Stewardship at Sparinvest

Active Ownership for Long-Term Value Creation and Improved Sustainability

Sparinvest

Foreword by Jørgen Søgaard-Andersen, CEO, Sparinvest

For Sparinvest, the concept of stewardship is fundamental to our interpretation of what it means to be a responsible investor.

'Stewardship' is often defined as being *the careful and responsible management of something entrusted to one's care*. For an asset manager, stewardship refers to the idea that investors do not simply buy securities and hold them silently. Rather, as providers of capital, investors have both the power and the responsibility to influence the companies in which they invest. We aim to promote the long-term success of companies in such a way that it benefits the ultimate providers of capital – the investors in our funds. Stewardship is most relevant in equity funds, where investors can employ various tools of active ownership: voting, but also monitoring and engaging with companies on issues such as strategy, performance, risk, capital structure, corporate governance, carbon and energy transition risk, and other ESG issues. Fixed income investments do not typically give an investor ownership or the right to vote, but nonetheless we think the concept of stewardship applies here too, primarily through dialogue and engagement with our holdings.

Stewardship can benefit companies, investors, and the economy as a whole. At Sparinvest we seek to foster the long-term value of our investments through our stewardship programme.

Jørgen Søgaard-Andersen

Sparinvest's statement of compliance with the Danish Stewardship code appears on page 18 of this document

Introduction

Our stewardship programme is shaped by our investment philosophy, which is one of long-term, prudent, and responsible investing. We offer a range of investment solutions, with funds and mandates covering a variety of asset classes and geographic regions.

Our range of equity funds includes not only our fundamental stock-picking funds, but also quantitative and index strategies. Our stewardship programme extends across all of these – with some variations – because we believe it can play a role both in enhancing long-term returns, and in fulfilling our role as responsible investors.

- **Actively managed fundamental stock-picking funds.** In strategies such as Global Value, European Value, and Emerging Markets Value, our investment team focusses on the fundamentally-driven selection of value stocks, which they typically hold for the long-term.
- **Actively managed quantitative funds.** These funds use a proprietary mathematical model to conduct computerized stock selection with the aim of extracting alpha from historically proven outperformance factors.
- **Passively managed index funds.** These funds invest with the intention of replicating the performance of their benchmark index.

Sparinvest also believes in the power of engagement to benefit its range of fixed income strategies, where we discuss ESG risks and opportunities with our holdings. This is described in depth later in this document.

Our fixed income funds include:

- **Actively managed fundamental corporate bond funds.** These funds follow a value strategy within credit markets looking for issuers of bonds that are temporarily mispriced relative to the risk of default. Sparinvest is often a repeat investor in issuers that match this strategy
- **Actively managed sovereign bonds** – These funds invest in the global universe of sovereign debt
- **Actively managed securitized bonds** – These funds invest in Nordic covered bonds, as well as Danish and EU government bonds. We also have one passively managed index fund investing in this universe.

Sparinvest's stewardship activities are directed and monitored by the portfolio management teams and reviewed at meetings of the Responsible Investment Committee. The Head of Responsible Investment reports on these activities to Sparinvest's Investment Committee and to the Board of Sparinvest.

Stewardship at Sparinvest

Contents

1. Equity Funds: Actively-Managed Fundamental (Value Equity)

Within actively-managed fundamental equity funds, we have long specialized in a value investment style. In strategies such as Global Value, European Value, and Emerging Markets Value, our investment team focusses on the fundamentally-driven selection of value stocks, which they typically hold for the long-term. From screening markets for potential investments, to fundamental analysis of individual securities, to building and monitoring their portfolios, our investment teams consider environmental, social and governance issues to be a key part of their considerations. This extends to their meetings with companies, internal discussions, and naturally, their voting and engagement activities. Our longer than average holding periods provide an opportunity to work with our holdings to help them identify and mitigate risks, and create value for investors over time.

Monitoring Investments

ESG information is a significant part of the fundamental information we use to inform our screenings, analysis, valuation, investment decisions, and the building and monitoring of our portfolios. We do not see ESG as some form of "non-financial risk". Rather, we believe that ESG issues can have a material financial impact on companies, in both positive and negative ways. ESG integration first occurs in the initial stages of screening for and analysing potential new investments, and extends to ongoing monitoring of existing holdings, exercise of proxy voting (in the case of equity funds only), and engagement. We believe that both voting, and encouraging holdings towards higher standards on ESG and related issues, can benefit investment performance in the long term.

