

Sustainability-related disclosures

Ethical Global Value

Summary

The Subfund promotes environmental, social and good governance practices. However, the Subfund does not have sustainable investments as its objective. The Subfund's asset managers continuously work to account for the indicators of adverse impacts on sustainability factors. The Subfund takes principle adverse impact into consideration, and the 14 compulsory indicators are accounted for based on its Do No Significant Harm (DNSH) criteria and active ownership.

The Subfund aims to avoid investments in systematic violators of OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organization on Fundamental Principles and Rights at Work, and the International Bill of Human Rights. In particular, the Subfund promotes environmental and social characteristics through the exclusion of companies based on the following criteria:

Persistent norm violations, controversial weapons and climate laggards. To promote good governance in investee companies, the Subfund exercises its voting rights at Annual General Meetings, and companies that persistently fail to remedy violations of international norms and are unresponsive to engagement are excluded from the investment universe. As set out in the Subfund's policy for responsible investments, the Subfund's approach to active ownership goes beyond the assessment of good governance and the monitoring of compliance with international norms, with engagement relating to company-specific ESG risks or opportunities and climate change.

In the Subfund's investment strategy ESG consideration serves as a fundamental part of the process. ESG information is integrated into the entire investment process, from screening and analysing potential new investments, to valuation, making investment decisions, building and monitoring portfolios, and informing about our stewardship activities. Good governance is assessed through analysis as part of our investment selection, dialogue with companies, analysis of shareholder meeting agendas in the context of exercising voting rights and monitoring governance-related data from external ESG data providers. In particular, with respect to sound management structures, staff relations, remuneration of staff and tax compliance.

The environmental and social characteristics of the financial product are continuously monitored. This is done by measuring the Principal Adverse Impact (PAI) indicators and using the findings for both reporting and internal controls. In particular, in connection with internal controls, the PAI indicators are assessed against the pre-contractual levels on a monthly basis. ESG data from multiple sources is used to measure the attainment of the environmental and social characteristics of the financial product. Screening and controlling of companies and countries are conducted to check whether the entities abide by international standards, or if they have been involved in any activities that make them subject to exclusion. The third-party providers include, but are not limited to, MSCI ESG Research, Sustainalytics and ISS. Due diligence processes have been applied to all data sources and third-party providers are only appointed if they themselves have internal control procedures. The nature of ESG data comes with some limitations due to the inconsistency in methodologies and lack of data. The Fund deals with this and applies estimates in cases where data is needed. ESG data is processed in the Data Warehouse, where all data is gathered and stored.

No sustainable investment objective

Sparinvest incorporates information regarding principal adverse impacts on sustainability in the investment process. The negative impacts are considered in investment decisions as well as stewardship, where negative impacts are sought to be mitigated and where long-term value creation is secured.

All of the mandatory Principal Adverse Impact indicators are taken into account on the sustainability factors to the extent that the data is available. The adverse impacts are identified in three different approaches. All investments are linked to the 17 SDG's. If a company has a strong negative impact on any of the SDG's this is identified as an adverse impact and the investment cannot have a positive impact on sustainability. All investments with more than 5% revenue from fossil fuels are also identified as having an adverse impact. This also applies to any investment in violation of the UNGC principles or the OECD Guidelines for Multinational Enterprises.

Sparinvest conducts screening of all sustainable investments, and Companies assessed as being in violation of OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights are not assessed to be sustainable investments.

Environmental or social characteristics of the financial product

The environmental and social characteristics promoted by the Sub-Fund are supporting the 17 Sustainable Development Goals (SDG's) through ensuring a better alignment with the goals than the benchmark by measuring both the alignment and misalignment of the investee companies. The SDG Climate Action has a specific focus, as the fund wishes to promote lower climate risks and higher opportunities. The fund wish to avoid investments in controversial weapons, tobacco, systematic violators of OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organization on Fundamental Principles and Rights at Work and the International Bill of Human Rights. The characteristics relate to the application of negative screening criteria, engagement, voting and ESG-integration.

