

Value Bonds – Global Ethical High Yield

FIXED INCOME

Carbon engagement and footprint

Fund Update

Carbon Engagement: During the fourth quarter we sent companies the third and final notice for our carbon enquiry. We are glad to share that at the time of writing, the updated total of companies that have responded is 82, representing more than 70% of AUM. Some of these have explained that they cannot provide the information we are asking for – or are in the process of making it public – while 51 of them have answered our questionnaire, which represent approx. 44% of AUM.

This leaves 37 companies that have still not responded. In our follow-up correspondence, we have urged these companies to take the following three steps: assign responsibility for climate related risks to a senior executive or board member by end 2019; develop and publish a climate change and transition policy by end 2019; commit to a carbon emissions reduction target by end 2020.

We sent the third notice for the attention of the executive management or board of directors, thereby sending a signal at the highest level that these issues are of extreme importance to investors.

The next step in the initiative is to map the answers received, classify the companies based on specific metrics and develop engagement letters with tailored action points and recommendations that are relevant and meaningful for each company.

Carbon footprint: We measured the carbon footprint of the fund for the third consecutive year. For the first time our footprint is higher than the benchmark by 1%.

The reason for the increase in carbon footprint is our sector allocation which is overweight in Energy and Utilities which are higher intensity sectors and underweight in Financials and Telecommunications which are low carbon intensity sectors. Since last year, our overweight in Energy has increased from +7.6% to +8.5% and in Utilities from -0.8% to +0.5%.

Sector allocation is the result of our bottom-up analysis investment process which determines where we see value in credit.

Within these sectors, we are selecting less polluting companies than the benchmark sector average.

Our Responsible Investment strategy is underpinned by ESG integration and engagement – which is why the carbon engagement initiative started this year is very important for our goal to reduce the carbon footprint of the fund as well as impact performance. The companies that we are continuing dialogue with, and for which we will pursue specific recommendations, account for 64% of the fund's footprint. The non-responsive companies account for 28%.

We are working on a process to gain access to carbon intensity data throughout the year to support our monitoring of the carbon footprint of the fund and support our ESG integration process as well.

Engagements: Regarding open engagement dialogues, the situation has not changed with respect to the three engagements with companies that we hold in the fund. We continue to monitor them and follow the cases but there has been no noteworthy news to warrant new enquiries.

Other News/Group Engagements

From this quarter onwards, we will include here other relevant updates regarding the fund or the Value Bonds team. For group level initiative updates, we would like to refer investors to the ['Responsible Investment Review'](#), which covers RI news across all Sparinvest asset classes.

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.*

This material does not constitute individual investment advice and cannot form the basis for a decision to buy or sell (or an omission thereof) of investment certificates. The material has been prepared for information purposes only and investors are encouraged to seek necessary professional advice before buying or selling investment certificates. Sparinvest does not undertake any responsibility for the advice given and actions taken or not taken in respect of this material. The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. Investors are urged to read the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV prior to investing. The documents are available at sparinvest.lu. There are always risks involved when investing and it is stressed that past performance or past return cannot be considered as a guarantee for future performance or return. Investors may not get back the full amount invested. Sparinvest makes reservations for possible typing errors, calculation errors and any other errors in the material.