Our investment team approaches ESG considerations alongside other fundamental considerations, seeking relevant information from company reporting and contact with the company. Our internal analysis is also informed and augmented by insights from external research providers, including specialised ESG research providers. This provides ESG research covering industry-level, country-level, and thematic ESG issues, and also company- specific research for many securities.

In addition, all holdings and potential investments are screened for compliance with international norms in the areas of human rights, labour rights, corruption, the environment, and the Paris Climate Accord. The information gained from this screen is used to inform both investment decisions, and our engagement programme.

Engagement

We believe in being engaged owners, and view equity investment through the lens not of owning a piece of paper, but of owning a long-term stake in a real company. We seek to foster the long-term value of our investments and to improve corporate behaviour and encourage compliance with international norms, by being active owners in communication with our holdings. We do this through voting and engagement.

Naturally, as part of our investment analysis we aim to communicate with companies to bolster our understanding. Once we decide to invest, we typically contact new investments to explain our voting policy and investment philosophy. We take this opportunity to further stress our interest in ESG issues and raise certain questions (which may lead to more detailed engagement). We aim to continue dialogue with our holdings over the years. The ideal is to have a frank but constructive, two-way dialogue with our holdings, and we do not hesitate to give our views on key issues, whether short or long-term, "ESG" or otherwise.

However, we classify as 'engagements' those dialogues in which we have a specific goal. We take a practical and materiality-based approach: we focus on cases where we see potential for meaningful impact on corporate value and sustainability. Examples of triggers for engagement, and the methods used, are detailed below.

How do we Engage?

Our engagements are usually either direct, collaborative, or led by service providers. We often find it can be powerful to combine these methods. Generally, we seek to act as constructive partners to our investee companies, and this means we may also bring third parties into the dialogue – for example, liaising between the company and an NGO regarding best practice on the specific issue.

- **Direct engagements**. These are engagements run by Sparinvest alone, and implemented by members of our investment teams. We see it as a strength that our portfolio managers and analysts run the dialogue on ESG issues, as they well-placed to contextualise the specific issue within the overall investment case and corporate value. It also sends a clear message to the investee company that ESG issues run to the heart of investment decisions.

- **Collaborative engagements**. These are engagements where we join with other institutional investors via forums such as the PRI, to co-ordinate engagement on specific ESG themes. Often, we will assume the role of 'lead investor' where we run the dialogue with one company on behalf of various investors – while other investors lead the dialogue with other companies.

- **Service provider engagements**. In certain areas, where we believe a service provider's specialised knowledge provides an edge, we join collaborative engagements, led by the service provider. Our service provider maintains an IT platform that enables us to view the history and latest status of engagements in relation to our holdings. We consider it important to maintain a feedback loop with our service provider and will advise them of any information obtained via our direct engagements with portfolio companies, that may have a bearing on their own future interactions with, or risk assessments, of those companies.

Why do we Engage?

Triggers for engagement include:

- **Specific ESG Risks or Opportunities.** Various specific ESG risks and opportunities are identified through the analysis and monitoring of potential and existing holdings. Issues are selected for engagement based on their materiality, the potential for meaningful change, and an estimation of the resources required for the dialogue.

- **Climate change:** One of the ESG issues that we consider to be most significant is climate change, both in terms of its impact on society, and on the economy and corporate values. While relevant to all sectors, climate change is particularly material in certain sectors such as oil & gas exploration and electric utilities. The global need for, and momentum towards, transition to less carbon intense energy sources is well established (and recognised in agreements such as the Paris Climate Accord (2015). Failure to respond to this need for transition may impact companies negatively, with significant financial implications in 'stranded assets' or an increasingly high cost of emitting carbon.

Therefore, where we consider it appropriate, we engage with portfolio companies in these sectors, focussing on carbon emissions, energy transition, and climate policies.

- **Voting-related.** We believe that votes are more powerfully exercised in conjunction with dialogue. It is arguably not particularly constructive if investors simply vote against management proposals at a company's AGM, but do not explain their rationale. We seek to engage with companies where agenda items breach our voting policy or are contentious for other reasons. Where time permits, this happens before the ballot. Outcomes include the company amending the agenda to our satisfaction, a change in our voting decision based on new information from the company, or a vote against the item, followed by further dialogue seeking change.

- **Breach of International Norms.** We use screening services provider ISS ESG to screen our portfolios for companies which are alleged or confirmed to have breached international norms in human rights, labour rights, corruption, the environment. Where such breaches are identified, we adopt a two-pronged approach to engagement. We engage directly with the company, partly to make it clear to the company that we – as investors – attach significance to the issue. However, we also join collaborative engagements run by ISS ESG. For us it makes sense that their specialist knowledge of the issues is carried through into constructive dialogue with the companies, giving them ideas and targets for risk mitigation.

