Attachment provided:☒ URL provided:

URL

<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20stewardship%20policy.ashx>**LEA 01.3**

Indicate what your engagement policy covers:

- ☒ Conflicts of interest
- ☒ Insider information
- ☒ Alignment with national stewardship code requirements
- ☒ Due diligence and monitoring process
- ☒ Prioritisation of engagements
- ☒ Transparency of engagement activities
- ☒ Environmental factors
- ☒ Social factors
- ☒ Governance factors
- ☐ Other, describe
- ☐ None of the above

**LEA 01.4**

Provide a brief overview of your organization's approach to engagement

Engagement at Sparinvest seeks to be a respectful and constructive dialogue with investee companies, focussed on cases where we see potential for meaningful impact on corporate value and sustainability. For actively managed fundamental funds, our engagements are typically direct, collaborative, or led by service providers. Combining these methods can be powerful. **Direct Engagement** is by members of our investment teams who can best contextualise issues within the overall investment case and corporate value. Triggers include:

- Specific ESG Risks or Opportunities: Based on materiality and the potential for meaningful change.
- Voting-related: Where agenda items are contentious or in breach of voting policy.
- Breach of International Norms: In conjunction with our Service Provider (see below)

**Collaborative Engagement** is typically via industry bodies such as the PRI. Our level of involvement is a function of our specific relationship with the target company and our available resources. **Service Provider Engagement** is selected where companies are alleged or confirmed to have breached normative principles, such as the UN Global Compact. We directly engage with affected holdings to indicate concern and encourage response. The aim is to seek deeper understanding and suggest any appropriate remedial actions and policy improvements.

For quant/passive funds, see Stewardship Policy

Guidance on this indicator available in Explanatory Notes.

☐ No

LEA 01.6	Additional information [optional]
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Stewardship can benefit companies, investors, and the economy as a whole. At Sparinvest we seek to foster the long-term value of our investments through our stewardship programme.

Sparinvest's stewardship activities are directed and monitored by the portfolio management teams and reviewed at meetings of the Responsible Investment Committee. The Head of Responsible Investment reports on these activities to Sparinvest's Investment Committee and to the Board of Sparinvest.

Our stewardship programme is shaped by our investment philosophy, which is one of long-term, prudent, and responsible investing. We offer a range of investment solutions, with funds and mandates covering a variety of asset classes and geographic regions.

Our range of equity funds includes not only our fundamental stock-picking funds, but also quantitative and index strategies. Our stewardship programme extends across all of these - with some variations - because we believe it can play a role both in enhancing long-term returns, and in fulfilling our role as responsible investors.

- Actively managed fundamental stock-picking funds. In strategies such as Global Value, European Value, and Emerging Markets Value, our investment team focusses on the fundamentally-driven selection of value stocks, which they typically hold for the long-term.
- Actively managed quantitative funds. These funds use a proprietary mathematical model to conduct computerized stock selection with the aim of extracting alpha from historically proven outperformance factors.
- Passively managed index funds. These funds invest with the intention of replicating the performance of their benchmark index.

Within actively-managed fundamental equity funds, we have long specialized in a value investment style. In strategies such as Global Value, European Value, and Emerging Markets Value, our investment team focusses on the fundamentally-driven selection of value stocks, which they typically hold for the long-term. From screening markets for potential investments, to fundamental analysis of individual securities, to building and monitoring their portfolios, our investment teams consider environmental, social and governance issues to be a key part of their considerations. This extends to their meetings with companies, internal discussions, and naturally, their voting and engagement activities. Our longer than average holding periods provide an opportunity to work with our holdings to help them identify and mitigate risks, and create value for investors over time.

Sparinvest also considers stewardship to be an important part of the management of its quantitative and index equity funds. These funds differ from our actively-managed fundamental strategies in two key ways. Firstly, in quant and index funds, the selection of stocks is based purely on mathematical models, and does not involve fundamental analysis of each company. Secondly, these funds tend to hold large numbers of securities. This means that the depth of ESG integration is limited, at least compared to our fundamental strategies. Nonetheless, quant and index funds are often long-term investors in equities, and we believe that stewardship can play a role both in enhancing long-term returns, and in fulfilling our role as responsible investors.

LEA 02	Mandatory	Public	Gateway	PRI 1,2,3
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LEA 02.1	Indicate the method of engagement, giving reasons for the interaction.
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Type of engagement	Reason for interaction
<b>Individual/Internal staff engagements</b>	<input checked="" type="checkbox"/> To influence corporate practice (or identify the need to influence) on ESG issues <input checked="" type="checkbox"/> To encourage improved/increased ESG disclosure <input checked="" type="checkbox"/> Other, specify To discuss voting related issues. <input type="checkbox"/> We do not engage via internal staff
<b>Collaborative engagements</b>	<input checked="" type="checkbox"/> To influence corporate practice (or identify the need to influence) on ESG issues <input checked="" type="checkbox"/> To encourage improved/increased ESG disclosure <input type="checkbox"/> Other, specify <input type="checkbox"/> We do not engage via collaborative engagements
<b>Service provider engagements</b>	<input checked="" type="checkbox"/> To influence corporate practice (or identify the need to influence) on ESG issues <input checked="" type="checkbox"/> To encourage improved/increased ESG disclosure <input type="checkbox"/> Other, specify <input type="checkbox"/> We do not engage via service providers

## LEA 02.2

Additional information. [Optional]

### Engagement (Actively Managed Fundamental Equities)

We believe in being engaged owners, and view equity investment through the lens not of owning a piece of paper, but of owning a long-term stake in a real company. We seek to foster the long-term value of our investments and to improve corporate behaviour, by being active owners in communication with our holdings. We do this through voting and engagement.

Naturally, as part of our investment analysis we aim to communicate with companies to bolster our understanding. Once we decide to invest, we typically contact new investments to explain our voting policy and investment philosophy. We take this opportunity to further stress our interest in ESG issues and raise certain questions (which may lead to more detailed engagement). We aim to continue dialogue with our holdings over the years. The ideal is to have a frank but constructive, two-way dialogue with our holdings, and we do not hesitate to give our views on key issues, whether short or long-term, "ESG" or otherwise.

However, we classify as 'engagements' those dialogues in which we have a specific goal. We take a practical and materiality-based approach: we focus on cases where we see potential for meaningful impact on corporate value and sustainability. Examples of triggers for engagement, and the methods used, are detailed below.

### How do we engage?

Our engagements are usually either direct, collaborative, or led by service providers. We often find it can be powerful to combine these methods. Generally, we seek to act as constructive partners to our investee companies, and this means we may also bring third parties into the dialogue - for example, liaising between the company and an NGO regarding best practice on the specific issue.

- **Direct engagements.** These are engagements run by Sparinvest alone, and implemented by members of our investment teams. We see it as a strength that our portfolio managers and analysts run the dialogue on ESG issues, as they are 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.
- **Collaborative engagements.** These are engagements where we join with other institutional investors via forums such as the PRI, to co-ordinate engagement on specific ESG themes. Often, we will assume the role of 'lead investor' where we run the dialogue with one company on behalf of various investors - while other investors lead the dialogue with other companies.

- **Service provider engagements.** In certain areas, where we believe a service provider's specialised knowledge provides an edge, we join collaborative engagements which are led by the service provider.

### Why do we engage?

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.
- **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-Ethix to screen our portfolios for companies which are alleged or confirmed to have breached international norms in human rights, labour rights, corruption, the environment, and the Paris Climate Accord. 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-Ethix. 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.

Engagement for quantitatively and passively managed funds

In Sparinvest's quantitative funds and passively managed index funds, the engagement focus is on normative issues. We use screening services provider ISS-Ethix to screen our portfolios for companies which are alleged or confirmed to have breached international norms in human rights, labour rights, corruption, the environment, and the Paris Climate Accord. Where such breaches are identified, we join collaborative engagements run by ISS-Ethix. This is a scalable and efficient approach, whereby their specialist knowledge of the issues is carried through into constructive dialogue with the companies, giving them ideas and targets for risk mitigation.

In leading collaborative engagements for Sparinvest and other institutional investors, ISS Ethix' represents combined AUM of USD 1.1 trn.

## Process

### Process for engagements run internally

LEA 03	Mandatory	Public	Core Assessed	PRI 2
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**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

**LEA 03.1**

Indicate whether your organisation has a formal process for identifying and prioritising engagement activities carried out by internal staff.

☒ Yes



**LEA 03.2**

Describe the criteria used to identify and prioritise engagement activities carried out by internal staff.

- ☐ Geography / market of the companies
- ☒ Materiality of ESG factors
- ☒ Systemic risks to global portfolios
- ☒ Exposure (holdings)
- ☒ In response to ESG impacts that have already occurred.
- ☐ As a response to divestment pressure
- ☐ Consultation with clients/beneficiaries
- ☐ Consultation with other stakeholders (i.e. NGOs, trade unions etc.)
- ☒ As a follow-up from a voting decision
- ☐ Client request
- ☒ Other, describe

other description

For efficacy, we may focus some engagements on specific themes/countries, where we see positive context for change (tailwinds of governance reform, etc)

☐ No

**LEA 03.3**

Additional information. [Optional]

We see engagement as an opportunity for positive and constructive dialogue between listed companies and their stakeholders, with the aim of enhancing long-term corporate value and sustainability. ESG risks, like any other, need to be tackled on a case-by-case basis, and are prioritised by the Portfolio Managers according to their potential for material impact on our investments.

