



# CLIMATE TRANSPARENCY REPORT

## 2019

Sparinvest S.A.

# About the Climate-related Disclosure Indicators

Climate has been identified as a top priority for PRI signatories, with over 70% of asset owners reporting this as the most important long-term trend they are acting on.

The FSB Task Force's guidance on climate-related financial disclosure aim to create a single framework for disclosure on assessment and management of climate-related risk. The recommendations, supported by investors representing US\$22 trillion, identify four main disclosures, Governance, Strategy, Risk Management, Metrics and Targets, and include specific guidance for asset owners and managers.

As a result, the PRI introduced climate-related disclosure indicators that can be used to align with the TCFD recommendations in the 2019 PRI Reporting Framework.

## About this report

This report is an export of only the climate-related indicators from the 2019 Reporting Framework response. The full Public Transparency Report is available here ([https://reporting.unpri.org/surveys/PRI-reporting-framework-2019/-28FE65C8-3AFD-4F9A-8EC3-991CAED0E002/00000000-0000-0000-0000-000000000000/doc/2/-%7C%7C\\*complete\\*%7C\\*public\\*/Merged/](https://reporting.unpri.org/surveys/PRI-reporting-framework-2019/-28FE65C8-3AFD-4F9A-8EC3-991CAED0E002/00000000-0000-0000-0000-000000000000/doc/2/-%7C%7C*complete*%7C*public*/Merged/)). It shows the responses to all the completed climate indicators, even those you chose to keep private. It is designed for your internal review or – if you wish - to share with your stakeholders.

The PRI will not publish this report on its website if you have designated your 2019 climate reporting as “private”. Otherwise, you will be able to access the Climate Transparency Report of your organisation and that of other signatories on the [PRI website](#) and on the [Data Portal](#).

To easily locate information, there is a **Recommendation index** which summarises the indicators that signatories complete and disclose. The report presents information exactly as it was reported as per signatory preference. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory are presented in this report.

## TCFD Recommendations Index

Strategy and Governance - CC			TCFD Recommendation			
Indicator	Reported	Disclosure	Governance	Strategy	Risk Management	Metrics & Targets
SG 01.1	✓	Public				
SG 01.2	✓	Public				
SG 01.3	✓	Public				
SG 01.4	✓	Public				
SG 01.5	✓	Public				
SG 01.6 CC	✓	Public				
SG 01.7 CC	✓	Public				
SG 01.8 CC	✓	Public				
SG 01.9 CC	✓	Public				
SG 01.10 CC	✓	Public				
SG 01.11 CC	-	Public				
SG 01.12 CC	✓	Public				
SG 02.2	✓	Public				
SG 07.5 CC	✓	Public				
SG 07.6 CC	✓	Public				
SG 07.7 CC	✓	Public				
SG 07.8 CC	-	Public				
SG 13.1	✓	Public				
SG 13.2	-	Public				
SG 13.4 CC	-	Public				
SG 13.5 CC	-	Public				
SG 13.6 CC	-	Public				
SG 13.7 CC	-	Public				
SG 13.8 CC	-	Public				
SG 14.1	✓	Public				
SG 14.2	✓	Public				
SG 14.3	✓	Public				
SG 14.4	✓	Public				
SG 14.5	✓	Public				
SG 14.6 CC	✓	Public				
SG 14.7 CC	-	Public				
SG 14.8 CC	✓	Public				
SG 14.9 CC	✓	Public				
SG 15.1	✓	Public				
SG 15.2	✓	Public				
SG 15.3	✓	Public				

Symbol	Status
✓	The signatory has completed this sub-indicator
-	The signatory did not complete this sub-indicator.
	This indicator is relevant to the named TCFD recommendation
Within the first column "Indicator", indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.	

# ORGANISATIONAL OVERVIEW

This section provides an overview of your organisation. These characteristics are used to define your peer groups.

MAIN CHARACTERISTICS	
<b>Name</b>	Sparinvest S.A.
<b>Signatory Category</b>	Fund Management - Majority
<b>Signatory Type</b>	Investment Manager
<b>Size</b>	US\$ 10 - 29.99 billion AUM
<b>Main Asset Class</b>	Multi-Asset
<b>Signed PRI Initiative</b>	2009
<b>Region</b>	Europe
<b>Country</b>	Luxembourg
<b>Disclosure of Voluntary Indicators</b>	21% from 38 Voluntary indicators

Sparinvest S.A.

Reported Information

Public version

Strategy and Governance

## PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

## Investment policy

SG 01

Mandatory

Public

Core Assessed

General

**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

SG 01.1

Indicate if you have an investment policy that covers your responsible investment approach.

Yes

SG 01.2

Indicate the components/types and coverage of your policy.

