

## Sparinvest SICAV Ethical High Yield Value Bonds

FIXED INCOME

# Three new engagements

## Fund Update

On behalf of the fund's investors, we continue dialogue with those companies that are already part of our engagement programme. This quarter, the team has initiated dialogue with two further portfolio companies while researching and planning a third new engagement.

One of our new engagements is with a portfolio company that has been undergoing remediation after a verified failure of governance norms related to bribery and corruption. We are looking at the remediation plan presented by the company and aim to discuss several measures that we believe would enhance the validity of their efforts. The team has thus far received a positive response from the company and an investor call has been set-up to discuss the remediation plan. One of Sparinvest's aims is to press for a public statement from the CEO of the company, making a strong commitment to managing the ethical risks and restoring the company's reputation.

On behalf of our ethical strategies, we have divested our holding in a company this quarter due to environmental and governance issues. The company had been under the team's review for deforestation risks associated with their operations. A second assessment of potential norm violation was issued by our service provider for the company due to allegations of bribery. These allegations strengthened the case for failed governance mechanisms in the company's top management and shareholder structure and has affected the business case given the higher risks.

We sent the company a letter describing the risks that led to our divestment and suggestions for remediation steps to which they have responded in a quite constructive manner, and we are continuing dialogue with them.

Our screening service provider flagged a portfolio company operating in the financial sector for an alleged violation of governance norms – namely failure to respect freedom of expression. Information on the subject suggests that the company's governance mechanisms protected the whistleblower and it may have been an isolated incident. However, to ensure that these mechanisms work properly to address similar issues if they arise in the future, we plan to engage with the company. We will request details about the policies and procedures they will pursue to ensure freedom of expression within the organization. We will as well ask for further clarifications regarding the incident to ensure that it is not evidence of a toxic corporate culture with respect to freedom of expression.

Regarding the ongoing engagements, we have received a very constructive initial response from the integrated oil portfolio company. The dialogues with the other two companies we have engaged with have not advanced, but we continue the effort to push the companies for policy and procedure updates.

## Group Engagements

During Q2, Sparinvest continued its involvement with the Sustainable Stock Exchanges, entering dialogue with a further major Stock Exchange group to encourage it to participate in the initiative. The response was encouraging and the next step is likely to be a direct meeting between the exchange and the PRI. As members of the Eurosif Transparency Label working group, we were involved in discussions about how the label application process might be adapted to capture information about funds' climate change policies.

### 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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