Decisions to engage are thus taken within the investment team and discussed more formally at a quarterly stewardship meeting on voting and engagement matters, which is attended by the Head of Responsible Investment. The Responsible Investment Committee receives updates on engagements, and subsequently includes engagement topics in reporting to top management and the Sparinvest Board of Directors.

**LEA 04****Mandatory****Public****Core Assessed****PRI 2**

**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

**LEA 04.1**

Indicate if you define specific objectives for your engagement activities.

- ☒ Yes
  - ☒ Yes, for all engagement activities
  - ☐ Yes, for the majority of engagement activities
  - ☐ Yes, for a minority of engagement activities
- ☐ We do not define specific objectives for engagement activities carried out by internal staff.

**LEA 04.2**

Indicate if you monitor the actions that companies take during and following your engagements activities carried out by internal staff.

- ☒ Yes
- ☒ Yes, in all cases
  - ☐ Yes, in the majority of cases
  - ☐ Yes, in the minority of cases
- ☐ We do not monitor the actions that companies take following engagement activities carried out by internal staff.

**LEA 04.3**

Indicate if you do any of the following to monitor and evaluate the progress of your engagement activities carried out by internal staff.

- ☐ Define timelines for your objectives
- ☒ Tracking and/or monitoring progress against defined objectives
- ☒ Tracking and or monitoring progress of actions taken when original objectives are not met
- ☒ Revisit and, if necessary, revise objectives on continuous basis
- ☐ Other, please specify
- ☐ We do not monitor and evaluate progress of engagement activities carried out by internal staff

**LEA 04.4**

Additional information. [Optional]

Engagements are monitored and reviewed by the Responsible Investment Committee; a quarterly Stewardship Meeting on voting and engagement is attended by the RI Committee and members of the investment teams.

Of course, dialogue does not always progress to our satisfaction. In such cases, we consider why, whether it is appropriate to escalate, and if so, which method would be appropriate. We recognise that listed companies also face growing demands on their time and resources. Our aim is not to create an antagonistic situation, but rather, to foster a constructive environment for dialogue.

We recognise that each engagement and company has its own unique characteristics, and therefore the best way to proceed is considered on a case-by-case basis. Similar to the manner in which we initially select issues for engagement, we consider the materiality of the issue, the potential for impact, and an estimation of the resources required for the dialogue.

## Process for engagements conducted via collaborations

**LEA 05**

**Mandatory**

**Public**

**Core Assessed**

**PRI 2**

**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

**LEA 05.1**

Indicate whether your organisation has a formal process for identifying and prioritising collaborative engagements

- ☒ Yes

**LEA 05.2**

Describe the criteria used to identify and prioritise collaborative engagements.

- ☒ Potential to learn from other investors
  - ☒ Ability to add value to the collaboration
  - ☐ Geography / market of the companies targeted by the collaboration
  - ☒ Materiality of ESG factors addressed by the collaboration
  - ☒ Systemic risks to global portfolios addressed by the collaboration
  - ☒ Exposure (holdings) to companies targeted by the collaboration
  - ☐ In reaction to ESG impacts addressed by the collaboration that have already occurred.
  - ☐ As a response to divestment pressure
  - ☐ As a follow-up from a voting decision
  - ☐ Consultation with clients/beneficiaries
  - ☐ Consultation with other stakeholders (i.e. NGOs, trade unions etc.)
  - ☐ Other, describe
- ☐ No

**LEA 05.3**

Additional information [Optional]

**Thematic Collaborative Engagements**

Direct engagements are always prioritised on the basis of the potential for material impact on our investments, with due regard for the team resources available to conduct such engagements.

Similar thinking applies to our decisions to become involved in thematic collaborative engagements. In order to develop efficiencies within our process, the Responsible Investment Committee has gone through an exercise of shortlisting those ESG topics that we feel have the most potential for material impact on our investments - across equities and bonds - looking to find key areas of broad relevance.

Having identified these material topics, where resources allow, we join collaborations not just to effect change at individual holdings but to learn from other investors/industry experts and NGOs and to create processes for having impact at any holding where such issues might occur in future.

During 2017, we were involved in the final stages of the PRI collaborative engagement on Human Rights in the Extractive Industries. When this ended, we opted to join the PRI collaborative engagement on Cyber Security and the global collaborative engagement on Climate Action 100+.

**LEA 06****Mandatory****Public****Core Assessed****PRI 2**

**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

**LEA 06.1**

Indicate if you define specific objectives for your engagement activities carried out collaboratively.

- ☒ Yes
  - ☒ Yes, for all engagement activities
  - ☐ Yes, for the majority of engagement activities
  - ☐ Yes, for a minority of engagement activities
- ☐ We do not define specific objectives for engagement activities carried out collaboratively.

**LEA 06.2**

Indicate if you monitor the actions companies take during and following your collaborative engagements.

- ☒ Yes
  - ☒ Yes, in all cases
  - ☐ Yes, in the majority of cases
  - ☐ Yes, in the minority of cases
- ☐ We do not monitor the actions that companies take following engagement activities carried out collaboratively

**LEA 06.3**

Indicate if you do any of the following to monitor and evaluate the progress of your collaborative engagement activities.

- ☒ Define timelines for your objectives
- ☒ Tracking and/or monitoring progress against defined objectives
- ☒ Tracking and or monitoring progress of actions taken when original objectives are not met
- ☐ Revisit and, if necessary, revise objectives on continuous basis
- ☐ Other, please specify
- ☐ We do not monitor and evaluate progress of engagement activities carried out by internal staff

**LEA 06.4**

Additional information. [Optional]

Where we are involved in thematic collaborative engagements, we aim to apply the lessons learnt to future engagement activities. For example, our participation in the 2013-2015 PRI-coordinated engagement on anti-bribery and corruption has given us a very useful framework for assessing the ABC policies and disclosures (or lack thereof) that we see in other companies. We now use this ABC scoring system systematically before entering a governance related direct engagement.

May include a discussion of the following;

- How collaborative engagement objectives are defined.
- How progress of collaborative engagement activities are tracked, including how you monitor action taken by companies.
- How the decision to terminate or escalate a collaborative engagement programme or activity is made.
- How insights from collaborative engagement are incorporated into investment decision-making.
- How lessons learned are tracked and integrated into future engagement programmes.
- Any relevant examples.

## Process for engagements conducted with/on your behalf by service providers

LEA 07	Mandatory	Public	Core Assessed	PRI 2,4
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New selection options have been added to this indicator. Please review your prefilled responses carefully.

### LEA 07.1

Indicate if you play a role in the engagement process that your service provider conducts on your behalf.

☒ Yes

### LEA 07.2

Indicate the role(s) you play in engagements that your service provider conducts on your behalf.

- ☒ Discuss the topic (or ESG issue(s)) of engagement
- ☒ Discuss the rationale for engagement
- ☒ Discuss the objectives of the engagement
- ☐ Select the companies to be engaged with
- ☒ Discuss the frequency/intensity of interactions with companies
- ☒ Discuss next steps for engagement activity
- ☐ Participate directly in certain engagements with your service provider
- ☐ Other, specify
- ☐ We play no role in engagements that our service provider conducts.

☐ No

### LEA 07.3

Additional information. [Optional]

Our main route of service provider engagement is via ISS-Ethix, engaging with companies involved in normative breaches. At a general level we have input into the criteria which determine the companies to be engaged with. We also aim for internal staff engagement directly with holdings which are covered by this service provider engagement, often to encourage the company into a more constructive dialogue with the service provider. Sparinvest's investment professionals review the service provider's engagement activities on an ongoing basis and regularly have detailed exchanges with the service provider regarding specific engagements.

May include a discussion of the following:

- Your role in setting engagement/active ownership objectives.
- How you monitor/oversee service provider activities.
- Any joint engagement conducted with the service provider.

LEA 08	Mandatory	Public	Core Assessed	PRI 2,6
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### LEA 08.1

Do you monitor and review the outcomes of the engagement activities undertaken by your service providers on your behalf?

Please select all that apply

- ☒ Yes, periodically
- ☒ Yes, ad hoc basis
- ☐ We do not monitor or review them

#### LEA 08.2 Additional information. [Optional]

Our service provider publishes an annual report detailing the progress made as a result of the pooled engagement activity coordinated by them on our behalf.

In addition to this, we review the progress made by the service provider in norms-related engagement with our portfolio companies on an ad-hoc basis in order to inform the decision as to whether we should supplement their efforts with direct contact. It has often been the case that direct intervention by our Portfolio Managers has elicited a response both to us directly, and to the service provider which has improved understanding and moved the dialogue forward.