The Sub-Fund promotes environmental and social characteristics through the exclusion of companies based on the following criteria:

- Norms violation: UN Global Compact principles, the UN Guiding Principles on Business and Human Rights, ILO conventions, and OECD guidelines on multinational companies.
 - o This also applies to tobacco companies (subject to minimum thresholds), where the core business is considered inherently incompatible with international norms.
- Controversial Weapons: confirmed producers or distributors of controversial weapons
- Sector exclusions:
 - o Production or distribution of tobacco, alcohol, weapons, pornography or gambling. Minimum thresholds apply as described in the Exclusions and Ethical Fund Criteria.
 - o Climate exclusions: Transition laggards: Companies with an >5% exposure towards thermal coal, unconventional oil and gas, arctic oil and gas, tar sands or oil sands, or other companies with significant fossil exposure and a poor record of managing transition risks
 - o Fossil fuels (thermal coal, oil, natural gas) and uranium: companies involved in extracting, refining, transportation and services are excluded. Minimum thresholds apply.
 - o Power generation: companies involved in production of energy from coal, oil, natural gas or uranium, and lagging in transition, are excluded. Minimum thresholds apply.
 - o Norms violations, controversial weapons, sector exclusions (tobacco, alcohol, weapons, pornography or gambling), climate exclusions (transition laggards, fossil fuels (thermal coal, oil, natural gas) and power generation from thermal coal, oil or natural gas).

The product maintains a lower weighted average carbon intensity than MSCI World Value by a margin of at least 20%.

In addition to this, to promote good governance at the investee companies, voting rights are exercised at general meetings and companies that persistently fail to remedy violations of international norms and are unresponsive to engagement are excluded from the investment universe. ESG information is integrated in both qualitative and quantitative ways throughout the entire investment process, from screening and analyzing potential new investments, to calculating fair values, to making investment decisions, and building, monitoring and reporting on portfolios.

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by this Sub-Fund.

Investment strategy

The Sub-Fund is an actively managed fund, which primarily invests in listed equities, but can hold other assets for e.g. liquidity or hedging purposes.

Sustainability Risks are integrated into the investment process. The ESG strategy use both exclusion of investments with specific sustainability risks as well as engagement with investments with identified principle adverse impacts ESG information is integrated in both qualitative and quantitative ways throughout the entire investment process, from screening and analyzing potential new investments, to calculating fair values, to making investment decisions, and building, monitoring and reporting on portfolios.

Sustainability Risks and opportunities are integrated into the investment process to mitigate the negative impacts of ESG factors on investments and to ensure long-term value creation. The integration of sustainability issues financially material to the investment is expected to have a positive influence on returns.

Information on ESG strengths and weaknesses, risks and opportunities is a significant part of the fundamental information we use to select investments, build portfolios, monitor companies and work with them using the tools of stewardship.

ESG information is integrated in both qualitative and quantitative ways throughout the entire investment process, from screening and analysing potential new investments, to calculating fair values, to making investment decisions, building and monitoring portfolios, and informing our stewardship activities.

Our investment team approaches ESG considerations alongside other fundamental considerations, seeking relevant information from company reporting and contact with the company. We consider megatrends such as climate change and other cross-sector issues that may be expected to have material impact across portfolios, as well as company-specific considerations. These could be linked to the SDG's. Depending on the context - such as the sector in which a company operates - certain ESG issues can be considerably more important than others, and we prioritise accordingly in our analysis. Our internal analysis is also informed and augmented by insights from external research providers, including specialised ESG research providers. This includes ESG research covering industry-level, country-level and thematic ESG issues and also company-specific research. Our ESG work is based on a broad range of ESG information from both internal and external sources. Sources may include internal research, company reporting, service and data providers, screening for compliance with international standards, proxy voting research, climate data, sell-side research, media and NGO investigations. Data-points on alignment with the SDG's as well as the taxonomy is part of this.

