



# SPARINVEST EXCLUSIONS AND ETHICAL FUND CRITERIA

Returns – Transparency - Values

**Sparinvest**

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## INVESTING WITH VALUES AT SPARINVEST

We are driven by a focus on returns, transparency, and values. Across our entire fund range, we firmly believe ESG integration and stewardship are powerful tools, allowing investors to maintain diversified portfolios while considering both the risks and opportunities created by environmental, social and governance issues. This can benefit both sustainability and returns, and of course in active strategies can lead our teams to select or reject certain investments.

However, we also set clear baselines with universal exclusion criteria that apply to all our strategies. For example, none of our strategies will invest in companies that are confirmed producers or distributors of controversial weapons. Some of our funds go further, designed for investors who wish to align with personal values or goals for wider society – for example, by excluding certain investments. Such funds have more explicit sustainability aims, but we do not think this means compromising financial returns. On the contrary, those companies which are more pro-active in exploiting ESG opportunities, or mitigating ESG risks, can often combine a positive impact on society with strong long-term value creation.

Sparinvest has over a decade of experience in screening securities and applying exclusionary filters in varying combinations across our range of investment strategies. We take our commitments – such as under TCFD - seriously, with the precise combination of exclusions, ESG integration, and active ownership varying as appropriate to each investment strategy. In our Ethical range of funds, our exclusionary criteria are developed based on the underlying investment strategy, developments in responsible investment, and consultation with clients on their preferred balance between ESG integration, stewardship and exclusion. We can also tailor segregated solutions for clients.

Our funds apply combinations of the below exclusions:

- **Sanctions:** our funds comply with EU and UN sanctions, as applied to countries or specific securities
- **Universal exclusions (apply to all funds):**
  - Companies with confirmed involvement in controversial weapons
  - Persistent norm violators: fail to remedy norm violations and are unresponsive to engagement
  - Extreme transition laggards: thermal coal/oil sands companies with poor transition management
  - State-issued securities and state-owned entities that fail to pass our country screening process
- **Additional criteria used in certain funds:**
  - **Norms Based:** Relating to agreed international frameworks for corporate behavior
  - **Sector Based:** Relating to certain sectors, industries or products (alcohol, tobacco, etc.)
  - **Climate Based:** Relating to carbon intense activities and companies' approach to energy transition
  - **Ratings Based:** Relating to quantitative ESG ratings. These can be used to exclude companies that are 'worst in class' or focus on those that are 'best in class'
  - **Sustainable benchmarks:** some funds use sustainable indexes as benchmarks, so certain securities are effectively excluded from the investment universe.

The following pages summarise how these exclusion categories apply to our 'Ethical' funds, followed by more detailed explanation of those categories. Detailed fund specific information follows at the end of the document.











## SEGREGATED SOLUTIONS

Sparinvest can also tailor segregated solutions for clients who wish to establish more specific exclusionary criteria. This can be achieved in a choice of investment vehicles. Implementation of these exclusionary screens is carried out in partnership with external ESG service providers.

Please [contact us](#) for further information.

## OVERVIEW OF EXCLUSION CATEGORIES AND RELEVANT FUNDS

Precise criteria may vary by fund: further details on each fund's approach may be found in the following sections.

EXCLUSION CATEGORIES	SPARINVEST FUND NAME	ACTIVELY-MANAGED FUNDAMENTAL FUNDS			PASSIVELY MANAGED FUNDS	
		Sparinvest SICAV – Ethical Global Value	Sparinvest SICAV - Ethical Emerging Markets Value	Sparinvest SICAV – Value Bonds – Ethical Global HY	Sparinvest INDEX Globale Aktier – Etik	Sparinvest INDEX DJSI World
UNIVERSAL		X	X	X	X	X
NORMS BASED		X	X	X	X	X
SECTOR BASED						
Tobacco		X	X	X		X
Alcohol		X	X	X		X
Gambling		X	X	X		X
Adult entertainment		X	X	X		X
Weapons		X	X	X		X
CLIMATE BASED						
Thermal coal		X	X	X		
Unconventional oil & gas		X	X	X		
Conventional oil & gas – transition laggards		X	X			
Electric utilities – transition laggards		X	X			
RATINGS BASED					X	X
FOLLOWS SUSTAINABLE BENCHMARK						√ <sup>1</sup>
CARBON FOOTPRINTED		√	√	√		

**Notes: 1.** Benchmark is: Dow Jones Sustainability World Index (excluding Alcohol, Gambling, Tobacco, Armaments & Firearms and Adult entertainment. Greyed out marks indicate that the category is effectively excluded by the benchmark construction methodology.