Select all that apply

Policy components/types	Coverage by AUM
<input checked="" type="checkbox"/> Policy setting out your overall approach <input type="checkbox"/> Formalised guidelines on environmental factors <input type="checkbox"/> Formalised guidelines on social factors <input type="checkbox"/> Formalised guidelines on corporate governance factors <input checked="" type="checkbox"/> Fiduciary (or equivalent) duties <input checked="" type="checkbox"/> Asset class-specific RI guidelines <input type="checkbox"/> Sector specific RI guidelines <input checked="" type="checkbox"/> Screening / exclusions policy <input checked="" type="checkbox"/> Engagement policy <input checked="" type="checkbox"/> (Proxy) voting policy <input checked="" type="checkbox"/> Other, specify (1) Stewardship Policy (Covers Engagement & Voting) <input type="checkbox"/> Other, specify(2)	<input checked="" type="radio"/> Applicable policies cover all AUM <input type="radio"/> Applicable policies cover a majority of AUM <input type="radio"/> Applicable policies cover a minority of AUM

**SG 01.3**

Indicate if the investment policy covers any of the following

- Your organisation's definition of ESG and/or responsible investment and it's relation to investments
- Your investment objectives that take ESG factors/real economy influence into account
- Time horizon of your investment
- Governance structure of organisational ESG responsibilities
- ESG incorporation approaches
- Active ownership approaches
- Reporting
- Climate change
- Understanding and incorporating client / beneficiary sustainability preferences
- Other RI considerations, specify (1)
- Other RI considerations, specify (2)

**SG 01.4**

Describe your organisation's investment principles and overall investment strategy, interpretation of fiduciary (or equivalent) duties, and how they consider ESG factors and real economy impact.

**RETURNS** At Sparinvest, investing responsibly is central to our aim of providing clients with strong and sustainable long-term investment returns. Environmental, social and governance issues present companies, and countries, with a variety of opportunities and risks, and the way these are handled can materially impact long-term value. We think thoughtful understanding of the sustainability of our investments, and helping holdings to improve on material sustainability issues, can help boost those long-term investment returns. This mindset is deeply engrained in our investment teams.

**TRANSPARENCY** We recognise that many investors wish not only to see what their investments are achieving in terms of financial returns, but also to understand their impact on broader society. We are committed to providing our investors with that understanding.

**VALUES** We also offer a variety of funds for those who wish to go further, and explicitly align their investments with personal values, or wider societal goals. This includes our Ethical range of funds. These funds do have more explicit sustainability aims, but we do not think this means compromising financial returns. On the contrary, companies that pro-actively exploit ESG opportunities, or mitigate ESG risks, can often combine a positive impact on society, with strong long-term value creation.

**SG 01.5**

Provide a brief description of the key elements, any variations or exceptions to your investment policy that covers your responsible investment approach. [Optional]

**HOW DO WE INVEST RESPONSIBLY?**

Our many years of experience mean that environmental, social and governance considerations are deeply integrated into our way of thinking. Investing responsibly is not a simple question of investing in only a few 'perfect' companies, and the underlying issues are usually not black and white. Therefore, our range of funds gives clients access to various asset classes and a diverse range of underlying securities. Our strength lies in our analysis and understanding of ESG issues, and factoring that understanding into our investment strategies. We strongly believe in working with companies to encourage sustainability and long-term value creation.

We invest responsibly across all of our funds, and use three key tools to do this: ESG Integration, Stewardship, and Exclusions. We also report on all of these activities, to provide transparency to our clients. You can read more on these tools by following the links below. More detailed information on how we use these tools is available on the RI section of our website: <http://www.sparinvest.lu/investing%20responsibly/our-approach.aspx>

The precise way we use these tools varies a little by asset class and investment strategy. For example, a passive fund cannot integrate ESG considerations in the same way that an active, stock-picking fund can - but both funds can use Stewardship to influence holdings. Regarding exclusions, no Sparinvest funds invest in confirmed producers or distributors of controversial weapons - but we also offer some funds - such as our Ethical range - that exclude a wider range of companies. We explain these differences in our Responsible Investment Policy.



## WHAT ISSUES DO WE CONSIDER?

The issues we look at vary considerably, but materiality is key.

At the individual security level, we focus on the issues that most significantly affect the company, industry, or country, and this can vary from case to case.

At a broader level, we also consider overarching issues that typically have most potential for material impact across portfolios. This includes mega-trends such as climate change, and key governance questions such as board quality.

## ESG INTEGRATION

Throughout our long history of investing on behalf of our clients, our consistent aim has been to provide healthy long-term investment returns. When we design funds, carry out analysis, and make investment decisions, we consider a wide range of risks and opportunities, to ensure we can provide sustainable returns. We consider questions ranging from the short term to the long term, from macro-economic and political, to detailed questions of companies' business models and balance sheets.

