



Ethical Investments at Sparinvest

Returns – Transparency - Values

Sparinvest

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Investing with Values at Sparinvest

At Sparinvest, our approach to investing responsibly focusses on returns, transparency, and values. We believe that ESG integration and stewardship are powerful tools, allowing investors to maintain diversified portfolios while considering both the risks and opportunities created by environmental, social and governance issues. In our active strategies, these are among the considerations that can lead our teams to select or reject potential investments. Across our strategies, we also work with companies to encourage stronger governance and sustainability.

We also offer a variety of strategies for investors who wish to go further, and more explicitly align their investments with personal values, or goals for wider society, which may involve excluding certain investments. Such funds do have more explicit sustainability aims, but we do not think this means compromising financial returns. On the contrary, those companies which are more pro-active in exploiting ESG opportunities, or mitigating ESG risks, can often combine a positive impact on society, with strong long-term value creation.

Sparinvest has over a decade of experience in screening funds and applying exclusionary filters on behalf of such investors. An example is our range of Ethical funds, but we can also tailor segregated solutions for clients who wish to establish more specific exclusionary criteria.

Universal Exclusions

We set a clear baseline for exclusions. None of our strategies will invest in companies that are confirmed producers or distributors of controversial weapons. This means anti-personnel mines, cluster munitions, biological weapons, chemical weapons, depleted uranium, and nuclear weapons outside the Nuclear Non-Proliferation Treaty. If an existing holding is found to have started such activities, we will divest it as soon as reasonably possible.

Actively Managed Ethical Funds

We also offer a range of solutions which go further. Sparinvest's range of actively managed ethical funds are based on our most popular value investment strategies. As such they too rely on Sparinvest's ESG integration and stewardship processes. These funds, however, go through an additional process – the application of an ethical overlay, which results in the exclusion of certain investments. The exclusionary criteria for our ethical funds result from ongoing consultation with clients, but are broadly categorized as being either norms-based or sector-based.

- Sparinvest SICAV – Ethical Global Value
- Sparinvest SICAV – Ethical Emerging Markets Value
- Sparinvest SICAV – Value Bonds - Ethical Global High Yield

This document describes the exclusions that apply and how they are implemented and monitored by Sparinvest, in partnership with external ESG research specialists.

Norms-based Screening and Exclusions

All funds at Sparinvest also undergo norms-based screening, and the results form part of the overall ESG research that our investment teams consider as they carry out fundamental analysis and security selection. However, in our ethical funds, the results of norms based screening lead to hard exclusions based on violations, as described below.

In this screening, corporate conduct is assessed within the context of a global normative framework, which, broadly speaking, covers four key areas:



Human rights



Labour standards



Environment



Anti-corruption

The analysis aims to identify breaches of international initiatives and guidelines such as:

- UN Global Compact Principles
- The UN Guiding Principles on Business and Human Rights
- International Labour Organisation Conventions
- United Nations Convention Against Corruption
- OECD Guidelines for Multinational Enterprises

N.B. Regarding the screening of banks, financing loans for specific projects fall within the scope of norms based screening whereas normal lending activity does not.

Norms-based screening is carried out on a continuous basis. Analysis results in a list of companies classified by our service provider as having verified failures to respect established norms, which are not undergoing remediation. Such securities are excluded from the ethical funds.

Norms-based analysis also results in lists of companies classified in other categories, such as those with alleged but unconfirmed breaches, verified breaches which the company is addressing, potential breaches which have not yet occurred, and other situations. In such circumstances, the portfolio managers make a qualitative consideration of the specific situation, looking at the nature of the alleged or confirmed norms breach, and the speed and nature of the company's response, including remedial actions and steps to prevent recurrence. This is then discussed at the Responsible Investment Committee, and in some cases, it can lead to such companies also being excluded from the ethical funds.

Sector-based Screening and Exclusions

Sector-based screening considers the proportion of revenue that companies derive from involvement in certain industries.

Sector-based screening operates with zero tolerance for production and max 5% tolerance for distribution of:



Alcohol



Tobacco



Gambling



Pornography



Weapons



Thermal coal



Oil sands

Weapons: Zero tolerance for revenue derived from combat equipment. Max 5% tolerance for revenue derived from other military equipment and associated services.

Thermal coal: Max 5% tolerance for thermal coal production. (Metallurgical coal, which is essential to steel production/manufacturing, is permitted.) Data or estimates of revenue shares are based on company public information, information provided by the company in response to ISS-Ethix's inquiries, or reliable secondary information.

