

Value Bonds – Global Ethical High Yield

FIXED INCOME

Busy end to the year

Fund Update

Company Engagements: During the quarter, we successfully concluded on an engagement with **Bausch Health** (known as Valeant Pharmaceuticals until July 2018), a global manufacturer of branded and generic pharmaceuticals and medical devices domiciled in the US. The engagement surrounded issues dated back to 2014 when a former executive of the company, received USD 10 million in bribes in exchange for favoring the online pharmacy, Philidor, ahead of competing mail-order pharmacies. We initiated our engagement in beginning of 2019 and the following 11 months we had several iterations by mail and phone with the aim of gaining sufficient evidence of improved policies and risk monitoring programs to avoid future incidents. In December 2019 we received an update from our service provider stating they considered the company's anti-corruption enhancements to be credible and properly addressed. The assessment was based on the actual measures taken by Bausch Health to address the controversy, and in addition, the long timeframe since the alleged controversy occurred.

We are also pleased to announce significant progress on an ongoing engagement with an US pharmaceutical company, involved in the high-profiled opioid crisis and allegations of misconduct, in relation hereto. We are encouraged by the public commitment towards working on a comprehensive solution resulting in mitigating the risks of opioids abuse. We will continue our dialogue with the company and hope to be able to report further progress in our next update.

Other News/Group Engagements

Merger with Nykredit strengthens our ESG competences

In October 2019, the final step of Sparinvest's merger with Nykredit Asset Management was completed. Combining the forces of ESG teams, knowledge and skills across the two companies enables us to be even more involved and pro-active within the area. Both companies have a long and strong track on ESG and are committed to expand it further as one company.

Cyber Security Collaborative Engagement Concluded

In 2018, Sparinvest signed up to the UN PRI-sponsored Cyber Security Collaborative Program as lead-investor in an engagement with the French publicly listed, private equity firm **Eurazeo**. The firm has a strong position in the small and mid-cap space and aims to grow and enhance the potential of the companies in which it invests. At the beginning of the engagement, Eurazeo had certain cyber security measures in place, but had some reluctance disclosing them. Sparinvest believes that benchmarking the company against best-in-class peers and specifically pointing out "how others report" on cyber security can help overcome this initial hesitation. As a lead-investor, Sparinvest gained increased knowledge of the cyber security risks faced by companies in certain sectors, and the policies that should ideally be in place to mitigate them. It has given us a useful framework for conducting investment analysis and future engagements with companies on this topic. One of our key observations is that board level contact increases the chances of success.

The engagement was concluded during Q4 with the following results, a fully formalized cyber security policy, which was introduced at holding company level, improved disclosure and the launch of a working group that covers cyber security, which includes conducting a risk materiality analysis. It also sets out the governance framework on cyber security, it reports on training and on insurance. We also noticed that cyber security is now part of the overall ESG policy towards its portfolio companies – meaning that these companies directly benefit from Eurazeo's expertise in this field.

Launch of dedicated ESG section on www.sparinvest.lu

In 2019, Sparinvest launched a dedicated section on the website providing full transparency on how ESG is implemented across the investment strategies. Investors are able to dive into the overall policies and get more details.

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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