Sparinvest invests sustainably, with a long-term mindset. We recognise that there is no such thing as 'perfect' and that sustainability is not as simple as good versus bad. Instead, we believe in the potential for positive change - whether in terms of driving investment returns or achieving societal goals.

We also recognise that investing sustainably does not end with the investment decision. In fact, that is just the beginning. Our investment philosophy is an ownership philosophy. We see equity investment, for example, as owning real stakes, in real companies. This means we have the opportunity, but also the responsibility, to be active owners, communicating with the companies in which we invest, and potentially influencing their behaviour. The aim of this cooperation is to foster long-term, sustainable corporate value.

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

Our approach to sustainability feeds directly into our stewardship programme. We seek to foster the long-term value of our investments, encouraging companies both to mitigate sustainability risks and exploit sustainability opportunities. We are driven by the potential to deliver positive change both in society and in our investments, where we believe it goes hand in hand with strong long-term returns.

As investors, it is natural to have dialogue with holdings. For example, in our active, fundamental strategies, the investment teams communicate with companies as part of the investment process to bolster their understanding and highlight certain issues. We aim to continue the dialogue with our holdings after the initial investment. 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.

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.

More details on our approach to ESG-integration, exclusion and stewardship can be found in our Policy on Sustainable Investments disclosed on our webpage. Our sources of data and due diligence on this is also described here.

To promote good governance at the investee companies, voting rights are exercised at general meetings and companies that persistently fail to remedy violations of international norms and are unresponsive to engagement are excluded from the investment universe. Governance is assessed through analysis as part of our investment selection, dialogue with companies, analysis of shareholder meeting agendas in the context of exercising voting rights, and monitoring governance related data from external ESG data provider(s).

Furthermore, Sparinvest ensures that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

As set out in the Sustainable Investment Policy, the Sub-Fund's stewardship approach goes beyond the assessment of good governance and the monitoring of compliance with international norms, with engagement relating to company-specific ESG risks or opportunities and climate change. The Sub-Fund votes in accordance with the Voting Principles and will regularly report on progress and on engagement activity. More information on the Sub-Fund's stewardship approach and thresholds applied can be found under the section "Investing Responsibly" at Sparinvest's website.

Proportion of investments

The Sub-Fund primarily invests in listed equities, typically with a minor cash position. Note, that the Sub-Fund can take lesser exposure to other classes, as specified in the Prospectus, although such exposures are typically limited.

For the investments in listed equities, all are subject to the sustainability characteristics of the product. The product will make a minimum of 60% sustainable investments, with minimum:

- 3% being taxonomy aligned
- 1% being aligned with other environmental objectives
- 1% being aligned with social objectives

Monitoring of environmental or social characteristics

The environmental and social characteristics are monitored continuously. This is done by measuring the sustainability indicators described by the sub-fund. These are included in reporting to customers, but they are also included in internal control productions.

Firstly, compliance with the exclusion list linked to the product is checked daily. Any company on the exclusion list is blocked from investment in our internal systems.

Secondly, each of the sustainability indicators is checked against the pre-contractual levels monthly.

Thirdly, at each quarter, we screen for compliance with the UN Global Compact, the UN Guiding Principles on Business and Human Rights, ILO conventions, and the OECD Guidelines for Multinational Enterprises. In addition, the investment universe is screened for new companies or countries that may violate the exclusion criteria.

Fourth, compliance processes are reported to the Sub-fund's Board of Directors on a quarterly basis.

This is further described in our methodology for Sustainable Investment on our website.

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Methodologies

The Sub-fund generally applies methodologies recommended by the UN supported Principles for Responsible Investment.

Screening for compliance with environmental and social characteristics is conducted in a variety of ways. Control for compliance with the exclusion list is done through a comparison of the identification numbers of excluded companies with the associated issues of the company. This control runs on both new and existing holdings.

Sustainability indicators are measured in different ways. Climate impact is measured using the FinanceDenmark's recommended methodology.

