

Sparinvest SICAV Ethical High Yield Value Bonds

FIXED INCOME

Strengthening Engagements in 2018

Fund Update

To further strengthen our responsible investing impact, the team decided in Q4 to sign up for our first collaborative engagement initiatives on behalf of the clients of the fund. We are joining two important new PRI-coordinated engagements - on climate action and cyber security - issues which we deem will be increasingly important in the coming years. Sparinvest will lead dialogue with companies in each of the two initiatives. Through these, the team aims to build stronger knowledge while continuing to develop its engagement expertise. By participating in these initiatives, Sparinvest will add to their impact, as the invitation for engagement from a larger alliance might be more difficult for a company to ignore than one coming from a single investor.

The Value Bonds team will represent Sparinvest on the highest profile and most ambitious global collaborative engagement, 'Climate Action 100+'. The initiative has gathered 225 investors with more than USD \$26.3 trillion in assets. It is coordinated by five partner organizations and will span five years. The engagement will aim for climate action from the worst 100 emitters of CO₂ - which includes some of our portfolio companies. The initiative will kick off in early 2018 and the investors will be paired with companies soon thereafter. The cyber security collaborative engagement began in Q4. Here, the Value Bonds team is leading dialogue with a healthcare company on its cyber security governance risks and opportunities. We are pleased to report that the team has already established a dialogue with the target company and is making progress towards the engagement goals.

As part of committing the fund to the Montreal Pledge, we measured the carbon footprint of the Ethical High Value Bonds fund in November. The fund's weighted average carbon intensity stands at 27% less than the ICE BofAML Merrill Lynch Global High Yield. The main drivers of the increase of the carbon footprint is the higher exposure of the fund to the

energy sector of 21,3% vs 8,8% in 2016 and the absolute reduction of 17% in the carbon intensity of the fund's benchmark. Joining the Climate Action 100+ initiative is part of our commitment to working towards reducing the carbon footprint of the fund.

In addition to the above, the team has decided to engage with a portfolio company on a governance normative issue newly flagged by our norms screening service provider. The decision to 'hold and engage' was supported by the Responsible Investment Committee.

Previously, the engagement with a pharmaceutical company was suspended as the dialogue was not fruitful. However, monitoring the changes in management and development of the company, the team felt encouraged to make a new attempt at getting a response from the company on certain allegations of corruption and bribery.

Furthermore, the team has continued to drive the engagements efforts with the financial and the materials companies.

Group Engagements

During Q4 2017, Sparinvest participated in the final SSE Investor Working Group Advisory Committee call whereby objectives and action plans for the next stage of the Sustainable Stock Exchanges initiative were discussed and agreed.

We participated in a workshop arranged by CSR Europe (the European Business Network for Corporate Social Responsibility) to promote Integrated Reporting by listed companies. In order to show our support of integrated reporting, we signed the IIRC Investor Statement.

We also reviewed the final draft of the Eurosif Transparency Code and Manual. The Code has now been revised in line with French climate action legislative requirements. A new European Transparency Code label for qualifying funds is expected to be introduced during the first quarter of 2018.

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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