Sustainability Risk Integration in the Investment Decision-Making Process

Purpose

This statement describes how Sparinvest integrates environmental, social and governance "**ESG**" considerations and **sustainability risk** into the investment decision-making process as per Article 3 of the Sustainability Finance Disclosure Regulation (SFDR). Sustainability risk is defined as "an environmental social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment". At Sparinvest, we approach ESG and sustainability risk integration by incorporating financially material ESG data with the objective enhancing risk-adjusted long-term investment returns.

ESG and Sustainability Integration at Sparinvest

At Sparinvest, we have a long history of providing sustainable and positive long-term returns, based on responsible and resilient investment strategies. With an increased awareness that material sustainability risk and ESG factors can be tied to investments long-term value, Sparinvest has a strong focus on integrating sustainability insights and data into our investment process. We are convinced that by utilizing financially material data and information on ESG, we can enhance the robustness and improve risk-adjusted long-term returns.

We seek to integrate ESG by identifying and including financially material sustainability risks, which are those that we believe may have an impact on the financial performance of the strategies and portfolios we manage.

Environmental (E)

Encompasses themes such as climate risk, greenhouse gas emissions, carbon footprint, resource usage and waste policy.

Social (S)

Covers labor issues, social impact of products and services, data privacy, security, health, safety, and human rights.

Governance (G)

Includes topics such as bribery, corruption, political risks, business ethics, as well as peace and security.

Investment Process

ESG factors and sustainability risk are integrated into the investment process, and as with other investment risks, aims to strengthen the risk management and contribute to long-term financial returns.

While we have integrated an ESG framework with overarching processes to assess the materiality of ESG factors, our ESG framework is designed to allow portfolio managers to take into account nuances and variations across different asset classes and investment strategies.

For our actively managed funds and fundamental strategies, ESG is integrated on both a quantitative and qualitative basis throughout the entire investment process – the materiality of sustainability risk of potential investments is screened, analyzed, and evaluated, and subsequently performing regularly monitoring of sustainability risk, with the purpose of exposing ESG ratios that may be inconsistent with the strategy.

For our passively managed index strategies, the investment objective is to track a predetermined benchmark. Some of the benchmark indexes take sustainability risk and ESG factors into account, whilst others do not include such aspects. At Sparinvest, we continuously evaluate the predetermined benchmark to determine if they are consistent with Sparinvest's Sustainable Investment Policy. We therefore engage with index providers to offer our perspective and input on the construction of the benchmark, to ensure that ESG factors are taken into consideration, when relevant.

For our externally managed strategies, a criterion in the selection of asset managers is their ability to integrate ESG considerations in the same way as we do in our internal investment management. Based on the monitoring of investments, we communicate regularly with asset managers about the integration of ESG information and the development of their approach.

Stewardship is a core element of our investment processes. At Sparinvest we see it as our responsibility to engage with investee companies or issuers. This means that we seek to understand how companies or issuers consider sustainability risk and encourage best practices, for the purpose of fostering sustainable and long-term returns. We define stewardship as interaction with investee companies or issuers, exercising our voice as a long-term investor through direct and collaborative engagements, as well as proxy voting. Stewardship in the context of ESG integration allows us to manage ESG risks and to systematically incorporate insights gained from engagement into our investment decisions.

ESG Data and Material Insights

At Sparinvest, we believe sustainability-related data and insights are key components in integrating ESG into our investment decision-making process, and at the same time providing transparency around how sustainability risk is considered. In order to assess whether sustainability-related characteristics may have an impact on the financial return of investments, Sparinvest uses a broad range of ESG data and information from both internal and external sources.

The criteria and rating systems may differ across external data providers, as there is no common system, meaning that methodologies and conclusions may differ significantly between third party providers. Moreover, some external data sets and assumptions may be biased and inconsistent – Which can be viewed as a clear indication, that ESG data and sustainability reporting are in the early stages of development and are yet to fully mature. For this reason, we at Sparinvest always ensure to only use third-party providers that can deliver reliable services and high-quality data.

Transparency

At Sparinvest we disclose information about our ESG practices on our product sites and fund documents, such as prospectuses, as well as annual reports on sustainability disclosures, corporate responsibilities, and Principles for Responsible Investment (UNPRI). We also make our exclusion-list, Principle Adverse Statement (PAI) and proxy voting results public. In addition, an elaborate description of our methodologies related to sustainable investments, outlining sources, criteria and data underpinning the investment process, can be found on our website.

Risk Management and Monitoring

In line with the Risk Management Policy, sustainability risk is embedded into the risk management process like any other relevant risk factors. Therefore, the Risk Management Function monitors and reports ESG risk limits and indicators accordingly.

The ESG risk indicator based on an ESG quality score (0-10) combined with its corresponding ESG rating (AAA-CCC) that is designed to assess the resilience of a fund to long term ESG risks and opportunities. These risk indicators are based on the aggregate holdings of the fund, hence highly rated funds consist of issuers with leading or improving management of key ESG risks. Where possible, the ESG quality score of the fund is compared with the ESG quality score of its benchmark.The quality score is based on the ESG rating framework developed by MSCI ESG Research, who is a leading provider of ESG research and ratings. which is considered an industry leader in providing ESG research and data.

Where relevant, every fund operates within its own policy on responsible investments and processes for handling corporate social responsibility and sustainability issues. These are implemented in the pre-contractual documents for the specific fund.

The approach to limit sustainability risk is based on:

- Exclusion list (e.g. based on various international norms in the areas of human rights, labour rights, the environment and climate), based on the ESG performance and with varying scope (general vs. Fund-specific)
- Sanctions screening
- Active stewardship (e.g. direct, collaborative and service provider engagement)