

Value Bonds – Global Ethical High Yield

FIXED INCOME

Turning up the heat on Climate Action

Fund Updates

Climate transition is a process that will take time and encouragement, especially for those companies whose business models require the greatest adaptation. As such the focus of the majority of engagements conducted this quarter was on a climate change.

This action follows the success of the previously conducted major thematic engagement by our team, targeting all companies in the portfolio. The initial aim was to gather information on climate related risks and opportunities as well as disclosures and targets and use that information to develop more targeted engagements. Following the good response on our inquiries as well as an increasing amount of data being made available on company specific initiatives, *we are turning up the heat* on climate change engagements to encourage our investee companies to improve on specific measures. The engagements initiated this past quarter targeted some of the highest carbon intensity companies within the portfolio and spanned across several industries.

New Engagements

During the quarter, we initiated an engagement with a chemical company in Mexico. As one of the companies with the highest carbon intensity in the portfolio, we have also identified the issue of high water withdrawal intensity during their production process as part of our analysis of the company. The company had several encouraging initiatives towards a more sustainable production including implementing an environmental management system, disclosing carbon emissions and committing to end the production of Ozone Depleting Substances. While we acknowledged the good steps so far, we have encouraged the company to look to address its currently still high carbon emissions, by setting a carbon emission reduction target by end 2021 as well as disclose specific measures being implemented to reach that target. We further encouraged them to assign responsibility for climate related risks to a board member and develop and publish a climate change policy by 2021.

Furthermore, we stressed the need for the company to develop a

water management strategy, which includes reduction targets and detailed initiatives.

We also approached a gold mining company with operations across several countries including Canada, Suriname and Burkina Faso. According to our analysis, the company screened as having a high carbon intensity but showed good progress in tackling climate change risks through extensive carbon emission disclosures and integrating solar and hydro energy at their operations. We reached out to the company and encouraged them to set a specific carbon emission reduction target and when doing so, ensure that the target is ambitious enough to comply with the Paris agreement. Throughout our dialog, which included a call during an industry conference, the company has had a constructive approach and has committed to consider our recommendations. We will continue to monitor their progress.

We initiated a dialogue with a Canadian wood-based panel producer encouraging them to strengthen their carbon emission disclosure, set a carbon emission reduction target and formulate a transition policy. The company has had a constructive approach to our recommendations and shared their initiatives aimed at improving disclosures as well as their work towards a climate change policy. The company has, since the beginning of the engagement, been taken over by a larger competitor and has highlighted to us that this will represent a strengthening of their carbon emission reductions efforts as the acquirer has signed onto the 30 by 30 Climate Change Challenge (an industry-wide effort towards low carbon economy). We will continue to monitor their progress post the constructive dialogue.

Finally, we also initiated an engagement with an oil producer in the U.S. as one of the highest carbon emission companies in our portfolio. We encouraged them to strengthen their efforts towards a transition to a more sustainable future and offered concrete recommendations relating to carbon emissions as well as encouraged the development of a climate change policy, which we will follow up on in the next quarter.

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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