## EXCLUSION CATEGORIES – IN DEPTH

### Universal Exclusions

We set a clear baseline for exclusions. None of our strategies will invest in:

- **Controversial weapons:** 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.
- **Persistent Norm Violators:** a minority of companies that persistently fail to remedy violations of international norms and are unresponsive to engagement.
- **Extreme Transition Laggards:** companies with significant exposure to thermal coal or oil sands, and a poor record of managing transition and carbon emissions related risks.
- **Excluded countries:** State issued securities and state-owned entities that fail to pass our country screening process.

The norm-based screening for countries – carried out by an external service provider - covers over 170 UN member states and takes into account governments’ commitments to key international instruments within five norm areas – human rights, international humanitarian law, labour rights, environment and corruption. The screening applies key indicators to assess the nation’s ability to protect basic human rights, including: use of the death penalty, and whether the country is run by an authoritarian regime. It also assesses whether the country is in a trend of ESG improvement or not. The overall score from these indicators is used to inform which countries should be excluded from our strategies.

### Norms-based Exclusions

All funds at Sparinvest undergo norms-based analysis of companies, which is carried out on a continuous basis on our behalf by an external service provider. This feeds into the overall ESG research that our investment teams consider as they carry out fundamental analysis and security selection for actively managed funds. Norms based analysis is also one of the triggers for engagement as described in Sparinvest’s Stewardship Policy. However, in our range of ethical funds, the analysis also leads to the exclusion of certain securities.

In norms based screening, corporate conduct is assessed within the context of a global normative framework, which, broadly speaking, covers four key areas:



Human rights



Labour standards



Environment



Anti-corruption

The analysis aims to identify breaches of international initiatives and guidelines such as:

- UN Global Compact Principles

- The UN Guiding Principles on Business and Human Rights
- International Labour Organisation Conventions
- United Nations Convention Against Corruption
- OECD Guidelines for Multinational Enterprises

N.B. Regarding the screening of banks, financing loans for specific projects fall within the scope of norms based screening whereas normal lending activity does not.

Analysis results in a list of companies classified by our service provider as having verified failures to respect established norms, which are not undergoing remediation. These companies are excluded from our ethical funds.

The analysis also results in lists of companies classified in other categories, such as those with alleged but unconfirmed breaches, verified breaches which the company is addressing, potential breaches which have not yet occurred, and other situations. In actively managed funds, the portfolio managers make a qualitative analysis of the specific situation, looking at the nature of the alleged or confirmed norms breach, and the speed and nature of the company's response, including remedial actions and steps to prevent recurrence. This is then discussed at the Responsible Investment Committee, and in some cases, it can lead to such companies also being excluded from the ethical funds.

### Sector Based Exclusions

Certain of Sparinvest's ethical funds exclude companies based on their exposure to certain industries:



Alcohol



Tobacco



Gambling



Pornography



Weapons

Exposure is typically assessed on the basis of a revenue threshold. The precise criteria which apply to specific funds are detailed in fund specific below.

### Climate Based Exclusions

Climate change is perhaps the single most significant ESG issue, whether it terms of its impact on global society and the environment, or in terms of its economic and investment impact. This is reflected in our integration of ESG considerations into our investment processes and stewardship efforts.