### General processes for all three groups of engagers

LEA 09	Mandatory	Public	Additional Assessed	PRI 1,2
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#### LEA 09.1 Indicate if insights gained from your engagements are shared with your internal or external investment managers.

Type of engagement	Insights shared
Individual/Internal staff engagements	<input checked="" type="radio"/> Yes, systematically <input type="radio"/> Yes, occasionally <input type="radio"/> No
Collaborative engagements	<input checked="" type="radio"/> Yes, systematically <input type="radio"/> Yes, occasionally <input type="radio"/> No
Service provider engagements	<input checked="" type="radio"/> Yes, systematically <input type="radio"/> Yes, occasionally <input type="radio"/> No

#### LEA 09.2 Additional information. [Optional]

The investment management teams are typically involved in all engagements. Internal staff engagements have direct portfolio manager or analyst involvement, as do collaborative engagements with holdings where Sparinvest acts in a leading role.

The Equity team has a quarterly Stewardship meeting at which progress of all engagements is discussed and future steps towards goals are planned. Engagements across asset classes are also discussed at Responsible Investment Committee meetings. This results in cooperation and idea-sharing between the teams. For example, the Fixed Income team now uses the ABC assessment framework developed by the equity team as a result of being part of the PRI collaboration on this topic.

During 2015-2017, Sparinvest acted as joint lead investor in the PRI collaboration targeting Human Rights in the Extractive Industries. This involved close cooperation with the external investment manager that was the

other joint lead. As with all PRI collaborations, there was also a regular quarterly reporting process for sharing information with all the asset managers supporting the initiative,

May include a discussion of the following:

- How you decide what information to pass to investment decision-makers.
- What you expect investment decision-makers to do with the insights you pass on.
- How you monitor their use of insights you passed on.
- Whether ESG data collected through engagement feeds into an internal ratings tool/platform.

LEA 10	Mandatory	Public	Gateway	PRI 2
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**LEA 10.1** Indicate if you track the number of your engagement activities.

Type of engagement	Tracking engagements
Individual / Internal staff engagements	<input checked="" type="radio"/> Yes, we track the number of our engagements in full <input type="radio"/> Yes, we partially track the number of our engagements <input type="radio"/> We do not track
Collaborative engagements	<input checked="" type="radio"/> Yes, we track the number of our engagements in full <input type="radio"/> Yes, we partially track the number of our engagements <input type="radio"/> We do not track and cannot estimate our engagements
Service provider engagements	<input checked="" type="radio"/> Yes, we track the number of our engagements in full <input type="radio"/> Yes, we partially track the number of our engagements <input type="radio"/> We do not track and cannot estimate our engagements

**LEA 10.2** Additional information. [OPTIONAL]

As mentioned before we have an engagement database where all engagement activities are tracked.

May include a discussion of the following:

- The systems in place to track engagement progress.
- A description of the information collected.
- How regularly tracking systems are updated and to whom this information is provided
- Any auditing procedures that occur.

**(Proxy) voting and shareholder resolutions**

**Overview**

LEA 15	Mandatory	Public	Core Assessed	PRI 1,2,3
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**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

LEA 15.1	Indicate whether your organisation has a formal voting policy.
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☒ Yes

LEA 15.2	Indicate what your voting policy covers:
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- ☒ Conflicts of interest
- ☐ Share blocking
- ☒ Securities lending process
- ☐ Prioritisation of voting activities
- ☒ Decision making processes
- ☒ Environmental factors
- ☒ Social factors
- ☒ Governance factors
- ☐ Filing/co-filing resolutions
- ☐ Extraordinary meetings
- ☐ Regional voting practices
- ☒ Transparency of proxy voting activities
- ☒ Company dialogue pre/post vote
- ☒ Other, describe

	other description
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The voting policy is part of our overall Stewardship Policy which covers conflict of interest and securities lending.

☐ None of the above

LEA 15.3	Attach or provide a URL to your voting policy. [Optional]
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	URL
--	-----

<http://www.sparinvest.lu/~media/international/downloads/ri/28-03-2018%20stewardship%20policy.ashx>

	Attach document
--	-----------------

[File 1:28-03-2018 Stewardship Policy.pdf](#)



**LEA 15.4**

Provide a brief overview of your organization's approach to (proxy) voting.

**Actively-Managed Fundamental Funds**

We aim vote at all relevant investee company meetings, based on our general voting principles, and a specific consideration of the company-specific context. Our guiding principle is to serve the long-term interests of our investors. Voting rights are a powerful part of active ownership. However, votes are also blunt tools, more powerfully exercised in conjunction with dialogue. When first investing in a company, we inform them of our voting policy. Where agenda items breach our voting policy, or are contentious for other reasons, we seek to engage with the company in question.

**Quant and Index Funds**

In our quantitative and index funds, bearing in mind the overall focus on low costs, we choose to vote only on holdings of a significant size - currently those where we invest over EUR 1 million. Where a company falling into this category is also held in our actively managed fundamental equity funds, we will vote in line with the voting instructions directed by the investment team of those funds. Otherwise voting for all Sparinvest funds is conducted in line with Sparinvest's voting policy whereby our guiding principle is to serve the long-term interests of our investors.

Guidance on this indicator available in Explanatory Notes.

☐ No

**Process****LEA 16****Mandatory****Public****Descriptive****PRI 2****LEA 16.1**

Indicate how you typically make your (proxy) voting decisions.

**Approach**

- ☐ We use our own research or voting team and make voting decisions without the use of service providers.
- ☒ We hire service provider(s) that make voting recommendations or provide research that we use to inform our voting decisions.

**Based on**

- ☐ the service provider voting policy signed off by us
- ☒ our own voting policy
- ☐ our clients' requests or policy
- ☐ other, explain
- ☐ We hire service provider(s) that make voting decisions on our behalf, except for some pre-defined scenarios for which we review and make voting decisions.
- ☐ We hire service provider(s) that make voting decisions on our behalf.

**LEA 16.2**

Provide an overview of how you ensure your voting policy is adhered to, giving details of your approach when exceptions to the policy are made (if applicable).

**Voting Process**

We vote in accordance with our general voting principles, except where inconsistent with applicable laws and regulations or with specific client instructions.

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. ISS provides analysis of voting agendas, based on a customized voting policy specified by Sparinvest. The value equity investment team reviews that analysis internally, and voting decisions are then made on a case-by-case basis at the discretion of the team, based on our voting principles. Our decisions can, and do, vary from ISS recommendations. As noted earlier, on controversial items we are keen to have a constructive dialogue with the company in question.

### Vote Confirmation

In our passive and quantitative funds, an automated voting monitoring system from our proxy services provider enables us to ensure that our votes have been cast according to our instructions. As mentioned above, all voting agendas are looked on at a case-by-case basis for our actively-managed fundamental funds, which ensures that we vote on time. We regularly monitor that we are voting our shares. The head of responsible investment reviews a sample of voting decisions to ensure compliance with the voting policy.

### Example of why we might vote contrary to service provider recommendations

Our voting policy consists of various specific principles, but note that when voting holdings in actively managed fundamental funds, we consider all situations on a case-by-case basis, and voting decisions may deviate from certain principles where dictated by the best interests of our investors. In this respect, it is important to note that we do not view voting as a standalone issue, but rather as being inherently linked to dialogue. In some cases, it may be that when taken in the context of our engagement with a company, we may choose to vote in favour on an item that we may otherwise have opposed. An example would be where we are encouraging the company to increase board independence levels, and are aware of serious efforts by the company to find suitable independent candidates, but where a suitable candidate has not been found in time for the current AGM: in such a situation, where our thoughts on board structure have already been made clear to the company, and serious efforts are underway, we may prefer not to cause unnecessary disruption by voting against current board candidates, but instead choose to abstain, or even to support, the current candidates - but on the clear understanding that this may change if the expected progress is not delivered in the near future.

## LEA 16.3

### Additional information.[Optional]

We aim to exercise the voting rights at all relevant meetings of investee companies, with our decisions based on our general voting principles, and a specific consideration of the company-specific context. Our guiding principle is to serve the long-term interests of our investors.

Voting rights are a powerful part of active ownership, by which shareholders can have their say on a wide range of issues, many of which touch on ESG matters. While votes are powerful, they are also blunt tools, which we believe are more powerfully exercised in conjunction with dialogue. When first investing in a company for our actively managed fundamental funds, we inform them of our voting policy. Also, where agenda items breach our voting policy, or are contentious for other reasons, we seek to notify and engage with the company in question.

#### Overarching Voting Principles

We subscribe to the below list of general principles. However, we consider all situations on a case-by-case basis, and voting decisions may deviate from the below principles where considered to be in the best interests of our investors. In some situations, certain principles may appear contradictory to other principles; in such cases, as always, we expect management to work in the best interests of long-term shareholders.

Note that our voting principles are reviewed and updated periodically. The most up to date version is contained in the Stewardship Policy document on our website.