Escalation Policy for Actively-Managed Fundamental Equity Funds

We see engagement as an opportunity for positive and constructive dialogue between listed companies and their stakeholders, with the aim of enhancing long-term corporate value and sustainability. Engagement progress is monitored by the investment team, and discussed more formally at a quarterly stewardship meeting on voting and engagement matters, which is attended by the Head of Responsible Investment. The Responsible Investment Committee receives updates on engagements, and subsequently includes engagement topics in reporting to top management and the Sparinvest Board of Directors.

Of course, dialogue does not always progress to our satisfaction. In such cases, we consider why, whether it is appropriate to escalate, and if so, which method would be appropriate. We recognise that listed companies also face growing demands on their time and resources. Our aim is not to create an antagonistic situation, but rather, to foster a constructive environment for dialogue.

We recognise that each engagement and company has its own unique characteristics, and therefore the best way to proceed is considered on a case-by-case basis. Similar to the manner in which we initially select issues for engagement, we consider the materiality of the issue, the potential for impact, and an estimation of the resources required for the dialogue. The manners in which we may escalate a dialogue include, but are not limited to:

- **Further communication:** Continuing the dialogue. This may involve varying the mode of communication (emails / phone calls / meeting in person, etc)

- **Alternative counterparts within company:** Seeking dialogue with different representatives of the company in question. This may mean more senior representatives (e.g. board members or senior management, independent board members, etc) or more specialised representatives. This may involve a consideration of whether the representative of Sparinvest is of appropriate seniority.

- **Employing a different type of engagement:** This may mean shifting between direct engagement, service provider engagement, and collaborative engagement, or using a combination of the three. The most intuitive example might be shifting from direct engagement to collaborative engagement, thereby involving a greater combined AUM in the process. However, in practice we have found it varies from case-to-case: sometimes, direct engagement by us alone can be more productive than other means. (It should also be noted that both service provider and collaborative engagements can also deploy escalation methods in reaction to non-responsiveness by target companies. We describe our service provider's escalation policy in section 2 where we talk about engagement on behalf of quantitative and passive strategies.)

- **Voting:** Where the issue is the subject of a voting agenda item, we will vote in accordance with our voting policy and in the best interests of our clients. Where the issue is not directly linked to a voting agenda item, we may on occasion vote against a director appointment as a way of expressing dissatisfaction. In either case, we would aim to supplement the blunt tool of voting with dialogue explaining our rationale.

- **Filing of shareholder resolutions:** In certain circumstances, we would consider filing a shareholder resolution at extraordinary or general meetings of shareholders, or calling for a general meeting.

- **Public statements:** We may lend our support to broad investor statements related to certain initiatives which we believe are in the interests of long term value. In individual engagements, we do not generally consider public statements to be particularly conducive to a constructive atmosphere for dialogue, but we may make our views known if considered appropriate, potentially at general meetings, other public venues or in the media.

- **Sale of position:** Typically we do not make investments where the investment case itself is contingent on a successful engagement. However, the current status of any engagement, and insights gained from it, are naturally part of the fundamental information we consider as we monitor an investment, assess its fair value, and determine whether to remain invested and its appropriate position size.

- **Legal remedies:** When considered appropriate we may seek legal remedy, for example seeking damages through participation in class action lawsuits.

Voting Principles

The below principles apply to all equity investments managed by Sparinvest, and are used to inform our voting decisions on both management and shareholder proposals. In formulating our voting principles, and in making individual voting decisions, our aim is to limit risk and enhance long-term corporate value, based on the guiding principle of serving the long-term interests of investors in our funds. Precise thresholds – such as for board independence – may vary by region. In certain situations, certain principles may appear contradictory to other principles; in such cases, as always, we expect management to work in the best interests of long-term shareholders.

Constitution:

- We support the principle of 'one-share, one-vote'.
- We are generally opposed to any kind of 'poison pills'.
- We support strong protection of minority shareholders' rights.
- We support fair access to propose shareholder resolutions.