Across all these, we recognise that environmental, social, and governance issues can have a significant impact. These are often called "ESG issues" - but even though they have their own label, we do not see them as some separate category of risks. Rather, they form part of the various fundamental issues we consider in our investment work. They can present companies with risks and opportunities that can have serious impacts on the investment's financial prospects and long-term value.

For example, at the level of an individual company, we may consider how the board and management structures can positively or negatively influence long-term strategy. How does handling of labour relations influence both efficiency and the cost base? How does the company seize environmental opportunities, or fall foul of environmental risks, such as climate change and carbon emissions? Equally, when we consider country risk, governance is always important, but social and environmental issues can also have significant impact. At the portfolio level, it is not only a question of the combined effect of these individual issues, but also one of how the portfolio is likely to react to short, medium and long-term shifts in the environment, and in social and governance issues.

The precise way in which ESG considerations are integrated varies by fund class: a passive fund cannot take the same approach as an actively managed fund selecting individual equities or credits. In those active funds, ESG plays a role throughout the process, from idea generation and screening, to case analysis, valuation, and discussion, to investment decision making and portfolio construction. It naturally feeds into our Stewardship work.

## STEWARDSHIP

Responsible investment does not end with an investment decision. After buying a position, we continue monitoring our investments and their risks and opportunities. But it goes further than that. We have the mind-set that our funds - and investors - do not just temporarily own pieces of paper, but have a real interest in the underlying entity. Equity investors are part owners of real companies. This means that we have both the opportunity and the responsibility to be active owners, communicating with the companies in which we invest, and potentially influencing their behaviour. The aim is to foster long-term corporate value. In doing this, our guiding light is our duty to work for the long-term benefit of our clients.

In practice, active ownership boils down to two key elements: exercising voting rights on shareholdings, and engagement. Engagement involves dialogue with companies - but also other bodies - with the aim of increasing our understanding, and potentially influencing behaviour and actions.

In recognition of our role as stewards of our investors' capital and long-term interests, Sparinvest complies with the Danish Stewardship Code.

## EXCLUSIONS

Sparinvest has over a decade of experience in screening funds and applying exclusionary filters.

**Universal Exclusions:** We set a clear baseline: none of our funds 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 are out. If an existing holding is found to have started such activities, we will divest it as soon as reasonably possible.

**Ethical Funds & Tailored Solutions:** To provide our clients with greater choice, we also offer a range of Ethical funds. These funds go further, and exclude companies based on violations of international norms and involvement in certain sectors.

No

I confirm I have read and understood the Accountability tab for SG 01

I confirm I have read and understood the Accountability tab for SG 01

SG 01 CC	Voluntary	Public	Descriptive	General
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<b>SG 01.6 CC</b>	Indicate the climate-related risks and opportunities that have been identified and factored into the investment strategies and products, within the organisation's investment time horizon.
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When looking at individual investments, we employ a materiality-based approach to considering ESG issues. However, certain issues and ESG mega-trends are so significant that they can have material impacts across entire portfolios, and this applies to climate change.

The risks and opportunities associated with climate change are taken into account as part of our investment process. This is especially true for actively-managed fundamental funds where we have a typical average holding period of 3-5 years for equities and 1 year for corporate bonds (for individual investments, time-frames can be considerably longer or shorter.) Climate change considerations (such as described in SG.01.8 below) feed into all three of our main responsible investment tools - ESG Integration, Stewardship, and Exclusions.

**ESG Integration:** especially for actively managed fundamental funds, climate change risks and opportunities are taken into account as part of our investment process. Here, we find opportunities across various sectors, and we do not only seek out companies in businesses with inherently low carbon footprints. The carbon footprint of our portfolios can be strongly influenced by our relative exposures to different industries. MSCI data feeds into our analysis whereby, we aim to understand how companies are exposed to carbon emissions and climate change, how they address the risks or opportunities and how/with whom the responsibility is anchored in the company. Our analysis can be significantly influenced by the extent to which companies are aware of, and actively addressing, the transition to a low carbon economy. This is because our investment process measures long-term risk against reward. The transition process may increasingly leave some companies with stranded assets or outdated business models - and provide others with attractive growth potential.

**Stewardship:** We frequently vote in favour of resolutions calling for greater disclosure of climate-related risks. In addition to ad hoc engagement with individual companies on climate related issues, we have initiated a broad engagement programme in our active, fundamental Value Equity and Credit portfolios, looking at corporate approaches to carbon emissions and climate change. We have also joined Climate Action 100+, a broad-based collaborative engagement with strong support from institutional investors like ourselves.

