

Corporate Value Bonds/Ethical High Yield Value Bonds

FIXED INCOME

Three Engagements

Fund Update

Q4 2016 was a busy period, for the Value Bonds team where we engaged directly with three companies on behalf of the fund's investors.

The team continued engagement on a Human Rights matter with a pharmaceutical portfolio company, which manufactures, markets and sells several drugs liable for use in lethal injections. We encouraged the company to share its policy on the use of drugs for capital punishment purposes and examples of the language included in the contracts meant to prevent distribution to penitentiaries. We think that these disclosures will enhance the reliability of the restrictions applied by the company. More importantly, we have requested the company to inform us how they will handle any breaches of their contractual restrictions should these occur.

The team has begun engagement with an integrated oil company on an Environmental issue regarding alleged depletion of biodiversity and alleged poor environmental diligence. We have previously been involved in collaborative engagement on these matters but the company has failed to answer recent allegations. During the quarter, we have also acted on a credit committee where, among other things, we have achieved a strengthening of the governance at a family owned company through the addition of a new independent board member and a new management incentive program.

The team has continued planning a further engagement with an integrated oil company.

Furthermore, in November, we measured the carbon footprint for the Corporate Value Bonds fund in anticipation of committing the fund to the Montreal Pledge. Upon signing to the pledge, after Q4, Sparinvest commits to measure and publicly disclose the carbon footprint of this fund's portfolio annually. The metric used

by MSCI Carbon Portfolio Analytics to calculate the carbon footprint for fixed income portfolios is the weighted average carbon intensity. This metric indicates a portfolio's exposure to potential climate change-related risks (e.g. market and regulatory risks) relative to other portfolios or a benchmark. The fund's weighted average carbon intensity stands at 57% less than The Bofa Merrill Lynch Global High Yield. This is the first carbon footprint measured for this fund and is the baseline from which we can measure our efforts to reduce carbon emissions/risk.

Group Engagements

Sparinvest participated in collaborative engagement via our service provider, targeting 17 companies in confirmed or alleged breach of international norms, 6 for Environmental issues, 8 for Human or Labour Rights issues and 3 for Corruption issues.

In addition, we held meetings with the Luxembourg Stock Exchange as part of the supra company Sustainable Stock Exchanges Initiative, looking at such issues as raising awareness of gender equality and exploring how exchanges can encourage sustainable investment by - for example - issuing guidance to listed companies on transparent ESG reporting.

From time to time external parties approach us with information that may or may not be relevant to our responsible investment strategies. We always take such approaches seriously and take the time to respond in as much detail as possible - especially where portfolio companies are concerned. During Q4, we engaged in a dialogue with the NGO's Danwatch and Greenpeace on two different human rights issues that involved some of our portfolio companies. While we do not always agree with the NGOs assessments of the companies that we invest in, we value their input and welcome knowledge sharing as we think it often leads to a better understanding of complex issues.

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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