Directors:

- The board may include both executive and non-executive directors, but a significant proportion – ideally a majority – should be independent non-executive directors.
- Reflecting our belief that the board should provide effective independent oversight, we believe that the roles of chairman and chief executive should be separate, and will typically vote against appointments that combine these roles.
- The board should include directors with an appropriate balance of relevant experience and skills.
- The board should consider the diversity of its membership. We believe there are long-term benefits to diversity in the board, and, for example, as a basic initial threshold, we will typically vote against the appointment of the Chair of the nomination committee or the chair of the board at companies that fail to appoint at least one woman to the board.
- Nomination committees should consist of a majority of independent non-executive directors.
- Director nominations should include sufficient information regarding the nominee's experience, skills and links with the company, to allow shareholders to make a well-informed decision.
- Director nominations should not be bundled.
- The board should takes steps to measure and ensure its effectiveness. This should include ensuring that directors are able to allocate sufficient time, and do not hold excessive numbers of board appointments.

Remuneration:

- Remuneration committees should consist entirely of independent non-executive directors.
- A transparent remuneration policy should align the interests of management with the corporate strategy for creation of long-term value and the long-term interests of shareholders.

Reporting and Audit:

- Companies should be transparent, providing full and meaningful disclosure of relevant information to stakeholders.
- Such disclosure should include Environment, Social and Governance related information, which we believe can have significant financial implications, particularly over longer time-periods. For example, we may support shareholder proposals aiming to bolster corporate transparency on Environmental, Social ad Governance issues.

- Accounts should be audited by independent external auditing firms whose other relationships with the company cannot be considered to impair that independence.
- Audit committees should consist entirely of independent non-executive directors.

Dividends, Share Buybacks and Capital Allocation:

- Management decisions on capital deployment, the distribution of capital, and corporate actions such as M&A, should be taken in the best interests of long-term corporate value. This consideration may influence our votes on items such as dividends and share buybacks.
- We may vote against the election of senior executive directors where measures of capital efficiency are persistently low over a number of years and where we perceive a lack of a clear and effective strategy to remedy that.

Subject to the above principles, we support the principle that companies should comply with best practice corporate governance standards applicable in their country of domicile, or explain noncompliance.

Voting Process

We aim to vote the shares we manage at all relevant shareholder meetings, except where the beneficial owners have instructed us otherwise, or where it is considered not to be cost effective.

In our actively-managed fundamental equity funds – the value equity range – we aim to vote all shares. In our quantitative and index funds, bearing in mind the overall focus on low costs, we vote only on holdings of a significant size; currently, this means holdings where our funds invest over EUR 1 million.

We vote against resolutions which are inconsistent with our principles, or which we otherwise consider not to be in the best interests of our clients. When Sparinvest decides to vote against management recommendations, we will attempt to explain this to the company – if time permits, before the vote is exercised. We are keen to have a constructive dialogue with the companies in which we invest.

Sparinvest uses the proxy advisory company Institutional Shareholder Services (ISS) to assist with the operational practicalities of voting. ISS provide us with analysis of voting agendas based on a customized voting policy specified by Sparinvest, which in turn is based on our Voting Principles.

In our actively-managed fundamental equity funds (value funds), for each shareholder meeting the investment team reviews the agenda and ISS analysis. Voting decisions are then made on a case-by-case basis at the discretion of the team, consistent with our Voting Principles and the best interests of our clients. Our decisions can, and do, vary from ISS recommendations.

In our quantitative and index funds, voting decisions follow the ISS analysis based on our customized voting policy. Where a company falling into this category is also held in our actively managed fundamental equity funds, we will vote in line with the voting instructions directed by the portfolio managers of those funds.

Disclosure of Voting Policy and Record

The Responsible Investment area of our website includes our voting policy, and our voting record on individual fund holdings. http://www.sparinvest.lu/investing%20responsibly/overview.aspx.

Stock Lending Policy

Sparinvest does not practice stock lending

2. Equity Funds: Quant and Index

Sparinvest considers stewardship to be an important part of the management of its quantitative and index equity funds. These funds differ from our actively-managed fundamental strategies in two key ways. Firstly, in quant and index funds, the selection of stocks is based purely on mathematical models, and does not involve fundamental analysis of each company. Secondly, these funds tend to hold large numbers of securities. This means that the depth of ESG integration is limited, at least compared to our fundamental strategies. Nonetheless, quant and index funds are often long-term investors in equities, and we believe that stewardship can play a role both in enhancing long-term returns, and in fulfilling our role as responsible investors.

Monitoring Investments

Quantitative Equity Funds
Within Sparinvest's quantitative strategies, the emphasis is on overall portfolio characteristics rather than on the individual holdings. Securities are selected primarily because they exhibit certain factor characteristics that make them attractive from a portfolio risk/return perspective. Accordingly, consideration of ESG-factors is integrated in the portfolio construction process, on a ceteris paribus basis, during each rebalancing exercise, with the aim of improving the portfolio's ESG score over time.