**Exclusions:** Our Ethical range of funds excludes companies based on violations of international norms, and exposure to certain sectors. The Norm-based screen includes a consideration of environmental norms, which can include climate related issues. The Sector-based screen includes an exclusionary filter for companies involved in Oil Sands, and Thermal Coal, two of the most carbon intense energy exposures.

**Carbon Footprinting:** This exercise gives an indication of the carbon intensity of our portfolios overall, and also boosts our understanding of where the greatest sensitivities are, whether in terms of emissions, or in other risks e.g. stranded assets. Carbon footprinting data is important to our climate related engagement programme.

We have signed the Montreal Carbon Pledge for four funds and so we measure and disclose their carbon footprints on an annual basis. The aim is that either the Portfolio Manager will use this information for engagement or to set carbon reduction targets.

<b>SG 01.7 CC</b>	Indicate whether the organisation has assessed the likelihood and impact of these climate risks?
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Yes

Short term climate-related issues are those that could arise unexpectedly on a given day and have material impact on any of our individual investments/portfolios. We identify risks as being events such as:

- Unexpected extreme weather or geophysical events affecting regions or countries where we hold investments
- Power outages
- Physical threat to assets
- Water shortages or contamination
- Evacuation of populations
- Announcement of climate-related litigation

Short term climate-related opportunities could be:

- Introduction of a new product/technological advance that has beneficial climate change mitigation effects
- New agreement or partnership for climate change mitigation that opens up new markets
- Strategic decision to develop climate-adaptation solutions and retire stranded assets

Medium Term climate-related issues are those that could materialise over the course of several months to 3 years - a timeframe that would affect most Sparinvest portfolios. We identify risks as being events such as:

- Introduction of carbon tax/GHG emissions pricing (not typically done overnight but would be debated by legislators.)
- Crop failures (leading to increased prices for food/garment manufacture)
- Climate related health risks - with associated litigation threat
- Shifts in consumer preferences/stigmatisation of an entire sector

Medium term climate-related opportunities could be:

- Introduction of policies/incentives to buy that are supportive of a company's climate-related goods or services
- Product pipeline that encourages recycling/energy saving/move to circular economy

Long term climate-related issues are those that could materialise over 3-5 years (the average holding period for our actively-managed equities) or more. We identify risks as being events such as:

- Rising sea levels/long-term flooding
- Desertification/long-term drought
- Displacement of populations

Long term climate-related opportunities could be:

- Products/services designed to defend against flooding/rising sea levels
- Technologies capable of reversing desertification or restoring crops (seed banks, etc)
- Companies offering products/services that can assist with mass migration problems (shelter/food/health/language programmes).

No

**SG 01.9  
CC**

Indicate whether the organisation publicly supports the TCFD?

- Yes  
 No

**SG 01.10  
CC**

Indicate whether there is an organisation-wide strategy in place to identify and manage material climate-related risks and opportunities.

- Yes

Describe

In actively managed fundamental funds, the investment risks related to climate change are analysed by portfolio managers, as described in SG 01.6CC, above.

Within Sparinvest, The Responsible Investment Committee is charged with deciding how the various strategies managed by Sparinvest should align with our Responsible Investment policy. In doing so, it is necessary to balance sustainability considerations with legal/fiduciary considerations.

Where the Responsible Investment Committee proposes a change that is likely to materially affect an investment strategy, it is referred to the Investment Committee for approval. Climate change is a topic that is regularly discussed in the Responsible Investment Committee. In recent years, this has led to the following decisions related to climate change in respect of actively managed fundamental funds:

- Mid 2015, the Responsible Investment Committee agreed to add oil sands and thermal coal to the exclusionary criteria applied to ethical funds on the grounds of the high carbon emissions of these energy sources. Exclusions for Sparinvest's range of ethical funds is agreed in collaboration with clients.
- 2015 - agreement to sign up two ethical equity funds to the Montreal Carbon Pledge and begin footprinting
- 2016 - agreement to sign up ethical high yield bond fund to Montreal Carbon Pledge
- 2017 - agreement to join Climate Action 100+ and to begin a carbon-related engagement with all actively managed fundamental equity holdings and all holdings from our ethical high yield fund.
- 2018 - agreement to sign up European Value fund to Montreal Carbon Pledge.

The Investment Committee is chaired by Sparinvest's CIO, includes the team heads of all investment teams and Head of Risk and Head of Sales. This committee oversees Sparinvest's investment activities, ensures that quality is maintained across Sparinvest's entire range of investment solutions. The Investment Committee receives input from two sub-committees - the Risk Committee which considers the risk framework and evaluates ongoing risk and performance of investment strategies and the Responsible Investment Committee which develops and implements Responsible Investment and Ethical policies.