In our Ethical range of funds, our exclusionary criteria are based on consideration of the underlying investment strategy, developments in responsible investment, and consultation with clients on their preferred balance between stewardship and exclusion of companies that are lagging in their response to the climate emergency. Our exclusions here generally consider exposure to the following areas:



Thermal coal



Unconventional Oil & Gas  
(e.g. oil sands, arctic drilling, shale oil & shale gas)



Conventional Oil & Gas  
– Transition Laggards



Electric Utilities  
- Transition Laggards

Exposure is typically assessed on the basis of revenue or production thresholds. The precise criteria which apply to specific funds are detailed in fund specific sections below.

**Ratings Based Exclusions**

Certain of Sparinvest's passively managed ethical strategies employ ratings-based exclusions for which the source is MSCI IVA Ratings. MSCI rates companies according to their exposure to ESG risks and how well they manage those risks relative to other companies in their sector. In the MSCI ratings system, companies rated AAA and AA are considered to be industry leaders, managing their ESG risks well, whereas companies rated CCC and B are considered to be industry laggards with greater exposure to ESG risks. The full methodology for the ratings system can be found at <https://www.msci.com/esg-ratings>

LEADER		AVERAGE			LAGGARD	
AAA	AA	A	BBB	BB	B	CCC

**Sustainable Benchmarks**

Another way in which funds can reflect the values of clients for whom sustainability is an important consideration, is by basing their investment universe on a sustainable investment index. The index construction methodology can incorporate certain exclusions, and potentially other sustainability features.

## **MONITORING, ALERTS, AND DIVESTMENT POLICY**

Screening of securities occurs both prior to investment in new holdings, and on an ongoing basis for existing fund holdings.

Portfolio managers and analysts monitor fund investments on a daily basis, and many new developments that could cause a change in a company's exclusionary status will be caught in this day-to-day review of company specific news. In addition, we receive rolling ad hoc alerts from our service providers regarding any changes in assessment of companies as a result of controversial weapons, norms, or sector-based screenings.

Sparinvest's Middle Office maintains up to date exclusion lists for the relevant funds on the basis of those screening results, ad-hoc alerts, and the decisions of the Responsible Investment Committee. These exclusion lists are used for pre-trade compliance checks and daily screenings of the portfolios by Middle Office for any breaches of the ethical policy.








Companies which are classified as excluded from a fund may not be bought, and if existing holdings are reclassified to this status, they must be divested as soon as reasonably practical (trading strategy subject to considerations of market impact and best execution).

As an additional precaution, all holdings are submitted for relevant screenings on a semi-annual basis.





## **REVIEWING EXCLUSIONARY CRITERIA**

Sparinvest's Responsible Investment Committee is responsible for monitoring and reviewing potential new exclusionary criteria for ethical funds. In doing so, the committee has reference to ongoing consultation with clients, other industry participants and general industry trends. Clients are notified of changes via both direct communication such as presentations or coverage in our Responsible Investment Review, and via our website.










<b>SPARINVEST ETHICAL GLOBAL VALUE</b>		
<b>Management Style</b>	Actively-managed fundamental equity fund following a classical value investment strategy with ESG fully integrated in the process.	
<b>Investment Objective</b>	Sparinvest Ethical Global Value aims to provide superior long-term returns through investment in global developed market equities, fundamentally selected for their attractiveness as value investments. The aim is for returns to be driven by individual stock selection, and exposure to value.	
<b>Sustainability Objective</b>	The fund uses a combination of ESG integration, stewardship and exclusions to meet sustainability objectives.	
<b>Benchmark</b>	MSCI World	
<b>EXCLUSION CATEGORIES</b>	<b>DETAILS</b>	<b>TOLERANCE</b>
SANCTIONS	Complies with EU and UN sanctions, which can apply to countries or specific securities.	Zero
UNIVERSAL EXCLUSIONS	Controversial weapons Persistent norm violators Extreme transition laggards State-owned enterprises of countries excluded by country screening process	Zero
NORMS BASED	Companies in confirmed and unaddressed violations of international norms.	Zero
	Companies in other categories (confirmed violations under remediation, alleged violations, etc)	Case-by-case <sup>1</sup>
SECTOR BASED		
Tobacco	 Production or distribution of tobacco or tobacco-based products.	Production: 0% revenue Distribution: 5% revenue
Alcohol	 Production or distribution of alcohol.	Production: 0% revenue Distribution: 5% revenue
Gambling	 Production or distribution of gambling.	Production: 0% revenue Distribution: 5% revenue
Adult entertainment	 Production or distribution of pornography.	Production: 0% revenue Distribution: 5% revenue
Weapons	 Production or distribution of weapons or tailor-made components. Distinguishes between combat equipment, and other military equipment and services.	Combat: 0% revenue Other: 5% revenue
CLIMATE BASED		
Fossil fuels (thermal coal <sup>2</sup> , oil, natural gas) & uranium	  Extracting, refining, transportation and services.	5% of revenue <sup>3</sup>