Indexed Equity Funds
For our passively-managed index funds, the primary consideration is to replicate the performance of a specific index. As a result, ESG considerations do not play a part in portfolio construction unless they also play a part in the construction of the underlying index.

Engagement

Within Sparinvest's quantitative funds, despite the ambition of tilting of the portfolio towards a higher ESG score, the possibility still exists that the investment strategy will result in investments being made from time to time in companies where significant human rights or other norms-based concerns exist. For this reason, we undertake to engage with and vote on quantitatively managed funds, as described below.

Similarly, for Sparinvest's passively managed index funds, close tracking and replication of indices gives rise to the possibility that investments may from time to time be made in companies where significant human rights or other norms-based concerns exist. It is for this reason that Sparinvest undertakes to engage with and vote on index funds, as described below.

The engagement focus for these funds is on normative issues. We use screening services provider ISS ESG to screen our portfolios for companies which are alleged or confirmed to have breached international norms in human rights, labour rights, corruption, and the environment. Where such breaches are identified, we join collaborative engagements run by ISS ESG. In leading collaborative engagements for Sparinvest and other institutional investors, ISS ESG represents combined AUM of USD 1.1 trn. This is a scalable and efficient approach, whereby their specialist knowledge of the issues is carried through into constructive dialogue with the companies, giving them ideas and targets for risk mitigation.

Escalation Policy for Quant and Index Equity Funds

Escalation by Service Provider

For our quantitative and index funds, we outsource engagement to our service provider. In ISS ESG' experience, most companies will respond to engagement requests over time. However, a follow up system is in place for dealing with those companies which – either initially or steadfastly – fail to respond adequately to investor concerns. A simplified description of the pooled engagement process indicating escalation procedures over typical timeframes is shown below.

Follow up

Month	Stage in process
1	Initial Engagement letter or request for meeting sent to established contact or Investor Relations Dept.
2-5	Reminder
6-7	Escalate to senior management (letter to CEO, cc initial contact/IR)
8	Escalation to Board Members
12	Re-evaluation

Re-evaluation

Once every effort has been made to engage both Investor Relations and a company's Executive Management, the feasibility of engagement is re-evaluated. If the company is considered unlikely to respond to the collaborative engagement process, ISS ESG will communicate this to the investors that it represents.

Other options

Where our service provider has carried out engagement and followed its escalation policy, but where the engagement still does not progress to our satisfaction, we do have further options available. These include beginning direct engagement by Sparinvest, and following similar escalation procedures to those set out above for actively managed fundamental funds. Voting – which for quant and index funds is normally subject to a minimum holding requirement of EUR 1 million – is also an option.

Divestment is not the preferred option for either quantitative or index funds at Sparinvest. However, for the quantitative funds, there is an opportunity at each rebalancing for our portfolio managers to try to find alternative investments that can replicate the required portfolio characteristics of the company in question. Where an appropriate alternative can be found, we may divest the problematic company.

For index funds, however, the aim is to replicate a benchmark with minimal deviation. This makes divestment of any security difficult. Any degree of exclusion is considered to be undesirable for the successful operation of passive strategies and therefore engagement with companies in breach of Norms is preferred – although this is without any commitment to divest if the company proves unresponsive to dialogue. We believe that investors have certain expectations of index funds and that fulfilling investor expectations by replicating index characteristics as closely as possible should be our paramount consideration.

Voting Policy for Quant and Index Funds

Our voting policy described on page 8 covers ALL equity funds, including quantitative and index funds.

3. Fixed Income: Actively Managed Corporate Bonds

Sparinvest's value investment strategy for corporate bonds involves fundamental analysis of bond issuers and the selection of individual bonds that are mispriced relative to risk of default. As with all strategies that invest for value, it is essential to analyse all the fundamental risks and opportunities that could affect the investment case during the holding period. This is particularly the case for bonds which have limited upside potential, compared with equities, but which have a considerable downside if default risk is not properly analysed. Hence attention to all forms of risk – including ESG - is particularly important in the bond space. Although our investments have a finite investment horizon (as bonds mature), we are often repeat investors in issuers that match our strategy. We believe ESG issues will impact the long-term value of a company and hence its credit quality, and believe that we have a role to play in engaging with bond issuers to make them aware of this.

Monitoring Investments

Sparinvest's Responsible Investment policy results in the application of the same methodical investment process to all our corporate bond investments. We aim to strengthen portfolios by minimizing exposure to downside risk. Thus, consideration of environmental, social and governance issues is part of our fundamental credit analysis process – both prior to and during investment.