At a company level, Sparinvest considers that, as a data and systems driven business, the key threat to our sustainability would be an IT threat. For this reason our IT Department has developed a contingency plan (reviewed annually) to ensure that information is redeemable in the event of any catastrophic events (climate related or otherwise) occurring. We have considered the potential physical impact of Climate Change on Sparinvest's offices in Luxembourg, Denmark and France and do not consider that there are any immediately material risks.

- No

<b>SG 1.12 CC</b>	Indicate the documents and/or communications the organisation uses to publish TCFD disclosures.
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- Public PRI Climate Transparency Report
- Annual financial filings
- Regular client reporting
- Member communications
- Other

<b>SG 02</b>	<b>Mandatory</b>	<b>Public</b>	<b>Core Assessed</b>	<b>PRI 6</b>
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**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

<b>SG 02.1</b>	Indicate which of your investment policy documents (if any) are publicly available. Provide a URL and an attachment of the document.
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- Policy setting out your overall approach

	URL/Attachment
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- URL

	URL
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{hyperlink:<http://www.sparinvest.lu/investing%20responsibly/transparency.aspx>}

- Attachment (will be made public)

	Attachment
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[File 1:01-04-2019 RI Policy.pdf](#)

- Fiduciary (or equivalent) duties

	URL/Attachment
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- URL

	URL
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{hyperlink:<http://www.sparinvest.lu/~media/global-docs/responsible-investment-policy.ashx>}

- Attachment (will be made public)

	Attachment
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[File 1:01-04-2019 RI Policy.pdf](#)

- Asset class-specific RI guidelines

URL/Attachment

URL

URL

{hyperlink:<http://www.sparinvest.lu/investing%20responsibly/transparency.aspx>}

Attachment (will be made public)

Attachment

[File 1:01-04-2019 RI Policy.pdf](#)

Screening / exclusions policy

URL/Attachment

URL

URL

{hyperlink:<http://www.sparinvest.lu/investing%20responsibly/exclusions-ethical.aspx>}

Attachment (will be made public)

Attachment

[File 1:01-04-2019 Ethical Policy.pdf](#)

Engagement policy

URL/Attachment

URL

URL

{hyperlink:<http://www.sparinvest.lu/investing%20responsibly/transparency.aspx>}

Attachment (will be made public)

Attachment

[File 1:01-04-2019 Stewardship Policy.pdf](#)

(Proxy) voting policy

URL/Attachment

URL

URL

{hyperlink:http://www.sparinvest.lu/investing%20responsibly/transparency.aspx}

Attachment (will be made public)

Attachment

[File 1:01-04-2019 Voting Policy.docx.pdf](#)

Other, specify (1)

Other, specify (1) description

Stewardship Policy

URL/Attachment

URL

URL

{hyperlink:http://www.sparinvest.lu/investing%20responsibly/transparency.aspx}

Attachment (will be made public)

Attachment

[File 1:01-04-2019 Stewardship Policy.pdf](#)

We do not publicly disclose our investment policy documents

**SG 02.2** Indicate if any of your investment policy components are publicly available. Provide URL and an attachment of the document.

Your organisation's definition of ESG and/or responsible investment and it's relation to investments

URL/Attachment

URL

URL

{hyperlink:http://www.sparinvest.lu/investing%20responsibly/transparency.aspx}

Attachment

File Attachment

{hyperlink:01-04-2019 RI Policy.pdf [443KB]}

Time horizon of your investment

URL/Attachment

URL

URL

{hyperlink:http://www.sparinvest.lu/investing%20responsibly/transparency.aspx}

Attachment

File Attachment

{hyperlink:01-04-2019 RI Policy.pdf [443KB]}

Governance structure of organisational ESG responsibilities

URL/Attachment

URL

URL

{hyperlink:http://www.sparinvest.lu/investing%20responsibly/transparency.aspx}

Attachment

File Attachment

{hyperlink:01-04-2019 RI Policy.pdf [443KB]}

ESG incorporation approaches

URL/Attachment

URL

URL

{hyperlink:http://www.sparinvest.lu/investing%20responsibly/transparency.aspx}

Attachment

File Attachment

{hyperlink:01-04-2019 RI Policy.pdf [443KB]}

Active ownership approaches

URL/Attachment

URL



URL

{hyperlink:http://www.sparinvest.lu/investing%20responsibly/transparency.aspx}

Attachment

File Attachment

{hyperlink:01-04-2019 Stewardship Policy.pdf [443KB]}

Reporting

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URL

URL

{hyperlink:http://www.sparinvest.lu/investing%20responsibly/transparency.aspx}

Attachment

File Attachment

{hyperlink:01-04-2019 Stewardship Policy.pdf [443KB]}

Climate change

URL/Attachment

URL

URL

{hyperlink:http://www.sparinvest.lu/investing%20responsibly/climate-change.aspx}

Attachment

File Attachment

{hyperlink:01-04-2019 RI Policy.pdf [443KB]}

Understanding and incorporating client / beneficiary sustainability preferences

We do not publicly disclose any investment policy components

## Governance and human resources

SG 07 CC	Voluntary	Public	Descriptive	General
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SG 07.5 CC	Indicate the roles in the organisation that have oversight, accountability and/or management responsibilities for climate-related issues.
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Board members or trustees

