

Corporate Value Bonds/Ethical High Yield Value Bonds

FIXED INCOME

First RI Update

To add value for those of our clients whose focus is on the ethical/moral concerns that can arise within investment, we aim to provide regular information on ethical and ESG-related developments concerning this fund. This is therefore the first in what will be a quarterly update on Sparinvest's RI and engagement activities related to Corporate Value Bonds. We also mention Sparinvest Group's engagement activities.

Within this update, we mention and briefly describe current engagements but it is our policy not to disclose the names of the companies involved in ongoing cases. We aim for constructive two-way dialogue with portfolio companies and feel that adding public pressure may, in some cases, hinder the process. For this reason, we choose to respect companies' privacy and not disclose their names until engagements are resolved/ended.

Fund Update

Q3 2016 was the first direct engagement of the Value Bonds team on norms issues other than governance/corruption.

The team began engagement with a pharmaceutical portfolio company on a Human Rights matter. We have previously been involved in collaborative engagement through our service provider with the company. The company has been active in responding to the allegations regarding the violation of international norms and has undertaken remediation efforts. However, the robustness of the measures they have taken has yet to be validated by third-party stakeholders.

During the quarter, two portfolio companies were flagged 'Amber' by our services provider for international norms breach allegations – one on an anti-corruption matter and the other on depletion of biodiversity. The team is working on analyzing these cases and intends to engage with the companies in question to gain greater understanding of the issues. Approval has been sought from the Responsible Investment Committee to remain

invested for the time being, but this decision will be revisited in the light of engagement progress.

In the same period, a decision was made to change the name of the fund to 'Ethical High Yield Value Bonds' to highlight the fact that this fund is subject to ethical screening - unlike the other bond funds under management at Sparinvest.

We recognize that there are numerous developments within the RI field and we like to stay informed and educate ourselves on relevant topics. To this end, the team had a meeting with bankers on various aspects of issuing Green Bonds and their potential appeal to funds like ours. We are currently not invested in any green bonds, but are following developments as the market sees huge growth in the area.

Group Engagements

During Q3, we renewed our involvement with the supra company Sustainable Stock Exchanges Initiative, taking on the role of lead investor in engagement with the Luxembourg Stock Exchange. The aim of the initiative is to explore how exchanges can encourage sustainable investment by - for example - issuing guidance to listed companies on transparent ESG reporting.

Via our service provider, Sparinvest participated in pooled engagement, targeting companies in confirmed or alleged breach of international norms. We do this regardless of whether we have investments in these companies, in order to lend our voice to the effort to get them to remedy and mitigate ESG risks. 31 companies were targeted in Q3, 12 for Environmental issues, 12 for Human or Labour Rights issues and 7 for Corruption issues.

In addition to the above, the Value Equities team continued its participation in the PRI-led collaborative engagement on Human Rights in the Extractives Sector where we are joint lead investor in dialogue with one of our holdings which is also amongst the world's leading energy companies.

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. 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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