

Value Bonds – Global Ethical High Yield

FIXED INCOME

Opioid Crisis, Biodiversity and Green Bonds

Fund Update

Update on previous engagement: We continue to monitor the previously initiated engagement with an U.S. pharmaceutical company, involved in the high-profile opioid crisis and allegations of misconduct. As of our last interaction with the company we believed they have adopted credible measures and are encouraged by the public commitment towards a comprehensive solution to the risks of opioids abuse. We uncovered significant progress being made to their processes and programs in place to ensure truthful promotional activities and urged the company to improve the disclosure of the measures to the public. We have informed our service provider with respects to our findings and the company has since improved disclosure and communication, which led to a review by our Service Provider. Within this review, the Service Provider acknowledged the progress being made, the credibility of the measures adopted and the additional disclosure. Credible measures have also been adopted to manage risks of opioids abuse and misuse of opioids as well as demonstrated standards of marketing practices, which comply with legal required standards for consumer health and safety.

However, the opioid epidemic has had significant medical, social and economic consequences and cannot be solved by a single actor. A comprehensive solution must be multifaceted and involve multiple stakeholders and can potentially extend over a long period of time in an effort to best tackle this complex public health challenge. As such the company is involved in active engagement with stakeholders to address the crisis of opioid addiction and participates in government and stakeholder initiatives to control the abuse. Given the complexity and severity of the situation, this remedial action has yet to be deemed sufficient and remains an outstanding point before the engagement can be concluded. As such we will continue to monitor the progress being made in this area and consider the engagement case still outstanding.

We initiated a new engagement with a global mining company regarding the environmental impact of their newly built mine.

The company is facing allegations that it has failed to prevent deforestation and depletion of biodiversity at their recently completed mining project in Central America. While we acknowledge the current Covid-19 pandemic has had a challenging impact on mining companies to continue operating, we believe as mines return to operation, so should the increased focus and scrutiny on environmental protection and conservation. We have reached out to the company and urged them to provide disclosure of reforestation and conservation plans for the area impacted as well as any progress made with regards to implementing those plans. We further requested to hear any measures taken to reduce or mitigate the project's environmental impact, to ensure efficient use of natural resources, including management of biodiversity.

Other News

We also engage with companies that are out of this fund's scope due to sector exposures. We have initiated an engagement with a large hotel and casino operator in Asia, which has been alleged to fail to respect union rights. Significant improvements have been identified with commitment to make relevant policies public.

Green Bonds are on the rise. Green bonds are no different than conventional bonds, except that bond proceeds usually are earmarked for environmentally beneficial projects. According to several investment banks, the green bond market is now over USD 1tn, with expected issuance of approx. 400bn this year versus 300bn last year, although predominately within Investment Grade. There are currently 39 bonds in the Global High Yield benchmark of which the fund is invested in two. There are indications that green bonds have a broader investor base and thus benefit with having lower yields. As an investor, the dilemma becomes apparent when an existing issuing company issues a green bond where the proceeds are dedicated to "green projects", as the bonds usually rank equally in a bankruptcy or restructuring. Should one invest in the dedicated bond with lower spread or the "regular" bond knowingly the company overall is moving in a more green direction. We do not believe it is black or white and evaluate the dilemma case by case.

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 foot printing 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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