#### Overarching principles:

- We support the principle of one-share, one-vote
- We support strong protection of minority shareholders' rights
- We support fair access to propose shareholder resolutions
- We support the principle of independence of Board members: the board, and where applicable, the committees on remuneration, nomination and auditing, should predominantly consist of independent members
- We support the principle that decisions on capital deployment, the distribution of capital, and corporate actions such as M&A, should be taken in the best interests of long-term shareholder value
- We are generally opposed to any kind of 'poison pills'

- We support the principle of companies being transparent
- We support the principle that accounts should be audited by independent external auditing firms whose other relationships with the company cannot be considered to impair that independence
- We support the principle that a transparent remuneration policy should align the interests of management with those of long-term shareholders
- Subject to the above principles, we support the principle that companies should comply with best practice corporate governance standards applicable in their country of domicile, or explain non-compliance

May include a discussion of the following;

- Who is involved in making final voting decisions internally.
- Description of criteria used to review service provider's recommendations.
- Any examples of situations in which there is more than one decision-maker or when decisions are made jointly.

LEA 20	Mandatory	Public	Core Assessed	PRI 2
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**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

LEA 20.1	Indicate whether you or the service providers acting on your behalf raise any concerns with companies ahead of voting
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- ☐ Yes, in most cases
- ☒ Sometimes, in the following cases:
- ☐ Votes for selected markets
  - ☐ Votes relating to certain ESG issues
  - ☐ Votes for significant shareholdings
  - ☐ Votes for companies we are engaging with
  - ☐ On request by clients
  - ☒ Other

While the aim is to raise concerns ahead of voting the realities of a hectic proxy season are such that it is not possible in all cases and therefore some communication comes after the voting.

- ☐ Neither we nor our service provider raise concerns with companies ahead of voting

LEA 20.2	Indicate whether you and/or the service provider(s) acting on your behalf, communicate the rationale to companies, when , you abstain or vote against management recommendations.
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- ☒ Yes, in most cases
- ☐ Sometimes, in the following cases.
- ☐ We do not communicate the rationale to companies
- ☐ Not applicable because we and/or our service providers do not abstain or vote against management recommendations

LEA 20.3	Additional information. [Optional]
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While votes are powerful, they are also blunt tools, which we believe are more powerfully exercised in conjunction with dialogue. When first investing in a company, we inform them of our voting policy. Where agenda items breach our voting policy, or are contentious for other reasons causing us to vote against management recommendations, we seek to inform the company in question of our rationale and engage with them about the issue. Where time allows we will do this ahead of the vote, but in reality the timing is very tight and these dialogues more frequently occur after the ballot has been cast.

You may like to include information on the criteria used to outline which companies are informed of voting decisions before or after voting takes place.

## Outputs and outcomes

LEA 21	Mandatory	Public	Core Assessed	PRI 2
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LEA 21.1	For listed equities where you and/or your service provider have the mandate to issue (proxy) voting instructions, indicate the percentage of votes cast during the reporting year.
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☒ We do track or collect this information

	Votes cast (to the nearest 1%)
--	--------------------------------

	%
--	---

49

	Specify the basis on which this percentage is calculated
--	--

- ☐ of the total number of ballot items on which you could have issued instructions
- ☐ of the total number of company meetings at which you could have voted
- ☒ of the total value of your listed equity holdings on which you could have voted

**LEA 21.2**

Explain your reason(s) for not voting certain holdings

- ☐ Shares were blocked
- ☐ Notice, ballots or materials not received in time
- ☐ Missed deadline
- ☐ Geographical restrictions (non-home market)
- ☒ Cost
- ☐ Conflicts of interest
- ☒ Holdings deemed too small
- ☒ Administrative impediments (e.g., power of attorney requirements, ineligibility due to participation in share placement)
- ☐ On request by clients
- ☐ Other

☐ We do not track or collect this information

**LEA 21.3**

Additional information. [Optional]

Whereas our voting on actively-managed fundamental funds was around 99% in 2017, our policy with regard to our passive/index funds (as agreed with clients) is one of only voting on companies in which we have a significant holding (current threshold EUR 1 million). This results in a lower overall total voting percentage across all listed equities owned. Market demand for passives is based largely on their low charges and thus our active ownership policy for passives is a trade-off between our understanding of what clients currently want and increasing industry demand for voting across all passive holdings. We are monitoring the situation.

**LEA 22****Mandatory****Public****Additional Assessed****PRI 2****LEA 22.1**

Indicate if you track the voting instructions that you and/or your service provider on your behalf have issued.

☒ Yes, we track this information

**LEA 22.2**

Of the voting instructions that you and/or third parties on your behalf issued, indicate the proportion of ballot items that were:

Voting instructions	Breakdown as percentage of votes cast
For (supporting) management recommendations	<div> <div></div> <div>%</div> </div> 88
Against (opposing) management recommendations	<div> <div></div> <div>%</div> </div> 10
Abstentions	<div> <div></div> <div>%</div> </div> 2

100%

**LEA 22.3** Describe the actions you take in relation to voting against management recommendations.

On behalf of our actively managed fundamental funds, it is our policy to inform company management about any voting decision against their recommendations.

May include a discussion of the following;

- How decision to vote against management is part of your engagement programme.
- How you communicate with interested companies before and after the vote.
- How you monitor a company's reaction and eventual changes to internal ESG ratings.
- How you communicate internally about the vote.

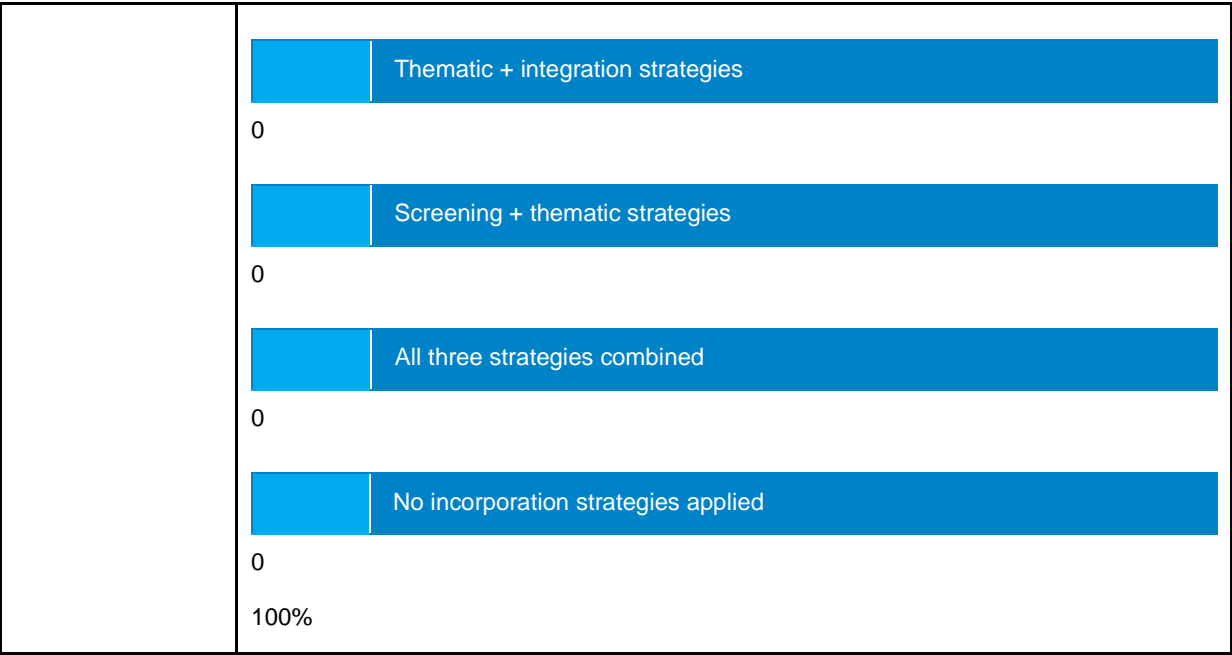
☐ No, we do not track this information

## ESG incorporation in actively managed fixed income













### Implementation processes

FI 01	Mandatory	Public	Gateway	PRI 1
FI 01.1	Indicate 1) Which ESG incorporation strategy and/or combination of strategies you apply to your actively managed fixed income investments; and 2) The proportion (+/- 5%) of your total actively managed fixed income investments each strategy applies to.			