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Investment Committee

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Portfolio managers

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Investment analysts

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Dedicated responsible investment staff

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

External managers or service providers

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Other role, specify (1)

Other description (1)

Other role, specify (1)

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

<b>SG 07.6</b> <b>CC</b>	For board level roles for which have climate-related issues oversight/accountability or implementation responsibilities, indicate how these responsibilities are executed.
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A member of the Responsible Investment Committee/Head of RI reports to the Board of Sparinvest S.A. as well as the Boards of the two UCITS funds run by Sparinvest out of Denmark and Luxembourg on the subject of Responsible Investment annually, or more frequently if requested. Naturally, given the importance of the issue, climate related integration and engagement issues form part of this report.

During 2018, our actively managed fundamental equity and bond teams began work on a formalized thematic carbon engagement programme with holding companies. Naturally, the progress of this engagement programme will be reported to Investment Committee and Board meetings, as well as in our reporting to clients.

<b>SG 07.7</b> <b>CC</b>	For the management-level roles that assess and manage climate-related issues, provide further information on the structure and process involved.
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As mentioned in SG 01.10, Sparinvest's Responsible Investment Committee makes recommendations regarding climate change related matters to the Investment Committee which is headed by our CIO.

In addition, the Head of Responsible Investment reports to the CIO on responsible investment matters (including any developments related to climate change) on a regular weekly basis.

For actively managed funds, climate related issues are integrated into the investment process, where they are considered alongside other fundamental risks. The investment process for all funds is overseen by our CIO.

<b>SG 07.8</b> <b>CC</b>	Explain how the organisation engages external investment managers on the TCFD recommendations and its implementation.
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- Incorporation of TCFD in Annual Report
- Incorporation of TCFD in regular client reporting
- Request that investment managers complete PRI Climate indicators
- Request responses to TCFD Fund Manager questions in the PRI Asset Owner guide

## ESG issues in asset allocation

<b>SG 13</b>	<b>Mandatory</b>	<b>Public</b>	<b>Descriptive</b>	<b>PRI 1</b>
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<b>SG 13.1</b>	Indicate whether the organisation undertakes scenario analysis and/or modelling and provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).
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- Yes, to assess future ESG factors
- Yes, to assess future climate-related risks and opportunities
- No, not to assess future ESG/climate-related issues

**SG 13.3**

Additional information. [OPTIONAL]

We do not incorporate ESG issues directly in strategic asset allocation. Our active equity fund exposures are driven by a bottom-up stock selection process. However, the practical reality is that in different geographic markets we will see certain ESG trends or characteristics which may have an impact on our allocation to that market. An example would be Russia, which ranks poorly in World Governance Indicators and where ESG scores for individual companies tend to be relatively low: there is often concern over governance risk, and poor environmental track records at various companies. In combination, ESG risks are one key reason for the extremely low valuations at which the Russian market typically trades, and low valuations are typically attractions for a value investor. Consideration of governance, demographics, and other ESG factors are inherently part of our consideration of the appropriate country risk premium.

**SG 14****Mandatory to Report Voluntary to Disclose****Public****Additional Assessed****PRI 1****SG 14.1**

Some investment risks and opportunities arise as a result of long term trends. Indicate which of the following are considered.

- Changing demographics
- Climate change
- Resource scarcity
- Technological developments
- Other, specify(1)
- Other, specify(2)
- None of the above

**SG 14.2**

Indicate which of the following activities you have undertaken to respond to climate change risk and opportunity

- Established a climate change sensitive or climate change integrated asset allocation strategy
- Targeted low carbon or climate resilient investments
- Phase out your investments in your fossil fuel holdings
- Reduced portfolio exposure to emissions intensive or fossil fuel holdings
- Used emissions data or analysis to inform investment decision making
- Sought climate change integration by companies
- Sought climate supportive policy from governments
- Other, specify

other description

- Four funds committed to Montreal Carbon Pledge. Footprints inform ongoing carbon-themed engagement with portfolio companies. Certain funds exclude thermal coal and oil sands.
- None of the above

**SG 14.3**

Indicate which of the following tools the organisation uses to manage climate-related risks and opportunities.

