

## Value Bonds – Global Ethical High Yield

FIXED INCOME

## Mining for ESG

## Fund Update

**Corona virus still impacting company dialogue:** Similar to Q1, engagement activity in Q2 has been limited. As societies and countries are cautiously reopening, many companies are focused on the best strategy to restart activities - rather than replying to ESG inquiries. Nevertheless, we managed to conduct ESG related work on three companies – one ongoing situation and two new.

**Our engagement with an opioid involved U.S. pharmaceutical company initiated in 2019** is still pending the final revision from our Service Provider. As mentioned in the Q1 update, we believe that the company has adopted several and significant counter measures, that, to our best knowledge, were not accounted for by the Service Provider. The response so far has been that they acknowledge the efforts and procedures implemented by the company, but that they review all companies involved in the controversy as a cluster, hence are preparing a more extensive industry update including all the involved companies. The update is expected in August and will hopefully result in a positive assessment change.

Through our fundamental research process, **one new case with significant ESG risks was identified in Q2.** Immediately after investing in the bonds of the South African mining company in April, we initiated engagement. Our main focus area was issues surrounding health and safety measures across their mines. Secondly we raised our concern regarding labor unrest and community backlashes, as the company was not compliant with the previous Social and Labour plans which entails, among others, providing adequate standard of living and affordable housing to employees.

Late April, the company published an Integrated Report containing steps undertaken to improve their Health and Safety metrics. They outlined a Zero Harm Strategic framework as a key initiative to lower health and safety incidents and the company recently achieved 11 million fatality free shifts as well as formal ISO 45001 certification.

The company reaffirmed their commitment to implementing the Social and Labour plans (SPLs), including honoring the backlog of SPLs commitments, with regards to the affected community, which has been plagued by previous non-compliance and negligence by the former owner of the mine. A timeline for implementation has been given and the company is currently on track for meeting those commitments. Further stakeholder consultations are expected to take place this year.

**Finally we participated in an ESG survey by a Russian gold mining company,** providing them with specific measures on how to improve their ESG profile. Among others, we 1) highlighted the limited evidence of initiatives to improve water-intensive operations 2) urged them to set reduction targets and disclose performance metrics of its waste and toxic releases and 3) raised our concern on lack of gender diversity on management and board level.

## Other News

**Corona positive impact on ESG funds:** Although not directly linked to any SDGs or ESG related issues, we believe the Corona pandemic will have a positive impact on ESG focused funds – both in terms of future AuM and returns.

The pandemic has revealed significant structural and fundamental weaknesses across the world and how the globalization magnifies issues exponential. On the other hand, it also revealed that even short term, though far-reaching, initiatives can have a substantial impact on the world around us.

With respect to the E in ESG, the reduction in air travel and production, showed us that clear waters and blue skies are within reach. We also witnessed how companies were quick to adapt to measures that they were reluctant to take in the past, such as the ability for their workers to work from home, have flexible hours, and have meetings via conference calls rather than taking trips. We believe that companies supporting these initiatives will prove to be more sustainable and profitable in the future.

## 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.*

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](http://sparinvest.lu)