SSA	<table> <tr> <td data-bbox="485 228 608 293"></td><td data-bbox="608 228 1460 293">Screening alone</td></tr> <tr> <td data-bbox="485 304 504 331">0</td><td></td></tr> <tr> <td data-bbox="485 371 608 436"></td><td data-bbox="608 371 1460 436">Thematic alone</td></tr> <tr> <td data-bbox="485 448 504 474">0</td><td></td></tr> <tr> <td data-bbox="485 515 608 580"></td><td data-bbox="608 515 1460 580">Integration alone</td></tr> <tr> <td data-bbox="485 591 504 618">0</td><td></td></tr> <tr> <td data-bbox="485 658 608 723"></td><td data-bbox="608 658 1460 723">Screening + integration strategies</td></tr> <tr> <td data-bbox="485 734 529 761">100</td><td></td></tr> <tr> <td data-bbox="485 801 608 866"></td><td data-bbox="608 801 1460 866">Thematic + integration strategies</td></tr> <tr> <td data-bbox="485 878 504 904">0</td><td></td></tr> <tr> <td data-bbox="485 945 608 1010"></td><td data-bbox="608 945 1460 1010">Screening + thematic strategies</td></tr> <tr> <td data-bbox="485 1021 504 1048">0</td><td></td></tr> <tr> <td data-bbox="485 1088 608 1153"></td><td data-bbox="608 1088 1460 1153">All three strategies combined</td></tr> <tr> <td data-bbox="485 1164 504 1191">0</td><td></td></tr> <tr> <td data-bbox="485 1232 608 1296"></td><td data-bbox="608 1232 1460 1296">No incorporation strategies applied</td></tr> <tr> <td data-bbox="485 1308 504 1335">0</td><td></td></tr> <tr> <td data-bbox="485 1361 549 1388">100%</td><td></td></tr> </table>		Screening alone	0			Thematic alone	0			Integration alone	0			Screening + integration strategies	100			Thematic + integration strategies	0			Screening + thematic strategies	0			All three strategies combined	0			No incorporation strategies applied	0		100%	
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Corporate (financial)	<table> <tr> <td data-bbox="485 1447 608 1512"></td><td data-bbox="608 1447 1460 1512">Screening alone</td></tr> <tr> <td data-bbox="485 1523 504 1550">0</td><td></td></tr> <tr> <td data-bbox="485 1590 608 1655"></td><td data-bbox="608 1590 1460 1655">Thematic alone</td></tr> <tr> <td data-bbox="485 1666 504 1693">0</td><td></td></tr> <tr> <td data-bbox="485 1733 608 1798"></td><td data-bbox="608 1733 1460 1798">Integration alone</td></tr> <tr> <td data-bbox="485 1809 504 1836">0</td><td></td></tr> <tr> <td data-bbox="485 1877 608 1942"></td><td data-bbox="608 1877 1460 1942">Screening + integration strategies</td></tr> <tr> <td data-bbox="485 1953 529 1980">100</td><td></td></tr> </table>		Screening alone	0			Thematic alone	0			Integration alone	0			Screening + integration strategies	100																			
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100																																			





Corporate (non-financial)	 Screening alone	0
	 Thematic alone	0
	 Integration alone	0
	 Screening + integration strategies	100
	 Thematic + integration strategies	0
	 Screening + thematic strategies	0
	 All three strategies combined	0
	 No incorporation strategies applied	0
		100%
Securitised	 Screening alone	0
	 Thematic alone	0
	 Integration alone	0
	 Screening + integration strategies	100

	Thematic + integration strategies	0
	Screening + thematic strategies	0
	All three strategies combined	0
	No incorporation strategies applied	0
		100%

<b>FI 01.2</b>	Describe your reasons for choosing a particular ESG incorporation strategy and how combinations of strategies are used.
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Our fixed income fund range includes active fundamental bond-selecting funds investing in corporate, government and securitized bonds. In addition, we have a single passive securitized bonds strategy .

**ALL FUNDS:** All funds (active and passive) apply an exclusionary screen for controversial weapons and securities in breach of EU sanctions.

**ACTIVE FUNDAMENTAL FUNDS:** In our active fundamental funds, our aim is to understand the issuer's short and long-term ability to service its debt obligations, in order to protect the principal of our investments. Indeed, we aim to assess the downside risk before the upside potential. Consequently, issues which may impact companies in the short or long-term are considered highly relevant to our analysis, and this includes many environmental, social and governance issues. As such, we integrate ESG considerations into our security analysis, alongside other fundamental factors through our 'red flags' investment checklist process. Although our investment horizon is finite and sometimes short-term due to bonds maturing, we acknowledge the impact of more long-term ESG initiatives. We also engage with companies as deemed appropriate (see section on engagement).

In addition to the above, our ethical funds strategies are subject to screening, based on client needs and values. (See section on screening).

<b>FI 03</b>	<b>Mandatory</b>	<b>Public</b>	<b>Additional Assessed</b>	<b>PRI 1</b>
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<b>FI 03.1</b>	Indicate how you ensure that your ESG research process is robust:
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- ☒ Issuers are given the opportunity by you or your research provider to review ESG research on them and correct inaccuracies
- ☒ Issuer information and/or ESG ratings are updated regularly to ensure ESG research is accurate
- ☐ Internal audits of ESG research are undertaken in a systematic way
- ☒ ESG analysis is benchmarked for quality against other providers
- ☐ Other, specify
- ☐ None of the above

**FI 03.2**

Describe how your ESG information or analysis is shared among your investment team.

- ☒ ESG information is held within a centralised database and is accessible to all investment staff
- ☒ ESG information is a standard item on all individual issuer summaries, 'tear sheets', 'dashboards' or similar documents
- ☒ Investment staff are required to discuss ESG information on issuers as a standard item during investment committee meetings
- ☒ Records capture how ESG information and research was incorporated into investment decisions
- ☐ Other, specify
- ☐ None of the above

**(A) Implementation: Screening****FI 04****Mandatory****Public****Gateway****PRI 1****FI 04.1**

Indicate the type of screening you conduct.

Select all that apply

	<b>SSA</b>	<b>Corporate (financial)</b>	<b>Corporate (non-financial)</b>	<b>Securitised</b>
Negative/exclusionary screening	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Positive/best-in-class screening	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Norms-based screening	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

**FI 04.2**

Describe your approach to screening for internally managed active fixed income

Across all funds, we exclude companies involved in banned weapons and securities in breach of EU sanctions for legal reasons. (We note that on occasion, certain sanctions may have the effect of excluding specific countries).

All funds are screened to ensure that they do not invest in companies manufacturing weapons of mass destruction (biological weapons, chemical weapons or nuclear weapons outside the nuclear non-proliferation treaty.) The screen also excludes manufacturers of weapons banned under international conventions such as the Oslo and Ottawa conventions - which prohibit the use and dissemination of cluster munitions and anti-personnel mines. The basis for such exclusions is a banned weapons analysis performed and updated on a daily basis by our screening services provider. We have zero tolerance of companies assessed as being manufacturers of such weapons and these are noted in an exclusion list used for pre-trade compliance checks, and daily screenings of the portfolios. Portfolio managers are notified of any relevant changes to the exclusion status. Any breaches will result in the security being divested as soon as reasonably practicable.

For our ethical strategies we apply further ESG-related screenings through international norms and banned sector screenings (see section on ESG-based negative screening).

**FI 05****Mandatory****Public****Descriptive****PRI 1**

**FI 05.1**

Indicate why you conduct negative screening.

**SSA****SSA**

- ☒ For legal reasons
- ☒ For non-legal reasons

**Corporate (financial)****Corporate (fin)**

- ☒ For legal reasons
- ☒ For non-legal reasons

**Corporate (non-financial)****Corporate (non-fin)**

- ☒ For legal reasons
- ☒ For non-legal reasons

**Securitised****Securitised**

- ☒ For legal reasons
- ☒ For non-legal reasons

**FI 05.2**

Describe your approach to ESG-based negative screening of issuers from your investable universe.

Our ESG-based negative screening consists of a further screening for our ethical strategies in addition to those legally required and detailed in FI 07.2.

Where we provide funds under an ethical label, this is based on negative screening to exclude companies from the investment universe or investment shortlist, on certain specific grounds. The exclusionary criteria for these funds result from ongoing consultation with clients, but are broadly categorized as norm-based and sector-based criteria:

A norm-based screen for violations of global norms: environmental protection, human rights, labor standards, anti-corruption and climate change. A sector-based screen for companies operating within sectors such as: alcohol, tobacco, gambling, pornography, weapons, thermal coal and oil sands.

Note that our norm-based screening is a negative exclusionary screen. It assesses companies' adherence to international norms for human rights, the environment, labor standards and anti-corruption. It adheres to the UN Global Compact Principles.

FI 05.3	Additional information. [Optional]
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We comply with legal requirements for exclusions but we also comply with our clients' wishes, particularly with regard to ethical strategies.

FI 07	Mandatory	Public	Core Assessed	PRI 1
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FI 07.1	Indicate which systems your organisation has to ensure that fund screening criteria are not breached in fixed income investments.
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Type of screening	Checks
<b>Negative/exclusionary screening?</b>	<input checked="" type="checkbox"/> Checks are performed to ensure that issuers meet screening criteria <input checked="" type="checkbox"/> We ensure that data used for the screening criteria is updated at least every 2 years. <input checked="" type="checkbox"/> Automated IT systems prevent our portfolio managers from investing in excluded issuers or bonds that do not meet screening criteria <input checked="" type="checkbox"/> Audits of fund holdings are undertaken regularly by internal audit or compliance functions <input checked="" type="checkbox"/> Other, specify <div>other description</div> <p>Data used for the overarching screening criteria is updated on an on-going basis to capture new exclusions as they arise.</p> <input type="checkbox"/> None of the above
<b>Norms-based screening</b>	<input checked="" type="checkbox"/> Checks are performed to ensure that issuers meet screening criteria <input checked="" type="checkbox"/> We ensure that data used for the screening criteria is updated at least every 2 years. <input checked="" type="checkbox"/> Automated IT systems prevent our portfolio managers from investing in excluded issuers or bonds that do not meet screening criteria <input checked="" type="checkbox"/> Audits of fund holdings are undertaken regularly by internal audit or compliance functions <input checked="" type="checkbox"/> Other, specify <div>other description</div> <p>Data used for the overarching screening criteria is updated on an on-going basis to capture new exclusions as they arise.</p> <input type="checkbox"/> None of the above

**FI 07.2**
**Additional information. [Optional]**

Sector-based screening checks (for ethical strategies) are performed to ensure that issuers meet screening criteria on a semi-annual basis. Automated IT systems prevent our portfolio managers from investing in excluded issuers or bonds that do not meet the sector screening criteria. Audits of fund positions are undertaken regularly by internal audit and compliance functions.

