

Sparinvest SICAV Ethical High Yield Value Bonds

FIXED INCOME

Busy start to the year

Fund Update

The team kept up momentum in 2017, continuing active engagement with two portfolio companies and initiating dialogue with another, as well as marking two important fund milestones.

We are pleased to announce an achieved improvement regarding the ESG profile of the pharmaceutical company that we started engaging with last year. Along with our service provider, and based on third party reports, we have assessed their mitigation steps as successful in terms of addressing the human rights risk that first prompted our engagement. In February, unfortunately, news of corruption allegations against the company came to light. We have requested further details from the company about the implementation and training of its Code of Conduct, anti-corruption breaches policy and statistics on the usage of the whistleblower system.

The newly-established dialogue with an integrated oil company facing environmental risk allegations did not result in any material change, hence we continue the effort to push the company for policy and procedure updates.

In March, after a comprehensive internal review of a corruption case involving an integrated oil company, we initiated engagement targeting several issues that we believe would enhance the validity of their remediation efforts and the perceived effectiveness of the new measures implemented.

In addition to the above-mentioned engagements, we are pleased to announce the following fund updates. In order to reflect the underlying investment strategy and overlay, we have changed the fund name to 'Ethical High Yield Value Bonds'. Moreover, as announced previously, we have committed to the Montreal Carbon Pledge during the quarter, using the carbon footprint data measured in November 2016, which positioned the fund's weighted average carbon intensity at 57% less than The Bofa Merrill Lynch Global High Yield.

Finally, at the end of the quarter, we published the exclusion and engagement approach for the fund as part of the overall Fixed Income policy document available in our Responsible Investment Library on our website.

Group Engagements

Sparinvest participated in collaborative engagement via our service provider, targeting 34 companies in confirmed or alleged breach of international norms across environmental, social and corruption issues.

Sparinvest actively-managed funds have divested investments in Philips 66, due to the increased ESG risk given the conflict over the Dakota Access Pipeline project. We engaged directly with the company, but their response did not adequately address our concerns. During Q1, Sparinvest submitted its UN PRI Transparency Report. This included numerous engagement case studies which we hope to share with investors in the coming months.

As part of the UN PRI Sustainable Stock Exchanges initiative, we were invited by UN PRI to join a newly formed Advisory Committee for the Investor Working Group that is driving forward the next stage of the initiative. In addition to working closely with the Luxembourg Stock Exchange during Q1, Sparinvest also undertook to write to a second exchange to encourage involvement in the initiative.

Over the coming months, Eurosif will be contributing to the European Commission's High-Level Expert Group on sustainable finance which was convened to provide recommendations for a comprehensive EU strategy on sustainable finance as part of the Capital Markets Union. Sparinvest, as an individual member, joined the working groups involved with these projects in Q1 and will contribute to their ongoing work.

Responsible Investments at Sparinvest

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

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

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