

Responsible Investment Policy

– Selection of External Managers for Passively-Managed Funds

ESG considerations for Passively-Managed Funds

Two core tenets of responsible investment are the integration of ESG considerations into investment analysis and decisions, and active ownership.

Sparinvest recognizes that the *raison d'être* for passive strategies is to track – according to tracking error constraints – a specified benchmark at the lowest possible cost. Clearly, there are opportunities for ESG considerations to be integrated into benchmark construction, but for passive funds the opportunity for ESG considerations to be integrated into security specific investment analysis and decisions is limited. Therefore, for our passive funds our focus is on ensuring that the funds are not exposed to two areas considered unacceptable for our investors: illegal weapons, and securities prohibited by EU sanction.

However, passive funds do have the ability to be responsible investors with strong active ownership policies, and we expect both internally and externally managed passive funds to address ESG issues with investee companies through stewardship activities – voting and engagement.

1. Exclusion Criteria and Breaches

Sparinvest applies certain exclusion criteria across its entire range of directly-managed funds – including passively-managed portfolios. These relate to illegal weapons and securities prohibited by EU sanction. We believe that we are unusual in the market in offering this option which makes it difficult to find external managers that match our policy.

Nevertheless, in selecting external managers for passively-managed ETFs, Sparinvest will make every effort to ensure that the externally-managed funds apply similar exclusions to Sparinvest's own passively-managed funds. If that is not possible, Sparinvest will adopt the selection and monitoring procedures listed below.

2. Policy for Selection, Appointment and Monitoring of External Passive Managers

In the selection, appointment and monitoring of external passive fund managers for the indirect management of Sparinvest client assets, Sparinvest requires the external managers to be signatories either of the UN Global Compact or the Principles for Responsible Investment, or both. We also require external managers of passively managed ETFs to confirm that they screen funds to exclude securities in breach of international sanctions – being either those imposed by either the EU or the UN.

It is recognized that most passively-managed ETFs following broad indices do not currently integrate ESG considerations. In order to achieve exclusions that match Sparinvest's own exclusion criteria for directly-managed funds, we will aim to select external funds that satisfy one of the following criteria, in order of preference:

1. An agreement to screen funds to exclude/divest illegal weapons
2. An option to invest in funds that either conduct their own ESG screening or that follow indices that are already screened to exclude illegal weapons (We refer to funds which fail to meet criteria (1) or (2) as 'non-SRI funds')
3. An agreement, in the case of investment in funds that do not meet criteria (1) or (2), to work with Sparinvest to monitor the funds' exposure to illegal weapons.

Where investment is in a non-SRI fund that satisfies only criteria (3), the Sparinvest Fund of Funds Manager undertakes to monitor the market, looking for the introduction of new funds that can meet criteria (1) or (2). Where any fund offered

by an external manager can both match the exclusion criteria of Sparinvest's RI policy and meet the necessary characteristics required for effective asset allocation, this fund will be preferred.

3. Ongoing Monitoring of Investment and SRI Investment Options

Whether the fund satisfies criteria (1), (2) or (3), unless the external manager uses the same screening provider as Sparinvest, there remains a risk that the fund may invest in companies considered by Sparinvest's screening provider to be involved in illegal weapons manufacture. In order to avoid this, the Fund of Funds Manager will be added to the alert service provided by our external screening service provider to be able to follow new developments with regard to illegal weapons involvement. The following procedure will be followed.

The Fund of Funds Manager will:

1. at the point of initial investment, establish that the externally-managed fund portfolio does not contain any company that would breach Sparinvest's own illegal weapons exclusion criteria
2. on receipt of alerts from our service provider relating to new allegations of involvement in illegal weapons breaches, establish whether the company concerned is held in the externally-managed portfolio.
3. at regular 6-monthly intervals, request screenings of the externally-managed portfolio against Sparinvest's own illegal weapons exclusion criteria, using the same data as our own service provider
4. In the event that the above process indicates the fund invests in a company with confirmed involvement in illegal weapons, which would result in divestment of the company from Sparinvest's directly managed portfolios, the Funds of Funds Manager will seek for the company to be divested by the externally managed portfolio. If this cannot be achieved, there is a requirement to divest from the fund itself as soon as reasonably practicable. In such cases, the Fund of Funds Manager undertakes to switch to an agreed default Fund that does not breach Sparinvest policy.