**(C) Implementation: Integration**
**FI 11**
**Mandatory**
**Public**
**Descriptive**
**PRI 1**
**FI 11.1**
**Describe your approach to integrating ESG into traditional financial analysis.**

The formal consideration of environmental, social and governance (ESG) risk factors has been fully integrated into the investment process of the Group's Corporate Bonds Team. Specifically, ESG risk considerations are included in the analysis phase of the investment process and taken into account in every on-going investment update. This is designed to strengthen portfolios by minimizing exposure to potential ESG downside risk. The investment process for Sparinvest's range of corporate bond portfolios is essentially that ESG factors are incorporated into the investment process on an equal footing with traditional financial data; and, as with the financial key metrics, environmental, social and governance issues are part of the investment process 'check list'. All potential targets must meet the criteria of the check list before becoming eligible for investment.

**FI 11.2**
**Describe how your ESG integration approach is adapted to each of the different types of fixed income you invest in.**
**SSA**
**Responsible Investment in: Sovereign Bonds**

In these funds, we aim to be responsible through:

- Exclusion: based on multi-lateral sanctions and international norms
- Country screening for international norms, with focus on human rights
- Integration of ESG
- Stewardship (Supra company engagement)

From a fiduciary perspective, we believe that the G part of ESG analysis is of paramount importance when investing in Sovereigns because a well-governed country is more likely to establish a sound and long-term financial balance, hence also the basis for repaying or refinancing its debts. Good governance also is essential to the successful development of an economy, as well as its ability to protect its citizens and environment, therefore good governance permits good ESG behaviour. On a country level we believe the all the factors to be very closely correlated, but with the main driver being the 'G'.

The formal consideration of governance risk factors is integrated in - and considered a vital part of - the investment process for Sparinvest's range of funds investing in sovereigns.

To assist our Fixed Income team when assessing country risk for sovereign bond strategies, Sparinvest subscribes to an annual norms-based screening for countries, conducted by an external service provider and taking the following key indicators into account:

- Multi-lateral sanctions (UN and EU)
- Social risks (UN Development Programme and others)
- Arms embargoes
- Governance (World Bank)

In previous internal studies, Sparinvest has found that the World Governance Indicators have explanatory powers regarding historic returns on sovereigns. Therefore the World Governance Indicators are used as input. Nearly 200 countries are analysed annually on key metrics, focusing on government/regulatory governance and human rights ('S') in particular. Specifically, countries are ranked according to:

- Voice and Accountability,
- Political Stability and Absence of Violence,
- Government Effectiveness,
- Regulatory Quality,
- Rule of Law,
- Control of Corruption.

However, the World Governance Indicators are retrospective and there is a built in time-lag in the data. Therefore, in order to keep up to date with more immediate potential sovereign risk factors, Sparinvest makes adjustments on the basis of other, more forward looking, data - including broker and Press reports - which cover the same governance factors, as well as elections and political cycles. Such factors are included alongside other relevant risk measures when evaluating the credit spread.

## Corporate (financial)

### Responsible Investment in: Corporate Bonds

In these funds, we aim to be responsible through:

- Exclusions (controversial weapons and EU sanctions)
- Norms-based screening
- Integration of ESG in the bond screening process
- Stewardship (Engagement)

Sparinvest's Responsible Investment policy does not differentiate between financial and non-financial corporate bonds in the sense that we apply the same methodical investment process to all our corporate/financial bond investments. We aim to strengthen portfolios by minimizing exposure to downside risk. Thus, consideration of environmental, social and governance issues is part of our fundamental credit analysis process. Our customized 'red flags'- investment check list includes ESG metrics alongside traditional financial key metrics. However, we do recognize the role that financial institutions play in society as sources of funding for projects, loans and insurance cover for other institutions. Thus the ESG integration process for financial corporate issuers extends beyond analysis of direct ESG risks and opportunities faced by these institutions to include the indirect factors impacting their financing or insurance activities, including -where issues are flagged up with regard to project finance - compliance with the Equator Principles.

We believe that potential governance problems form the most severe risk to credit investors, and thus it is our clear fiduciary duty to focus on identifying these prior to investment. The 'red flags' are designed to pick up - for example - allegations of fraud, frequent/recent changes of management, board members or of auditors. Our conservative approach to risk means that even where such information is as yet unverified, it is still taken into consideration and duly noted on case files.

We prioritize governance risks for both fiduciary and practical reasons. Given the shorter term investment period typically involved with Corporate Bonds, and the fact that bondholders do not have a right to vote on Management proposals at AGMs, there is potentially less time available and less leverage available for bond investors to influence portfolio companies. For this reason, Sparinvest believes that it is prudent to consider adequate governance as a basic prerequisite for a company to be able to focus on and improve its environmental and social credentials.

This does not mean that we ignore research information on environmental and social issues. Indeed, one of our checklist items requires that all 3rd party ESG research information should have been analyzed prior to investment. This has resulted in target companies failing our adequate compensation-for-risk requirement on grounds other than governance risk. It should also be noted that our corporate bonds engagement activities cover environmental, social and governance matters.

## Corporate (non-financial)

### Responsible Investment in: Corporate Bonds

In these funds, we aim to be responsible through:

- Exclusions (controversial weapons and EU sanctions)
- Norms-based screening
- Integration of ESG in the bond screening process
- Stewardship (Engagement)

In its Responsible Investment policy, Sparinvest does not differentiate between financial and non-financial corporate bonds. We apply the same methodical investment process to all our corporate bond investments. We aim to strengthen portfolios by minimizing exposure to downside risk. Thus, consideration of environmental, social and governance issues is part of our fundamental credit analysis process. Our customized 'red flags'-investment check list includes ESG metrics alongside traditional financial key metrics.

We believe that potential governance problems form the most severe risk to credit investors, and thus it is our clear fiduciary duty to focus on identifying these prior to investment. The 'red flags' are designed to pick up - for example - allegations of fraud, frequent/recent changes of management, board members or of auditors. Our conservative approach to risk means that even where such information is as yet unverified, it is still taken into consideration and duly noted on case files.

We prioritize governance risks for both fiduciary and practical reasons. Given the shorter term investment period typically involved with Corporate Bonds, and the fact that bondholders do not have a right to vote on Management proposals at AGMs, there is potentially less time available and less leverage available for bond investors to influence portfolio companies. For this reason, Sparinvest believes that it is prudent to consider adequate governance as a basic prerequisite for a company to be able to focus on and improve its environmental and social credentials.

This does not mean that we ignore research information on environmental and social issues. Indeed, one of our checklist items requires that all 3rd party ESG research information should have been analyzed prior to investment. This has resulted in target companies failing our adequate compensation-for-risk requirement on grounds other than governance risk. It should also be noted that our corporate bonds engagement activities cover environmental, social and governance matters.

## Securitized

### Responsible Investment in: Covered/Securitized Bonds

In these funds, we aim to be responsible through:

- Exclusion: We exclude companies involved in controversial weapons and securities prohibited by EU sanctions
- Integration of ESG
- Stewardship (Engagement)

Sparinvest's investments in covered/securitized bonds is currently restricted to a universe consisting entirely of Nordic covered bonds, as well as government bonds. These issuers are subject to rigorous regulatory requirements and strong governance systems operating in nations with strong environmental and social legislation. The majority of the securitized bonds held are part of the Danish covered bond system.

The Danish covered bond system is perceived as the most sustainable method for financing property purchase yet invented. In the wake of the sub-prime lending induced crisis of 2007-8 it was held up as a shining example of what a well-conducted mortgage market should look like. In more than two centuries of existence, there has never been a default on a Danish mortgage bond - which is probably attributable to the following factors:

Any entity wishing to issue mortgages in Denmark must meet rigorous regulatory requirements. Mortgage issuers are required to retain all the credit risk on their own books and to perform the servicing functions. Mortgages are funded by the issuance of transparent, standardized bonds, creating a large and liquid market that offers considerable attractions for risk averse investors in search of decent returns. Under the 'Balance Principle', every Danish mortgage is instantly converted into a security, valued at same amount, and the two remain interchangeable at all times. This is especially relevant for 30-year callable mortgage loans that homeowners can retire either by paying them off at par, or by buying an equivalent face amount of bonds at market price.