Sparinvest Ethical Funds – Fund Specific Exclusionary Criteria





Power generation		Production of energy from coal, oil, natural gas or uranium	5% of revenue (unless passes strict transitional criteria <sup>4</sup> )
CARBON FOOTPRINT		We consider climate change to be the most significant sustainability challenge. This fund is committed to the Montreal Carbon Pledge meaning we publish its carbon footprint annually.	Signature of  PRI Montréal  Report <a href="#">here</a>
STEWARDSHIP		VOTING: Aim to vote all holdings in this strategy ENGAGEMENT: engagement on various issues, using combination of direct engagement by investment team, along with collaborative and service provider engagements.	More details <a href="#">here</a>








Footnotes:

1. Companies in such categories are reviewed in detail by the investment team, and the Responsible Investment Committee; the committee determines whether exclusion or engagement is appropriate in the Ethical fund.
2. Metallurgical or coking coal which is vital to the production of steel remains a permitted investment.
3. For companies within the 5% revenue threshold, additionally the absolute production of or capacity for fossil fuel-related products/services may not be increasing.
4. Companies exceeding the 5% revenue threshold on such power generation may exceptionally be held if they satisfy all of the following transitional criteria:
  - a) Absolute production of or capacity for fossil fuel-based or nuclear-based energy-related products/services shall not be structurally increasing;
  - b) Absolute production of or capacity for contributing products/services shall be increasing;
  - c) At least 90% of the company's energy sector capital expenditure in new capacity, on average for three consecutive years including the last financial year, are in the renewable energy sector;
  - d) Revenue from renewable energy comprises at least 50% of the company's total revenue from power generation OR at least 50% of the company's energy production capacity is based on renewable sources. This ratio may be calculated on average over the course of 1, 2 or 3 of the last financial years;
  - e) The company has no revenue from tar sand, shale oil or shale gas or other fracking activities and/or mining of oil shale and/or extraction in the Arctic region



<b>SPARINVEST ETHICAL EMERGING MARKETS VALUE</b>		
<b>Management Style</b>	Actively-managed fundamental equity fund following a classical value investment strategy with ESG fully integrated in the process.	
<b>Investment Objective</b>	Sparinvest Ethical Emerging Markets Value aims to provide superior long-term returns through investment in global emerging market equities, fundamentally selected for their attractiveness as value investments.	
<b>Sustainability Objective</b>	The fund uses a combination of ESG integration, stewardship and exclusions to meet sustainability objectives.	
<b>Benchmark</b>	MSCI Emerging Markets	
<b>EXCLUSION CATEGORIES</b>	<b>DETAILS</b>	<b>TOLERANCE</b>
SANCTIONS	Complies with EU and UN sanctions, which can apply to countries or specific securities.	Zero
UNIVERSAL EXCLUSIONS	Controversial weapons Persistent norm violators Extreme transition laggards State-owned enterprises of countries excluded by country screening process	Zero
NORMS BASED	Companies in confirmed and unaddressed violations of international norms.	Zero
	Companies in other categories (confirmed violations under remediation, alleged violations, etc)	Case-by-case <sup>1</sup>
SECTOR BASED		
Tobacco	 Production or distribution of tobacco or tobacco-based products.	Production: 0% revenue Distribution: 5% revenue
Alcohol	 Production or distribution of alcohol.	Production: 0% revenue Distribution: 5% revenue
Gambling	 Production or distribution of gambling.	Production: 0% revenue Distribution: 5% revenue
Adult entertainment	 Production or distribution of pornography.	Production: 0% revenue Distribution: 5% revenue
Weapons	 Production or distribution of weapons or tailor-made components. Distinguishes between combat equipment, and other military equipment and services.	Combat: 0% revenue Other: 5% revenue
CLIMATE BASED		
Thermal coal	 Extraction of thermal coal. <sup>2</sup>	Extraction: 5% revenue
Unconventional oil & gas	 Oil and gas extraction from any combination of oil sands, shale gas, shale oil, or arctic drilling <sup>3</sup>	10% of production volume