Screening for compliance with the UN Global Compact, the UN Guiding Principles on Business and Human Rights, ILO conventions, and the OECD Guidelines for Multinational Enterprises is done by comparing holding lists with information on compliance with these from our third-party ESG data providers. In the case of allegations, which could be a breach, the validity of this claim is also examined. In addition, the investment universe is screened for new companies or countries that may violate the exclusion criteria. This is also done by comparing information in data made available by third-party providers.

Analysis of sustainability against the SDGs is done using data from our third-party ESG data provider. The methodology used to compare both the positive and negative impact of each of the 17 SDGs is based on methodological recommendations from the OECD and UNDP.

Sustainable investments are defined as investments that make a significant contribution to sustainable development while not causing significant harm and at the same time complying with good corporate governance. Significant contribution is defined as more than 20% of revenues from taxonomy-containing products and solutions or otherwise sustainable products. It may also be that the company contributes to one of the 17 SDGs. The company may also operate in a way that makes it special. It may be by having a validated Science Based Target that commits to a reduction in climate footprint that matches the 1.5 degree target. It can also be having a board where at least 40% are women. In developing countries, however, the requirement is only 20%. The company cannot be included if it does not practice good governance, and this is measured by ESG rating, where we exclude the two lowest levels. The principle of doing no material harm and minimum safeguards are based in part on compliance with the UN Global Compact, the UN Guiding Principles on Business and Human Rights, ILO conventions, and the OECD Guidelines for Multinational Enterprises. At the same time, tobacco producers are also excluded. Companies with significant revenues from weapons, alcohol, gambling and pornography are also excluded. Substantial revenues from fossil fuels would also violate the principle of doing no substantial harm. In addition, issuers that cause significant harm to any of the 17 SDGs will also be excluded.

Taxonomy alignment is measured primarily based on data from our third-party ESG data provider. We prefer reported data, but as reporting remains limited, estimates from our supplier are also used. On Danish mortgage bonds, reporting is done matching the technical screening criteria on housing. This is preferably a share of financed A-rated housing. In these cases, the taxonomy ratio is calculated based on these. For all these investments, compliance with the principles of not doing significant damage to other objectives and of minimum safeguards described above is checked.

This is further described in our methodology for Sustainable Investment on our website.

Data sources and processing

Data sources from a range of third parties are used to measure environmental and social characteristics. The primary providers of ESG data are MSCI ESG Research on individual ESG data points, controversies and ESG ratings, Sustainalytics on controversies and active ownership, and ISS on analyses of individual public companies and agendas for their general meetings. In addition, reported data from issuers are used where no other data are available or where it is deemed that the issuers' data are of higher quality. Information from other external parties such as authorities, media or interest groups may be used. Due diligence is performed on all data sources. Only third-party providers of ESG data that have internal processes for validating and checking the data provided are used. Random checks are carried out on this data. Should these identify errors, these are corrected, and the data provider informed. Due diligence on data directly from issuers is more extensive than due diligence on suppliers. This is particularly the case if there are no figures for data included in official reporting. For other parties, data is compared with information we otherwise have from our data providers and the credibility of the source.

Sustainability data is processed through the Data Warehouse, which collects all inventory, environmental, social and sustainability data. Data is collected continuously in an automated process that also verifies that the information is linked to the correct securities. In addition, both automated and manual checks are performed on the data, with a particular focus on outliers, data points that may differ from historical or other data.

For climate data, estimates are used to the following extent. For quoted equities it is no more than 5%. For listed corporate bonds it can be up to 30%. FinanceDenmark's methodology for calculating climate impact is used. For taxonomy coherence, on listed securities the estimate from MSCI ESG Research is used as well as reported data where available. For Danish mortgage bonds, reported data matching the technical screening criteria, such as class A energy labelling, for identifying taxonomy sustainability are used.

This is further described in our methodology for Sustainable Investment on our website.