Because the value of homes, and the associated mortgage bonds, tend to move in the same direction, homeowners have some protection of their equity. In other words, if home prices decline as a result of higher interest rates, the amount that the homeowner must spend to retire a mortgage decreases because the bonds can be bought at lower prices.

Regardless of the above, we still conduct the same detailed and exhaustive assessment of the issuers standards and procedures in dealing with ESG related issues.

FI 12	Mandatory	Public	Core Assessed	PRI 1
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FI 12.1	Indicate how ESG information is typically used as part of your investment process.
---------	--

Select all that apply

	SSA	Corporate (financial)	Corporate (non-financial)	Securitised
ESG analysis is integrated into fundamental analysis	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
ESG analysis is integrated into security weighting decisions	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
ESG analysis is integrated into portfolio construction decisions	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
ESG analysis is a standard part of internal credit ratings or assessment	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
ESG analysis for issuers is a standard agenda item at investment committee meetings	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
ESG analysis is regularly featured in internal research notes or similar	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
ESG analysis is a standard feature of ongoing portfolio monitoring	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
ESG analysis features in all internal issuer summaries or similar documents	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other, specify	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

FI 13	Mandatory	Public	Additional Assessed	PRI 1
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FI 13.1	Indicate the extent to which ESG issues are reviewed in your integration process.
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	Environment	Social	Governance
SSA	<input checked="" type="radio"/> Environmental <input type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all	<input checked="" type="radio"/> Social <input type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all	<input checked="" type="radio"/> Governance <input type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all
Corporate (financial)	<input checked="" type="radio"/> Environmental <input type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all	<input checked="" type="radio"/> Social <input type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all	<input checked="" type="radio"/> Governance <input type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all
Corporate (non-financial)	<input checked="" type="radio"/> Environmental <input type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all	<input checked="" type="radio"/> Social <input type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all	<input checked="" type="radio"/> Governance <input type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all
Securitised	<input checked="" type="radio"/> Environmental <input type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all	<input checked="" type="radio"/> Social <input type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all	<input checked="" type="radio"/> Governance <input type="radio"/> Systematically <input type="radio"/> Occasionally <input type="radio"/> Not at all

#### FI 13.2

Please provide more detail on how you review E, S and G factors in your integration process.

#### SSA

#### Responsible Investment in Sovereign Bonds

In these funds, we aim to be responsible through:

- Exclusion: based on multi-lateral sanctions and international norms
- Country screening for international norms, with focus on human rights
- Integration of ESG
- Stewardship (Supra company engagement)

#### Exclusions

Issuers in this universe are not companies, but governments. In recognition that it is both difficult and potentially undemocratic to attempt to influence nation states through engagement, we apply exclusions with regards to our sovereign bond strategies as follows:

- Multi-lateral sanctions EU and UN sanctions may have the effect of excluding specific countries from our sovereign bond universe.
- International Norms Norms-based analysis - particularly of a country's ability to protect basic human rights - is also used to inform investment decisions and can result in the portfolio manager deciding to avoid, exclude or underweight investments in certain sovereign bonds.

- Illegal weapons . [NM1] Country-based arms embargoes are amongst a number of data that feed into our norms based country screening process. At an individual security level, we exclude banned weapons producers from all Sparinvest funds. This may result in the exclusion of state-owned enterprises from our funds, but not entire states

### Country Screening for International Norms

To assist our Fixed Income team when assessing country risk for sovereign bond strategies, Sparinvest subscribes to an annual norms-based screening for countries, conducted by an external service provider and taking the following key indicators into account:

- Multi-lateral sanctions (UN and EU)
- Social risks (UN Development Programme and others)
- Arms embargoes
- Governance (World Bank)

The findings from this screening result in a rating and ranking of countries, along with an indication of whether the country is on a trend of improvement or decline from a human rights and governance perspective. Serious violations of human rights will result in a country becoming uninvestable for us.

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 UN nation states, 17 countries were considered uninvestable because their Government was either subject to broad multilateral sanctions or else was incapable or unwilling to protect basic human rights.

### ESG Integration

From a fiduciary perspective, Sparinvest believes that the G part of ESG analysis is of paramount importance when investing in Sovereigns because a well-governed country is more likely to establish a sound and long-term financial balance, hence also the basis for repaying its debts. Good governance also is essential to the successful development of an economy, as well as its ability to protect its citizens and environment, therefore good governance enables good ESG behaviour. On a country level we believe the all the factors to be very closely correlated, but with the main driver being the 'G'.

The formal consideration of governance risk factors is integrated in - and considered a vital part of - the investment process for Sparinvest's range of passive funds investing in sovereigns.

In previous internal studies, Sparinvest has found that the World Governance Indicators have explanatory powers regarding historic returns on sovereigns. Therefore we continue to use World Governance Indicators input in the investment process. More than 200 countries are analysed annually on key metrics, focusing on government/regulatory governance and human rights ('S') in particular. Specifically, countries are ranked according to:

- Voice and Accountability,
- Political Stability and Absence of Violence,
- Government Effectiveness,
- Regulatory Quality,
- Rule of Law,
- Control of Corruption.

However, the problem with most methods of assessing countries' ESG profiles is that information tends to be retrospective and there is a built in time-lag in the data. (World Governance Indicators, for example are revised only once a year.) In the intervening period political events such as regime change, for example could result in a positive impact for human rights - which investors may wish to support by investing in a nation's bonds. Therefore, in order to keep up to date with more immediate potential sovereign risk/opportunity factors, Sparinvest makes adjustments on the basis of other, more forward looking, data - including broker and Press reports - which cover the same governance factors, as well as elections and political cycles. Such factors are included alongside other relevant risk measures when evaluating the credit spread.

### Limited Engagement Options

Across all asset classes, Sparinvest's preference is to exercise active ownership to influence better and more responsible behaviour from issuers. It is recognized that government bonds constitute a unique type of investment which does not offer the same opportunities for active ownership, investor collaboration or influence as is the case where issuers are companies. It is for this reason, that we consider it necessary in certain cases

to exclude investments in a country's bonds rather than to rely on an attempt to influence conditions there through engagements. However, where the option exists to join coordinated initiatives targeting heads of state in order to raise awareness of ESG concerns or to improve human rights conditions in their nations, we will consider adding our voice to these.

Similarly, where appropriate to do so, we also undertake to use supra-company engagement with index providers and stock exchanges to highlight ESG issues.

## Corporate (financial)

### Responsible Investment in: Corporate Bonds

In these funds, we aim to be responsible through:

- Exclusions (Controversial weapons and EU Sanctions)
- Norms-based screening
- (For ethical funds only) Sector-based screening
- Integration of ESG in the bond screening process
- Stewardship (Engagement)

### Bond Screening

Sparinvest screens the corporate issuers in our universe using specialist ESG research information to identify risks. The pre-investment screening process for corporate bonds consists of:

- Internally-conducted fundamental credit analysis of the bond issue and issuer. This takes into consideration MSCI ESG IVA reports and other data, with a particular focus on governance, but also on any material environmental and social factors, before determining the overall attractiveness of the investment in terms of credit spread.
- Externally-conducted exclusionary screening for controversial weapons and EU sanctions (as part of the universal exclusion described on page 7 that applies to all Sparinvest funds)
- Externally-conducted norms-based screen to flag involvement in serious controversies which could impair debt repayment potential. (Confirmed and unaddressed breaches result in exclusion/divestment for ethical bond strategies and engagement for other funds).
- (For Ethical strategies only) Externally-conducted sector-based screen to check for involvement in certain business areas.

Sparinvest is known as a value investor both in equity funds and in fixed income strategies where we have long recognised that credit market pricing inefficiencies provide opportunities to create bond portfolios with a margin of safety. As with all strategies that invest for value, it is essential to analyse all the fundamental risks and opportunities that could have the potential to affect the investment case during the holding period. This is particularly the case for bonds which have limited upside potential, compared with equities but which have a considerable downside if default risk is not properly analysed. Hence attention to all forms of risk - including ESG - is particularly important in the bond space.

### ESG Integration in Credit Analysis

Sparinvest applies the same methodical investment process to all our corporate bond investments. We aim to strengthen portfolios by minimizing exposure to downside risk. Thus, consideration of environmental, social and governance issues is part of our fundamental credit analysis process. Our customized 'red flags'- investment check list includes ESG metrics alongside traditional financial key metrics. In recognition of the role that financial institutions play in society as sources of funding for projects, loans and insurance cover for other institutions, the ESG integration process for financial corporate issuers extends beyond analysis of direct ESG risks and opportunities faced by these institutions to include the indirect factors impacting their financing or insurance activities. Where issues are flagged up with regard to project finance - we check for compliance with the Equator Principles.

We believe that potential governance problems form the most severe risk to credit investors, and thus it is our clear fiduciary duty to focus on identifying these prior to investment. The 'red flags' are designed to pick up - for

example - allegations of fraud, potential changes of management or of auditors. Our conservative approach to risk means that even where such information is as yet unverified, it is still taken into consideration and duly noted on case files.