- Scenario analysis
- Disclosures on emissions risks to clients/trustees/management/beneficiaries
- Climate-related targets
- Encouraging internal and/or external portfolio managers to monitor emissions risks
- Emissions-risk monitoring and reporting are formalised into contracts when appointing managers
- Weighted average carbon intensity
- Carbon footprint (scope 1 and 2)
- Portfolio carbon footprint
- Total carbon emissions
- Carbon intensity
- Exposure to carbon-related assets
- Other emissions metrics
- Other, specify
- None of the above

**SG 14.4**

If you selected disclosure on emissions risks, list any specific climate related disclosure tools or frameworks that you used.

We have committed four funds to the Montreal Carbon Pledge, meaning that, on an annual basis, we will report to clients on the carbon footprints of the four portfolios concerned. In order to do this, we subscribe to MSCI Carbon Portfolio Analytics service to supply us with emissions and climate transition related data for our portfolio companies and appropriate benchmarks.

MSCI supplies quantitative data on reserves and potential emissions by fossil fuel type: coal, oil, natural gas, oil sands, shale gas and shale oil, as well as Scope 1 & 2 carbon emissions and intensities. Potential emissions are calculated using the methodology of the Potsdam Institute for Climate Impact Research.

At Sparinvest, our preferred measure for assessing the climate related performance of our portfolios is weighted average carbon intensity, which we consider to be a cleaner measure, because it is uninfluenced by market cap of holdings, and therefore uninfluenced by valuations. We think it gives a clearer idea of where the carbon risk in the portfolio lies.

**SG 14.5**

Additional information [Optional]

Carbon risk is high on our agenda. We have signed the Montreal Carbon Pledge on behalf of our range of ethical funds but many holdings overlap with other funds and therefore the information gained from the annual footprinting exercise is applicable to a higher % of AUM than indicated above.

However, our aim is not to be 'best in class' with regards to carbon risk in any of these funds - especially given our assessment that carbon footprinting metrics linking responsibility for carbon emissions to price paid for equity ownership penalise the value investment strategy. Instead, our intention is to use the information gained from carbon footprinting to further develop our engagement programme relating to carbon risk/opportunity at individual companies. Our carbon engagement programme extends across equity and bond funds and includes a commitment to participate in Climate Action 100+

<b>SG 14 CC</b>	<b>Voluntary</b>	<b>Public</b>	<b>General</b>
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**SG 14.6**  
**CC**

Please provide further details on these key metric(s) used to assess climate related risks and opportunities.

Metric Type	Coverage	Purpose	Metric Unit	Metric Methodology
<b>Weighted average carbon intensity</b>	<input type="checkbox"/> All assets <input type="checkbox"/> Majority of assets <input checked="" type="checkbox"/> Minority of assets	<p>This metric is our preferred one as it is a more accurate measurement of the efficiency with which companies use carbon. This is therefore the metric that we use to help inform engagement strategies. Measures portfolio exposure to carbon intensive companies. This is the only measure available to us for fixed income portfolios. It is a proxy for exposure to climate related risks.</p>	tCO2e/\$m sales	tCO2e/\$m sales for each company and weighted average by portfolio weight.
<b>Carbon footprint (scope 1 and 2)</b>	<input type="checkbox"/> All assets <input type="checkbox"/> Majority of assets <input checked="" type="checkbox"/> Minority of assets		tCO2e indicating % of scope 1 + % of scope 2	When reported data is not available, scope 1 & 2 emissions are estimated using MSCI's carbon emissions estimation model.
<b>Portfolio carbon footprint</b>	<input type="checkbox"/> All assets <input type="checkbox"/> Majority of assets <input checked="" type="checkbox"/> Minority of assets	<p>We dislike this metric because it is influenced by the price paid for each holding resulting in higher 'ownership' of emissions for companies bought cheaply. We use it, however, to track and report on relative carbon footprint over time and identify largest contributors to carbon footprint which can inform engagement.</p>	tCO2e/\$m invested	This measure links total carbon emissions to the market value of the portfolio. Link to ownership means not applicable to bond portfolios
<b>Total carbon emissions</b>	<input type="checkbox"/> All assets <input type="checkbox"/> Majority of assets <input checked="" type="checkbox"/> Minority of assets	<p>Measures the portfolio's total carbon footprint. Measures the absolute tons of CO2 emissions for which an investor is responsible based on equity ownership.</p>	tCO2e (scope 1 + 2)	
<b>Carbon intensity</b>	<input type="checkbox"/> All assets <input type="checkbox"/> Majority of assets <input checked="" type="checkbox"/> Minority of assets		tCO2e/\$m sales	Portfolio Carbon Intensity is calculated by dividing the portfolio's total Carbon Emissions (apportioned by the investor's ownership share) by the portfolio's total Sales over that same period of time (also apportioned by the investor's ownership share).
<b>Exposure to carbon-related</b>	<input type="checkbox"/> All assets <input type="checkbox"/> Majority	<p>This metric helps us to assess exposure to companies owning fossil fuel reserves versus</p>		exposure to companies owning fossil fuel reserves versus those offering clean tech solutions