We prioritize governance risks for both fiduciary and practical reasons in the belief that these form the most severe risk to credit investors. Given the shorter investment period typically involved with Corporate Bonds, and the fact that bondholders do not have a right to vote on management proposals at AGMs, Sparinvest believes that it is prudent to consider adequate governance as a basic prerequisite for a company to be able to focus on and improve its environmental and social credentials.

Our customized 'red flags' investment check list includes ESG metrics alongside traditional financial key metrics. The red flags are designed to pick up potential governance problems such as allegations of fraud and potential changes of management or of auditors. Our conservative approach to risk means that even where such information is as yet unverified, it is still taken into consideration.

Our rigorous initial selection process is followed by a regular review of portfolios at weekly team meetings or with ad hoc discussions in the event of unexpected developments in a portfolio company.

Engagement

Whilst bondholders do not have the same voting and ownership rights as shareholders, we believe that our position as creditors, financing companies' operations, gives us both the potential and the responsibility to influence investee companies towards more sustainable behaviour. A number of studies have also demonstrated that – on average – companies that have a clear management focus on ESG have been able to reduce financing costs compared with companies where ESG is less of a priority. So, where companies with strong ESG profiles seek financing, the credit premium required by investors like Sparinvest will be lower. Sparinvest has been actively engaging with portfolio companies on ESG issues since 2015 and our experience to date is that companies are responsive to bondholders' concerns. Fixed Income engagements are regularly reviewed at meetings of Sparinvest's Responsible Investment Committee and reported on to clients in a quarterly Fixed Income Engagement Report.

Engagement methods

Our engagements are usually either direct, collaborative, or led by service providers. We often find it can be powerful to combine these methods and we aim to keep our service provider updated with any new information received as a result of our direct interactions with the companies we invest in..

Why do we Engage?

The following situations can trigger engagement by the Fixed Income team:

- **ESG Risks Revealed in Credit Analysis** - Where our ESG risk analysis reveals an opportunity to improve the ESG behaviour/risks faced by a portfolio company. Under such circumstances, we would enter a direct engagement.

- **ESG Risks that develop in portfolio companies** - Where an ESG risk becomes an issue and remediation/mitigation efforts are required (this may include normative breaches, restructurings or activism on credit committees).

- **Relevant thematic collaborations** - Where we see the possibility to join a thematic collaborative engagement on an issue that has broad application across our portfolios.

How do we Engage?

- **Direct Engagement (All strategies)**
  Our Portfolio Managers will selectively engage directly with portfolio companies in situations where we believe that we can achieve impact. We define a direct engagement as an interaction with an investee/potential investee company, which involves dialogue regarding an ESG risk/opportunity and a specific objective to be achieved through the dialogue. The interaction must be monitored and documented.

  - **Direct Engagement for Ethical Strategies** Interactions aimed specifically at portfolio companies held in our ethical strategies are classified as:

  Active:
    - **Norm breaches:** We always engage directly on behalf of our ethical strategies with any portfolio company involved in alleged breaches of international norms or verified breaches and undergoing remediation.
    - **Carbon Intensity:** We aim to use information from the fund's annual carbon footprint report to identify companies for carbon-related environmental engagement

  Passive:
    - **On exiting a position:** Where an ethical issue forces us to exit a position we write a letter to the company involved describing the issue and potential remediation solutions.

  We do not pursue engagement for sector breaches as we acknowledge that these breaches are generally due to the nature of companies' operations and the potential impact of engagements is minimal.

- **Engagement Via Service Provider** Where ISS ESG engages with these companies on behalf of numerous institutional investors, we participate in the collaboration with the aim of securing improvement in ESG issues. We follow dialogues with portfolio companies closely, and, where appropriate we share information and make efforts help move the dialogue forward

- **Collaborative Engagement** We select collaborations on the basis of the key ESG themes that we have identified as being most material to our investee companies and where we seek to have most influence.

The escalation policy pertaining to all Fixed Income engagements is described on page 15.

4. Fixed Income: Sovereign & Covered/Securitized Bonds

Sovereign Bonds

Across all asset classes, Sparinvest's preference is to exercise active ownership to influence better and more responsible behaviour from issuers. However, we recognize that it is both difficult and potentially undemocratic to attempt to influence nation states. For this reason, we operate exclusions with regards to sovereign bonds as follows:

- **Illegal weapons** We use an external service provider to advise us on company involvement with production of illegal weapons. At an individual security level, we exclude banned weapons producers from all Sparinvest funds. This may result in the exclusion of state-owned enterprises from our funds, but not entire states.
- **Multi-lateral sanctions** EU and UN sanctions may have the effect of excluding specific countries from our sovereign bond universe.
- **International Norms** Norms-based analysis – particularly of a country's ability to protect basic human rights – is also used to inform investment decisions and can result in the portfolio manager deciding to avoid, exclude or underweight investments in certain sovereign bonds.