The source for business involvement data is companies' official annual reporting. The sector-based screening results in a list of companies classified by our service provider as having exposure to the relevant sectors above agreed tolerance levels. Such securities are excluded from actively managed ethical funds and from the passively managed ethical fund, Sparinvest INDEX Globale Aktier – Etik.

Alerts, Exclusion Lists and Divestment Policy

For ethical funds, screening occurs both prior to investment in new holdings and on an ongoing basis for existing fund holdings.

Portfolio managers and analysts monitor fund investments on a daily basis, and many new incidents that could cause a change in a company's exclusionary status will be caught in this day-to-day review of company specific news. In addition, we receive rolling ad hoc alerts from our service provider regarding any changes in assessment of companies as a result of controversial weapons, norms or sector-based screenings.

Sparinvest's Middle Office maintains up to date exclusion lists for the relevant funds on the basis of exclusionary screening information, ad-hoc alerts, and the decisions of the Responsible Investment Committee. These exclusion lists are used for pre-trade compliance checks and daily screenings of the portfolios by Middle Office for any breaches of the ethical policy.

Companies which are classified as excluded from a fund may not be bought, and if existing holdings are reclassified to this status, they must be divested as soon as reasonably practical (trading strategy subject to considerations of market impact and best execution).

As an additional precaution, all holdings are submitted for relevant screenings on a semi-annual basis.

Reviewing Screening Requirements

Sparinvest's Responsible Investment Committee is responsible for monitoring and reviewing potential new screening criteria for ethical funds. In doing so, the committee has reference to ongoing consultation with clients, other industry participants and general industry trends. Clients are notified of changes via both direct communication such as presentations or coverage in our Responsible Investment Review, and via our website.

Engagement Policy for Ethical Funds

Engagement at Sparinvest seeks to be a respectful and constructive dialogue with investee companies, focussed on cases where we see potential for meaningful impact on corporate value and sustainability.

Where our service provider has identified a normative issue affecting a holding in our actively managed funds, we are committed to engaging with the company in order to seek appropriate remedial action, policy improvements and the prevention of recurrence of any breach.

Normative engagements combine two methods which we believe offer efficiency and good potential for impact

- Direct engagement by Sparinvest to explain our concerns and seek serious steps to address them.
- Collaborative engagement with other investors, led by our service provider

Carbon Footprinting

Sparinvest acknowledges that the most urgent sustainability issue recognised by policy makers and investors alike is climate change. For this reason, our actively managed ethical funds are committed to the Montreal Carbon Pledge. This means that we calculate their carbon footprints and publish them on our websites on a regular basis.

Emissions data are used to guide engagement activity.

Sparinvest Passively Managed Ethical Funds

In addition to the actively managed ethical funds mentioned above, Sparinvest also offers two passively invested funds that have ethical characteristics as a result of exclusions.

- **Sparinvest INDEX DJSI World:**
 - Benchmark is: Dow Jones Sustainability World (excluding Alcohol, Gambling, Tobacco, Armaments & Firearms and Adult Entertainment) Index.
 - Benchmark construction limits investments to the top 10% of large cap sustainable companies, based on their Total Sustainability Score (TSS) as assessed by RobecoSAM, the founders of the DJSI Index series. This results in a 'best in class' portfolio.

- **Sparinvest INDEX Globale Aktier – Etik:**
 - Benchmark is: MSCI All Country World Index
 - The universe is subject to a norms based screening to exclude verified breaches as well as a screening based on MSCI IVA ratings to exclude companies rated as CCC (meaning 'worst in class' from an ESG perspective.) The resulting portfolio is then adjusted so that the 'risk gap' created by the exclusion process is filled by exposure to companies that are not in breach of the screening criteria and have similar characteristics to those that have been excluded. The result is a portfolio engineered with the aim of delivering the same returns as the benchmark but without exposure to the companies with verified norm breaches or the lowest ESG scores.

Both funds use Stewardship to influence holdings. Sparinvest exercises active ownership on behalf of all its index funds which, as a result, participate in voting on holdings of EUR 1 million+ and service provider engagements.

Segregated Solutions

Sparinvest can also tailor segregated solutions for clients who wish to establish more specific exclusionary criteria. This can be achieved in a choice of investment vehicles. Implementation of these exclusionary screens is carried out in partnership with external ESG service providers.

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