

Value Bonds – Global Ethical High Yield

FIXED INCOME

External activities

Fund Update

We are happy to share that this quarter marks three years since we started the quarterly updates.

External meetings: Our team is participating in this year's Nordic Investment Managers' Forum and presenting 'ESG in Credit: Perception vs Reality of Engagement in High Yield Portfolios'. We are proud to be a part of an event that enables us to share with the community our approach to engagement and the motivation behind it. As part of preparing for the event we met with journalists from Investment Europe magazine to discuss our views of how fixed income teams can engage with companies on ESG matters. In addition to this meeting, team representatives have participated in two other events in Copenhagen on new developments within the responsible investing field. Given the number of events and initiatives in the community and the speed of development, we consider it important to stay up-to date and educate ourselves on what is happening in the world of responsible investing.

Engagements: We previously announced that we have begun engaging with an oil & gas company regarding environmental issues. We have been impressed with the remediation work done by the company to address the risk of future oil spills, and have brought this to the attention of service providers. We are pleased that the company has agreed to publish an in-depth case study on this, which we hope to share with you in the near future.

We have begun planning an engagement on corporate governance with an investment holding company that has a large exposure to telecommunications and technology sectors through their portfolio companies. One of these has shown some corporate governance issues. While we believe that the impact of these risks on the parent is limited, we think that there is an opportunity to improve group level governance policies and mechanisms to ensure stronger corporate governance at the portfolio company level and thus strengthen corporate value.

Other News/Group Engagements

Climate Action 100+: This is the world's largest investor engagement on climate change. It seeks to encourage 161 of the world's heaviest greenhouse gas emitters, accounting for over two thirds of global industrial GHG emissions, to adopt net zero business strategies. Members of Sparinvest's bond and equity teams are pleased to be participating in this important initiative. Climate Action 100+'s first progress report praises the role that investors are playing in encouraging substantial net zero commitments from companies across a range of industries, but reveals that there is still a lot more work to do in specific areas.

Data from the report will be used to establish future progress against the core goals of the initiative. At present, across the 161 focus companies:

- 70% have set long-term emissions reduction targets.
- Only 9% have emissions targets in line with or less than the 2°C minimum target of the Paris Agreement
- Only 8% of companies have policies to ensure their lobbying activity is aligned with necessary action on climate change.
- 40% undertake and disclose climate scenario analysis, and 30% of companies have formally supported recommendations of the Task force on climate-related Financial Disclosures.
- 77% have defined board level responsibility for climate change.

Supra-company engagements:

Sparinvest is supporting an initiative by Swiss Sustainable Finance calling on global index providers to exclude controversial weapons from their mainstream indices in order to align their products with what has become standard practice or expectation among institutional and individual investors. In April and September, we participated in separate meetings with two major index providers to highlight our concern that controversial weapons manufacturers remain present in mainstream indices, meaning that they are often automatically purchased by index funds.

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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