We prioritize governance risks for both fiduciary and practical reasons. Given the shorter-term investment period typically involved with corporate bonds, and the fact that bondholders do not have a right to vote on Management proposals at AGMs, Sparinvest believes that it is prudent to consider adequate governance as a basic prerequisite for a company to be able to focus on and improve its environmental and social credentials.

Prioritizing governance risks, however does not mean that we ignore research information on environmental and social issues. Indeed, one of our checklist items requires that all 3rd party ESG research information should have been analyzed prior to investment. This has resulted in target companies failing our adequate compensation-for-risk requirement on grounds other than governance risk. It also means that our corporate bonds engagement activities cover environmental and social issues in addition to governance matters.

#### **Valuation and Decision making:**

Certain ESG issues flagged up during the credit analysis process may have a significant enough impact on our assessment of an issuer, or on our assessment of the fair spread of its bonds, that they may lead us to decide not to invest. Once the credit analysis process has determined that the issuer passes our adequate compensation for risk criteria, the process of looking at relative valuations of individual bonds begins. Country ESG risk can have a part to play here - particularly with regard to emerging markets. World Governance Indicators assist us in assessing country risk

The case for investment is then presented to the investment team, providing the opportunity for all team members to give input. Where the decision is taken to invest, key case files are uploaded to our database and we proceed to the portfolio construction stage of the investment process.

#### **Portfolio Construction and Monitoring**

It is during the Portfolio construction phase that the relevant Portfolio Manager will decide whether to add a bond to a fund, and what size of position to adopt.

Ongoing Portfolio risk is monitored by the Portfolio Manager and weekly team meetings take place to discuss any fundamental risks that could affect the investment case. Decisions regarding whether to enter direct engagements with portfolio companies to mitigate any material ESG risks are taken after discussion in these meetings.

#### **Engagement Policy - Actively Managed Fixed Income Funds**

Whilst bondholders do not have the same voting and ownership rights as shareholders, we believe that our position as creditors, financing companies' operations, gives us both the potential and the responsibility to influence investee companies towards more sustainable behaviour. Our engagement policy is available to view at [http://www.sparinvest.eu/~media/international/downloads/ri/ri%20policy%20for%20fixed%20income%20funds\\_eng.ashx](http://www.sparinvest.eu/~media/international/downloads/ri/ri%20policy%20for%20fixed%20income%20funds_eng.ashx)

#### **Corporate (non-financial)**

In its Responsible Investment policy, Sparinvest does not differentiate between financial and non-financial corporate bonds. We apply the same methodical investment process to all our corporate bond investments. We aim to strengthen portfolios by minimizing exposure to downside risk. Please see text relating to Corporate (financial) above.

#### **Securitized**

#### **Responsible Investment in: Covered/Securitized Bonds**

In these funds, we aim to be responsible through:

- Exclusion: We exclude companies involved in controversial weapons and securities prohibited by EU sanctions
- Integration of ESG
- Stewardship (Engagement)

#### **ESG Integration**

Sparinvest's investments in covered/securitized bonds is currently restricted to a universe consisting entirely of Nordic covered bonds, as well as government bonds. We are confident that our funds investing in this universe meet the highest ESG standards. Given the rigorous regulatory requirements and strong governance systems that issuers in this universe must comply with, we anticipate that breaches of international norms will seldom (if ever) occur.

The Danish covered bond system is perhaps the most sustainable method for financing property purchase yet invented. In the wake of the sub-prime lending induced crisis of 2007-8 it was held up as a shining example of what a well-conducted mortgage market should look like. In more than two centuries of existence, there has never been a default on a Danish mortgage bond - which is probably attributable to the following factors:

- Any entity wishing to issue mortgages in Denmark must meet rigorous regulatory requirements.
- Mortgage issuers are required to retain all the credit risk on their own books and to perform the servicing functions.
- Mortgages are funded by the issuance of transparent, standardized bonds, creating a large and liquid market that offers considerable attractions for risk averse investors in search of decent returns.
- Under the 'Balance Principle', every Danish mortgage is instantly converted into a security, valued at same amount, and the two remain interchangeable at all times. This is especially relevant for 30-year callable mortgage loans that homeowners can retire either by paying them off at par, or by buying an equivalent face amount of bonds at market price.

Because the value of homes, and the associated mortgage bonds, tend to move in the same direction, homeowners have some protection of their equity. In other words, if home prices decline as a result of higher interest rates, the amount that the homeowner must spend to retire a mortgage decreases because the bonds can be bought at lower prices.

#### Engagement in Securitized Bonds

In the unlikely event that a security in the portfolio universe were to be in confirmed or alleged breach of international norms, our service provider would engage with them on our behalf and if we found it appropriate to do so, we would also engage directly with the issuers.

#### FI 13.3

Additional information.[OPTIONAL]

#### Ethical Corporate Bond Strategies

A growing number of clients seek to maintain certain ethical standards and values when they invest. For this reason Sparinvest makes its core strategies available with an ethical overlay, adding further exclusionary criteria to our standard exclusionary screening. Our ethical screening criteria are designed to help us to create portfolios that avoid investment in companies in breach of international norms or operating in certain sectors.

Screening for our ethical funds is conducted independently by the external ESG screening services provider ISS-Ethix. There are two elements to the screening - a Norms Based screen assesses corporate behaviour in relation to internationally accepted normative standards and the sector based screen assesses company involvement in certain sectors (revenue based). Sector-based exclusion criteria are as follows:

Zero tolerance for production and max 5% tolerance for distribution of:

- Tobacco
- Alcohol
- Gambling
- Arms/Weapons\*
- Pornography
- Thermal Coal and Oil Sands\*\*

\* Zero tolerance for revenue derived from combat equipment. Max 5% tolerance for revenue derived from other military equipment and associated services.

\*\*Max 5% tolerance for thermal coal production. (Metallurgical coal, which is essential to steel production/manufacturing, is permitted.)

## Assurance

CM 1 01.1	Mandatory	Public	Core Assessed	General
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**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

CM 1 01.1	Indicate whether the reported information you have provided for your PRI Transparency Report this year has undergone:
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- ☐ Third party assurance over selected responses from this year's PRI Transparency Report
- ☐ Third party assurance over data points from other sources that have subsequently been used in your PRI responses this year
- ☐ Third party assurance or audit of the implementation of RI processes (that have been reported to the PRI this year)
- ☐ Internal audit conducted by internal auditors of the implementation of RI processes and/or RI data that have been reported to the PRI this year)
- ☒ Internal verification of responses before submission to the PRI (e.g. by the CEO or the board)
  - ☒ Whole PRI Transparency Report has been internally verified
  - ☐ Selected data has been internally verified
- ☒ Other, specify  
 RI processes for two funds have been reviewed by an external audit firm as part of the application procedure for obtaining LuxFLAG labels.
- ☐ None of the above

CM 1 01.2 & 01.8	Mandatory	Public	Descriptive	
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CM 1 01.2	Do you plan to conduct third party assurance of this year's PRI Transparency report?
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- ☐ Whole PRI Transparency Report will be assured
- ☐ Selected data will be assured
- ☒ We do not plan to assure this year's PRI Transparency report

CM 1 01.3 & 01.9	Mandatory	Public	Descriptive	General
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CM 1 01.3	We undertook third party assurance on last year's PRI Transparency Report
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- ☐ Whole PRI Transparency Report was assured last year
- ☐ Selected data was assured in last year's PRI Transparency Report
- ☒ We did not assure last year's PRI Transparency report, or we did not have such a report last year.

CM 1 01.4, 10-12	Mandatory	Public	Descriptive	General
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**CM 1 01.4**

We undertake confidence building measures that are unspecific to the data contained in our PRI Transparency Report:

- ☐ We adhere to an RI certification or labelling scheme
- ☐ We carry out independent/third party assurance over a whole public report (such as a sustainability report) extracts of which are included in this year's PRI Transparency Report
- ☒ ESG audit of holdings

**CM 1 01.12**

Describe the process of external/third party ESG audit of holdings, including which data has been assured.

Description of process (including what data has been assured)

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

Any fund applying for the LuxFLAG ESG label not only has to be approved by an Eligibility Board, made up of senior figures from the European ESG research industry. It also has to undergo an independent annual control underpinned by an external audit firm review of its entire portfolio to ensure that it retains the high standards of ESG integration expected of it. We find this a very credible approach, providing smaller investors with the same kind of level of due diligence that institutional investors get by employing consultants, and at the same time impressing institutional investors when they see it.

- ☐ Other, specify
- ☐ None of the above

**CM 1 01.7****Mandatory****Public****Descriptive****General****CM 1 01.7**

Indicate who has reviewed/verified internally the whole - or selected data of the - PRI Transparency Report . and if this applies to selected data please specify what data was reviewed

**Who has conducted the verification**

- ☒ CEO or other Chief-Level staff

Sign-off or review of responses

- ☒ Sign-off
- ☒ Review of responses
- ☐ The Board
- ☒ Investment Committee



## Sign-off or review of responses

- ☐ Sign-off
- ☒ Review of responses
- ☐ Compliance Function
- ☐ RI/ESG Team
- ☒ Investment Teams
- ☐ Legal Department
- ☐ Other (specify)