Furthermore, on a regular basis and at least every 6 months, The Fund of Funds manager will, as described previously, check the market for new SRI products that could perform the same strategic function as the non-SRI funds for allocation purposes. Where these are found to exist, investments should be transferred to such products.

4. Active Ownership

Sparinvest believes that it is important for passively-managed funds to exercise their stewardship obligations, particularly via voting and engagement in respect of equity investments - but also in respect of bond issuers. We would also expect this of Asset Managers that are UN PRI signatories. We will therefore expect our externally-selected fund managers to report to us on their active ownership activities.

Application of this Policy to SparIndex Funds

The SparIndex Funds invest in a range of index-tracking funds, relying on appropriate allocation between asset classes to optimize risk-adjusted returns for different investor risk profiles. The equity component of the SparIndex Funds is made up of Sparinvest's own range of passively-managed equity funds. These are explicitly covered by Sparinvest's Responsible Investment Policy, as indicated in Appendix 1. However, Sparinvest does not have a similar range of products to supply the required fixed income component, meaning that it is necessary to select an external supplier of such products.

Selection and Appointment of BlackRock to supply Fixed Income ETFs

In following the Selection Procedures set out in 2) above, Sparinvest established that there are - as yet - no SRI fixed income ETFs that meet the asset allocation requirements of Sparindex. It has therefore been necessary to select two non-SRI funds which are run by the UN PRI signatory, BlackRock

- iShares Core EUR Bond UCITS ETF (ISIN: IEAC LN) and
- iShares EUR High Yield Corporate Bond UCITS ETF (ISIN: IHYG LN)

BlackRock has informed Sparinvest of its intention to introduce a suite of new SRI ETF products (specifically SRI Fixed Income ETFs) in the near future, whereby the index methodology includes an explicit filtering of companies involved in illegal weapons. The first of these – an ESG-screened Investment Grade ETF – is already available. Although it is not the ideal match for asset allocation purposes, this fund will be the default investment option should a breach of Sparinvest's universal exclusion policy with regard to illegal weapons occur in either of the non-ESG funds selected for Sparindex Funds. Sparinvest will continuously monitor the market for more appropriate ETFs.

Default fund

- iShares € Corp Bond SRI 0-3yr UCITS ETF (SUSE)

A Note on Engagement at BlackRock

BlackRock is an active owner of its equity-based ETFs but does not seem to apply similar procedures to Fixed Income funds. In entering into an agreement with BlackRock for the management of SparIndex assets, Sparinvest will seek to encourage BlackRock to engage on behalf of its bond funds – especially on the matter of illegal weapons.

Appendix 1 – RI policy for Sparinvest Passively Managed Equity Index Funds

Sparinvest Passively-Managed Equities	
Sparinvest funds in this asset class Danish Fund Range	INDEX Emerging Mkts KL INDEX Europa Growth KL INDEX Europa Small Cap KL INDEX Europa Value KL INDEX Global Aktier Min. Risiko KL INDEX Japan Growth KL INDEX Japan Small Cap KL INDEX Japan Value KL INDEX Japan OMX C25 KL INDEX Sektor Finans KL INDEX Sektor Telekom KL INDEX USA Growth KL INDEX USA Small Cap Growth KL INDEX USA Value KL
RI Policy	
Exclusions	The funds exclude illegal weapons and securities subject to EU sanction.
ESG Integration	The raison d'être for passive strategies is to track - according to tracking error constraints - a specified benchmark at the lowest cost possible. The requirement to mimic a given index means that - unless the index itself is built upon environmental, social and governance (ESG) factors - these cannot be artificially introduced into portfolio construction procedures. Doing so could potentially change the fund's investment characteristics away from those promoted to, and understood by, investors and result in a failure of fiduciary duty.
Norms Based Screening	Passive portfolios are screened for Norms breaches on a 6-monthly basis. Any degree of exclusion is considered to be undesirable for the successful operation of passive strategies and therefore engagement with companies in breach of Norms is preferred.
Active Ownership	Engagement for passive funds is conducted at a Group level via our service provider.
Voting	Voting is on individual holdings exceeding a value of EUR 1 million.
Reporting	The number and progress of service provider engagements is reported on annually in Sparinvest's Responsible Investment Review and PRI reporting.