Limitations to methodologies and data

Data are generally limited in relation to the amount of concrete data reported. At the same time, reported data are sometimes not directly comparable due to different compiling methods. This challenge is mainly met by using data from third party ESG data providers. These providers validate data and seek to estimate data by combining other credible data sources.

In addition, other data from authorities is used, for example in the case of government bonds, which may indicate challenges. In addition to sanctions, this may otherwise be country-specific constraints.

In general, the principle is applied that if an issuer is attributed special characteristics such as contribution to sustainable development, this must be specifically documented. Special efforts are made to identify the negative impact and clarify doubtful cases.

These approaches mean that the use of data in the investment process and controls gives a fair picture of the characteristics of the investments.

Due diligence

The Association has several processes to ensure that the financial product promotes sustainability characteristics. The investment team uses both internal and external data sources to select investments, construct portfolios, and monitor ESG performance. Specifically, ESG data, where available, is used to assess material ESG risks and opportunities for issuers. The Sub-fund is screened quarterly to ensure that any emerging sustainability risks are identified. Issuers are screened for compliance with international standards in the form of the UN Global Compact, the UN Guiding Principles on Business and Human Rights, including the ILO Declaration's eight core conventions on fundamental principles and rights at work, and the OECD Guidelines for Multinational Enterprises. In addition, companies are screened for being producers of controversial weapons and for being non-conversion partners, i.e., companies that are not aligned with the Paris Agreement objectives or have a conversion strategy. This information is used by the investment team in the investment process and active ownership. As part of the active ownership, the Investment Manager also seeks to exercise voting rights in relation to share issues in the Sub-fund. This may be limited by technical issues related to registration, proxy etc. Voting is in accordance with the Association's voting policy, which is integrated into the Sustainable Investment Policy. Voting activity is published on the Investment Manager's website. Based on the insights gained by the association through screenings and active ownership, it is assessed whether the company should be excluded in case of, for example, serious and persistent breaches of international standards.

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Engagement policies

Investing sustainably does not end with the investment decision. It's actually the beginning. Our investment philosophy is also an ownership philosophy. As described in the Sub-fund's Sustainable Investment Policy, the Sub-fund actively exercises ownership to an extent that goes beyond assessing good governance practices and monitoring compliance with international standards, with associated dialogue in the event of breaches of international standards. The dialogue may also include company-specific ESG risks or opportunities and climate change challenges. The Sub-fund votes in accordance with the Association's voting principles and reports regularly on progress and the exercise of active ownership.

The Sub-fund's active ownership may have different starting points. It may be in the context of a breach of international norms such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights, including the ILO Declaration's eight core conventions on fundamental principles and rights at work, and the OECD Guidelines for Multinational Enterprises. It may also be to improve the company's reporting on or management of company-specific sustainability risks. One of these is climate change and managing the green transition, where active ownership is an important instrument in reducing these sustainability risks while realising the characteristics of the company's contribution to tackling the climate challenge. This active ownership can be done directly with the issuer through a third party assisting with the active ownership or through collaborative investor networks. In all three approaches, we will participate and contribute to the active dialogue as much as possible.

The Sub-fund aims to vote at all general meetings as far as possible. The Sub-fund does not engage in share lending within the Sub-fund. Our voting principles, detailed in our policy, set out the key corporate governance and other principles that we use in relation to voting. We review all items on which we must vote and vote against proposals if they are contrary to these principles or we otherwise believe they are not in the best long-term interests of our clients.

The Sub-fund uses outside advisors to assist with the operational aspects of voting. These advisors provide analysis of voting issues based on the Sub-fund's defined voting policies and principles. This information is supplemented with other data and proprietary analysis used in our investment processes.

Votes are not cast on bond issues, but active ownership is pursued with bond issuers on the parameters mentioned.

Further information on the Sub-fund's approach to active ownership and the thresholds used can be found under "Sustainable Investment" on the Fund's website

Designated reference benchmark

The sub-fund's reference benchmark is a general market index, and does not incorporate sustainability considerations to promote environmental and/or social characteristics.