<b>assets</b>	of assets <input checked="" type="checkbox"/> Minority of assets	those offering clean tech solutions gives an indication of stranded asset risk versus clean tech opportunities.		
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<b>SG 14.8 CC</b>	Indicate whether climate-related risks are integrated into overall risk management and explain the risks management processes for identifying, assessing, and managing climate-related risks.
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- Process for climate-related risks is integrated into overall risk management

	Please describe
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As part of its overall risk management, Sparinvest has set sector risk limits. These have the effect of limiting concentration in high carbon-intensive sectors.

For actively managed fundamental funds, Portfolio Managers consider the potential impacts that climate-related risks and opportunities can have on the economics for individual companies. Companies whose operations entail high carbon emissions are under threat of significant impact on profitability in the face of high-speed regulatory change and pricing of externalities. The existence of - and intended introduction of - regulatory requirements in specific jurisdictions is something that we take into consideration. The extent to which a company is positioned to withstand or reduce climate-related risks or to take advantage of climate-related opportunities is a key focus during our security analysis process, meaning that it can affect our decision of whether to become an investor in a company and at what price. It is also a key part of ongoing portfolio monitoring.

We subscribe to MSCI ESG analysis which gives us detailed climate-related information on individual securities as well as across sectors. In the wake of the TCFD project, we are also able to look for climate related financial disclosure information on Bloomberg, although we are mindful of the fact that companies are self-assessing in order to provide this information.

- Process for climate-related risks is not integrated into our overall risk management

<b>SG 14.9 CC</b>	Indicate whether the organisation undertakes active ownership activities to encourage TCFD adoption.
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- Yes

	Please describe
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Sparinvest's fundamental active equities and fixed income teams have both signed up to Climate Action 100+

Investors supporting this initiative undertake to request the boards and senior management of companies to:

- Implement a strong governance framework articulating the board's accountability and oversight of climate risks and opportunities;
- Take action to reduce greenhouse gas emissions across the value chain in line with the Paris Agreement
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

During 2018, Sparinvest has also begun a major thematic engagement with portfolio companies on the subject of carbon and climate change. As part of this engagement, we are encouraging companies to move towards TCFD compliant disclosures. In particular, we have sought granular information regarding:



- Governance - where in the organization the responsibilities lie relating to climate change and carbon issues.
- Strategy - whether there is a strategy/policy to manage climate change risk and who is in charge of day-to-day implementation of these.
- Risk Management - how the financial impact of climate and carbon risk is assessed with information requested regarding the scale, probability and likely time horizon of such impacts
- Metrics and Targets - whether there is a carbon emissions reduction target with the goal as a percentage of current emissions and a timeline for implementation.

In addition, Sparinvest frequently votes in favour of resolutions calling for greater disclosure of climate-related risks in line with TCFD recommendations.

No, we do not engage

SG 15	Mandatory to Report Voluntary to Disclose	Public	Descriptive	PRI 1
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SG 15.1	Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.
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Yes

SG 15.2	Indicate the percentage of your total AUM invested in environmental and social themed areas.
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	%
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1.0

SG 15.3	Specify which thematic area(s) you invest in, indicate the percentage of your AUM in the particular asset class and provide a brief description.
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#### Area

- Energy efficiency / Clean technology
- Renewable energy
- Green buildings
- Sustainable forestry
- Sustainable agriculture
- Microfinance
- SME financing
- Social enterprise / community investing
- Affordable housing
- Education
- Global health
- Water
- Other area, specify

Sparinvest runs a passive fund based on Dow Jones Sustainability Index.

#### Asset class invested

- Listed equity

#### % of AUM

1.0

- Fixed income - SSA
- Fixed income - Corporate (financial)
- Fixed income - Corporate (non-financial)
- Fixed income - Securitised
- Cash

#### Brief description and measures of investment

This passively invested fund seeks to replicate the performance of the global Dow Jones Sustainability Index (DJSI World) excluding alcohol, gambling, tobacco, weapons and pornography.

The DJSI World is constructed using a transparent, rules-based selection process. All the companies included in the index are screened for a variety of criteria, designed to demonstrate responsibility for the development of society's values. After inclusion in the Index companies continue to be monitored for their "corporate sustainability performance". An ethical screen is applied to the DJSI World to exclude companies operating in the alcohol, gambling, tobacco, weapons and pornography businesses. The success criterion of the fund is to minimize tracking error towards this benchmark.

No