Where the option exists to join coordinated initiatives targeting heads of state in order to raise awareness of ESG concerns or to improve human rights conditions in their nations, we will always consider adding our voice to these.

Covered/Securitized Bonds

Sparinvest's investments in covered/securitized bonds is currently restricted to a universe consisting entirely of Nordic covered bonds, as well as government bonds. Given the rigorous regulatory requirements and strong governance systems that issuers in this universe must comply with, we anticipate that breaches of international norms will seldom (if ever) occur.

However, if a security in the portfolio universe were to be in confirmed or alleged breach of international norms, our service provider would engage with them on our behalf and if we found it appropriate to do so, we would also engage directly with the issuer.

Escalation Policy for Fixed Income Funds

We aim to maintain a practical approach to engagement and our experience is that dialogue usually works best when both parties are at the table willingly. However, whilst some companies will be quick to recognize an opportunity for constructive, potentially value-enhancing dialogue with stakeholders, others may slower - or indeed unwilling - to engage.

For us, it is unlikely that we would ever enter an investment where the long term value case hinged on our achieving a successful out-come from our direct, collaborative or service-provider engagement activities. However, where we have selected a company for direct engagement because we have seen potential for meaningful impact on corporate value and sustainability, we will persevere.

When we find that dialogue is not progressing to our satisfaction, we consider whether it is appropriate to escalate it, and if so, which method would be appropriate in the specific circumstances. Our aim is not to create an antagonistic situation through escalation and we recognize that each engagement and company has its own unique characteristics, and therefore the best way to proceed is considered on a case-by-case basis.

The decision of whether to escalate the dialogue is similar to the manner in which we initially select topics for dialogue. It involves a balancing of the materiality of the issue, the potential for dialogue with impact, and an estimation of the resources required for the dialogue.

The manners in which we may escalate a dialogue include, but are not limited to:

- **Mode of communication:** Seeking further communication on the same topic, but possibly escalating the mode of com-munication (for example from email to phone call, from phone call to face to face meeting)

- **Employing a different type of engagement**: This can mean shifting between direct engagement, ser-vice provider en-gagement, and collaborative engagement, or using a combi-nation of the three. The most intuitive example might be shifting from direct engagement to collaborative engage-ment, thereby involving a greater combined AUM in the pro-cess. However, in practice we have found that it varies from case to case: sometimes direct engagement by us alone can be more productive than other means.

- **Aiming higher:** Seeking dialogue with more senior represent-atives of the target organization (for example, with senior management, executive board members, or independent board members or senior officials). This may involve a con-sideration of whether the representative of Sparinvest is of appropriate seniority.

- **Public statements**: We may lend our support to broad inves-tor statements related to certain initia-tives which we believe are in the interests of long term value. In individual engage-ments, we do not generally consider that public statements are particularly conducive to a constructive atmos-phere for dialogue, but we may make our views known if considered appropriate, potentially at general meetings, other public venues or in the media.

- **Legal remedies**: When considered appropriate we may seek legal remedy, for example seeking damages through partic-ipation in class action lawsuits.

- **Sale of position**: The current status and outcome of any en-gagement influences the investment decision process and is monitored. In certain situations, the further insight provided by engagement with the company (including failure by the company to respond to engagement) may result in the in-vestment team deciding to sell a position if the fair value is viewed as impaired. The ability to divest may be affected by the nature of the fund and the commitment made to investors in it. This is particularly the case for passive funds.

5. Supra-company Engagement

Sparinvest works collaboratively with a number of investment industry organisations to promote ESG integration and awareness and shape policy at a supra company level. This can mean being involved in engagements conducted at an international level – for example, as active members of Eurosif who lobby for the integration of ESG considerations in pan-European financial legislation. We are also actively involved in the PRI Sustainable Stock Exchanges initiative which encourages exchanges to issue guidance to listed companies about ESG reporting. Supra-company engagement can also be at an industry level. For example, we are signatories of the PRI Statement on ESG in Credit Ratings, which called upon the main credit rating agencies to recognize the importance of ESG elements in assessing the creditworthiness of borrowers.

