CLIMATE TRANSPARENCY REPORT 2020

Sparinvest S.A.

PRI Principles for Responsible Investment

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 2020 PRI Reporting Framework.

About this report

This report is an export of only the climate-related indicators from the 2020 Reporting Framework response. The full Public Transparency Report is available here (https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/-E6E44CB2-BE90-4A2C-811E-2673FF732020/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1). 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 2020 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 01.6 CC	✓	Public				
SG 01.7 CC	✓	Public				
SG 01.8 CC	✓	Public				
SG 01.9 CC	✓	Public				
SG 01.10 CC	✓	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	-					
SG 13.5 CC	-					
SG 13.6 CC	-					
SG 13.7 CC	-					
SG 13.8 CC	-					
SG 14.1	✓	Public				
SG 14.2	✓	Public				
SG 14.3	✓	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	
Name	Sparinvest S.A.
Signatory Category	Fund Management - Majority
Signatory Type	Investment Manager
Size	US$ 10 - 29.99 billion AUM
Main Asset Class	Multi-Asset
Signed PRI Initiative	2009
Region	Europe
Country	Luxembourg
Disclosure of Voluntary Indicators	24% 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.

SG 01 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 01.6 CC	Indicate whether your organisation has identified transition and physical climate-related risks and opportunities and factored this into the investment strategies and products, within the organisation's investment time horizon.

◉ Yes

	Describe the identified transition and physical climate-related risks and opportunities and how they have been factored into the investment strategies/products.

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.01.9 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.

○ No

SG 01.7 CC	Indicate whether the organisation has assessed the likelihood and impact of these climate risks?

◉ Yes

	Describe the associated timescales linked to these risks and opportunities.

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 01.8 CC	Indicate whether the organisation publicly supports the TCFD?

◉ Yes

○ No

SG 01.9 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 consultation 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.
- 2019 - sign up to support Carbon Disclosure Project and Global International Investor Statement on Climate Change
- 2019 - introduction of new climate-related exclusionary criteria to ethical equity funds
- 2020 addition of climate-related exclusions to ALL Sparinvest funds

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

SG 1.10 CC	Indicate the documents and/or communications the organisation uses to publish TCFD disclosures.

☑ Public PRI Climate Transparency Report

☐ Annual financial filings

☐ Regular client reporting

☐ Member communications

☐ Other

☐ We currently do not publish TCFD disclosures

Governance and human resources

SG 07 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 07.5 CC	Indicate the roles in the organisation that have oversight, accountability and/or management responsibilities for climate-related issues.

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)

Middle Office

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

SG 07.6 CC	For board-level roles that have climate-related issue oversight/accountability or implementation responsibilities, indicate how these responsibilities are executed.

A designated Board Member has responsibility for supervising Sparinvest's climate related actions and reporting thereof as per this document and briefings from Sparinvest's Head of RI.

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 2019, our actively managed fundamental equity and bond teams continued 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.

SG 07.8 CC	Indicate how your organisation engages external investment managers and/or service providers on the TCFD recommendations and their implementation.

☐ Request that external managers and/or service providers incorporate TCFD into mainstream financial filings (annual financial reports, other regulatory reporting or similar)

☐ Request incorporation of TCFD into regular client reporting

☐ Request that external managers complete PRI climate indicator reporting

☐ Request responses to TCFD Fund Manager questions in the PRI Asset Owner Guide

☑ Other

	Specify

We require that all external managers must be TCFD signatories.

☐ We do not engage with external managers and/or service providers on the TCFD recommendations and their implementation

ESG issues in asset allocation

SG 13	Mandatory	Public	Descriptive	PRI 1

SG 13.1	Indicate whether the organisation carries out scenario analysis and/or modelling, and if it does, provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).

☐ Yes, in order to assess future ESG factors

☐ Yes, in order to assess future climate-related risks and opportunities

☑ No, our organisation does not currently carry out scenario analysis and/or modelling

SG 13.3	Additional information. [OPTIONAL]

We do not specifically use ESG scenario modelling in strategic asset allocation. However, ESG analysis, including some scenario considerations, is used in certain funds.

For example, in our active fundamental equity funds, exposures are driven by a bottom-up stock selection process. However, we consider the carbon intensity of our holdings, and how that may influence the portfolio in varying scenarios. Furthermore, 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

☐ 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 14.5	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 in 14.6 CC below.

However, our aim is not to be 'best in class' with regards to carbon risk in these funds (particularly on certain carbon metrics which are inherently skewed by portfolio valuations). Instead, our intention is to use the information gained from carbon footprinting to understand sensitivities, and 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+.

SG 14 CC	Voluntary	Public		General

SG 14.6 CC	Provide further details on the key metric(s) used to assess climate-related risks and opportunities.

Metric Type	Coverage	Purpose	Metric Unit	Metric Methodology
Weighted average carbon intensity	☐ All assets ☐ Majority of assets ☑ Minority of assets	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.	tCO2e/$m sales	tCO2e/$m sales for each company and weighted average by portfolio weight.
Carbon footprint (scope 1 and 2)	☐ All assets ☐ Majority of assets ☑ 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.
Portfolio carbon footprint	☐ All assets ☐ Majority of assets ☑ Minority of assets	We de-prioritise this metric because it is influenced by the valuation of each holding resulting in higher 'ownership' of emissions for companies with low valuations 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.	tCO2e/$m invested	This measure links total carbon emissions to the market value of the portfolio. Link to ownership means not applicable to bond portfolios
Total carbon emissions	☐ All assets ☐ Majority of assets ☑ Minority of assets	Measures the portfolio’s total carbon footprint. Measures the absolute tons of CO2 emissions for which an investor is responsible based on equity ownership.	tCO2e (scope 1 +2)	
Carbon intensity	☐ All assets ☐ Majority of assets ☑ Minority of assets	While this measure can be interesting, it is also skewed by the valuations of portfolio holdings, and therefore we consider it does not accurately measure a portfolio’s carbon profile relative to wider benchmarks.	tCO2e/$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).
Exposure to carbon-related assets	☐ All assets ☐ Majority of assets ☑ Minority of assets	This metric helps us to assess exposure to companies owning fossil fuel reserves versus those offering clean tech solutions gives an indication of stranded asset risk versus clean tech opportunities.		exposure to companies owning fossil fuel reserves versus those offering clean tech solutions

SG 14.8 CC	Indicate whether climate-related risks are integrated into overall risk management and explain the risk management processes used for identifying, assessing and managing climate-related risks.

◉ Processes for climate-related risks are integrated into overall risk management

	Please describe

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 may face 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 is 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.

○ Processes for climate-related risks are not integrated into overall risk management

SG 14.9 CC	Indicate whether your organisation, and/or external investment manager or service providers acting on your behalf, undertake active ownership activities to encourage TCFD adoption.

◉ Yes

	Please describe

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 2019, Sparinvest continued 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 undertake active ownership activities.

○ No, we do not undertake active ownership activities to encourage TCFD adoption.

SG 15	Mandatory to Report Voluntary to Disclose	Public	Descriptive	PRI 1

SG 15.1	Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.

◉ Yes

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

	%

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.

	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

	Percentage of AUM (+/-5%) per asset class invested in the area

1

☐ 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