6. Becoming Insiders

Though our dialogues and engagements with investments or potential investments, we may from time to time encounter situations where there is potential for us to become insiders. Such situations are rare, and when they arise we carefully consider the most appropriate course of action in order to fulfill our fiduciary duty to our clients. In certain cases, we may choose to give explicit prior consent to become insiders for specific periods. We manage the insider process by having appropriate controls in place to ensure that employees do not trade when in possession of inside information. This risk is controlled through a detailed Insider Dealing Procedure which covers all group companies aims to identify monitor and manage all instances of employees being made insiders. Records are kept of meetings with company management and of significant developments arising from our ongoing reviews of portfolio companies.

7. Conflicts of Interest

Sparinvest trades in securities and other financial instruments for Danish and international clients. As is required by national legislation, when providing investment and related services, both **Sparinvest S.A., Luxembourg branch ID-Sparinvest, Filial af Sparinvest S.A., Luxembourg,** are committed to maintaining appropriate arrangements to identify, manage and mitigate actual and potential conflicts of interest with the objective of ensuring that our clients and shareholders are not adversely affected.

It is our duty to act in the best interests of our shareholders and clients in the conduct of our investment business, including when engaging with investee companies and exercising our rights as shareholders. We maintain a detailed **Conflicts of Interest Policy** that applies to conflicts of interest that may arise anywhere within Sparinvest Group as a result of any Sparinvest Group entities' organisational structure, ownership and business activities. The policy document is available here

8. Reporting

Sparinvest's Responsible Investment Committee periodically reports publicly on active ownership matters in a publication called Responsible Investment Review which is emailed to clients and made available on our Danish and International websites. The first edition of this publication in each calendar year will summarize the engagement and voting activities of the previous calendar year, giving the number and type of engagements carried out, as well as specific examples.

Sparinvest also files an annual Transparency Report with the UN PRI. This also contains details of voting and engagement activities and is available to view, alongside the PRI's Assessment Report of Sparinvest, on our websites. Visit the Responsible Investment area of our website for more information. Sparinvest.eu

9. Statement of Compliance with Danish Stewardship Code

The below confirms the manner in which Sparinvest complies with the Danish Stewardship Code, and provides references to the relevant sections of the Sparinvest Stewardship Policy.

Principle	Elaboration	Sparinvest Statement of Compliance	Policy Document Ref.
P1. Policy on active ownership	The policy must explain how the investor exercises active ownership and how it fits into the investment process.	Our stewardship policy describes our exercise of active ownership and its role in our investment processes with regards to: • Active fundamental equity funds • Quant and passive equity funds • Fixed Income funds	**Pages 4-5** **Page 10** **Page 12**
P2. Monitoring and dialogue	This must be done with regards to the investment strategy and the principles of proportionality. An institutional investor who is willing to be the insider in certain specific situations, should indicate this in policy active ownership and explain the procedure for handling insider situations.	Our stewardship policy describes our monitoring of investments in order to assess ESG considerations and compliance with international norms. Our stewardship policy describes the circumstances under which we become involved in dialogue with investee companies. We have a policy to deal with situations of insider knowledge	**Pages 4,10,12** **Pages 5,10,12** **Page 17**
P3. Escalation	**P3 and P4. Escalation and Collaboration with other investors.**	Our stewardship policy details our escalation policy for dealing with engagements that have not yet delivered satisfactory results.	**Pages 6-7** **Page 15**
P4. Collaboration with other investors	In order to achieve greater effect and impact. The ESMA guidelines on active ownership applies for this principle	Our stewardship policy confirms our willingness to use collaborative engagement to achieve impact, and we have a track record of doing so.	**Page 5 & 13**
P5. Voting Policy	The investors should vote on all general meetings and be willing to inform what they have voted. The policy must include the investors policy for securities lending and recall	Our stewardship policy includes our voting and stock lending policies. We aim to vote on all general meetings for actively managed fundamental equity funds and mandates. Our voting record is publicly available on our website. Our voting policy is less comprehensive for quant and passive funds. Here we explain that we vote only on holdings above a threshold of EUR 1 million.	**Pages 8-10** **Page 9** **Page 8**
P6. Conflicts of Interest	The policy must describe how conflicts of interests is identified and handled in order to ensure the interests of the investors.	Our conflict of interest policy details how we identify and handle such potential conflicts.	**Page 17**
P7. Reporting	The ultimate responsibility of the policy lies with investor. The reporting must indicate how the investor's policy on active ownership has panned out during the year. If the investor informs about its activities as part of reporting according to international guidelines or standards, e.g. UN PRI, reference may be made to this report.	We report on voting and engagement results to investors. Sparinvest has been a member of the UN PRI since 2009 and completes an annual Transparency Report which is made available to investors	**Page 17** **Page 17**