Sparinvest Ethical Funds – Fund Specific Exclusionary Criteria

Conventional oil & gas – transition laggards		Companies in the oil and gas sector <sup>3</sup> that derive over 60% of production volume from sources other than natural gas or renewables	60% of production volume
Electric utilities – transition laggards		Electricity utility companies which are not in compliance with a 2°C scenario. <sup>3,4</sup>	Zero
Other		Companies with expansion plans in thermal coal or unconventionals (expected production growth rate in thermal coal or unconventionals exceeds their projected corporate average production growth rate) <sup>3</sup>	Zero
CARBON FOOTPRINT		We consider climate change to be the most significant sustainability challenge. This fund is committed to the Montreal Carbon Pledge meaning we publish its carbon footprint annually.	 Report <a href="#">here</a>
STEWARDSHIP		VOTING: Aim to vote all holdings in this strategy ENGAGEMENT: engagement on various issues, using combination of direct engagement by investment team, along with collaborative and service provider engagements.	More details <a href="#">here</a>
Footnotes: 1. Companies in such categories are reviewed in detail by the investment team, and the Responsible Investment Committee; the committee determines whether exclusion or engagement is appropriate in the Ethical fund. 2. Metallurgical or coking coal which is vital to the production of steel remains a permitted investment. 3. Companies which fail these criteria, but which are considered best-in-class in terms of energy transition, may be held subject to an overall portfolio tolerance of 5%, in recognition of the transitional nature of the Paris Climate Accord; 4. We exclude companies whose carbon intensity is inconsistent with a 2°C scenario; where carbon intensity data not available, we exclude electric utilities where the sources of power production exceed 10% from coal, or 30% from oil and gas, or 30% from nuclear.			

<b>SPARINVEST – VALUE BONDS – GLOBAL ETHICAL HIGH YIELD</b>		
<b>Management Style</b>	Actively-managed fundamental high yield bond fund built on a value philosophy within credit and with ESG fully integrated in the investment process.	
<b>Investment Objective</b>	Long-term risk-adjusted excess returns by bottom-up selection of individual bonds issued by companies with strong cash flow.	
<b>Sustainability Objective</b>	The fund uses a combination of ESG integration, stewardship and exclusions to meet sustainability objectives	
<b>Benchmark</b>	BofAMerrill Lynch Global High Yield (EUR Hedged)	
<b>EXCLUSION CATEGORIES</b>	<b>DETAILS</b>	<b>TOLERANCE</b>
SANCTIONS	Complies with EU and UN sanctions, which can apply to countries or specific securities.	Zero
UNIVERSAL EXCLUSIONS	Controversial weapons Persistent norm violators Extreme transition laggards State-owned enterprises of countries excluded by country screening process	Zero
NORMS BASED	Companies in confirmed and unaddressed violations of international norms.	Zero
	Companies in other categories (confirmed violations under remediation, alleged violations, etc)	Case-by-case <sup>1</sup>
SECTOR BASED		
Tobacco	 Production or distribution of tobacco or tobacco-based products.	Production: 0% revenue Distribution: 5% revenue
Alcohol	 Production or distribution of alcohol.	Production: 0% revenue Distribution: 5% revenue
Gambling	 Production or distribution of gambling.	Production: 0% revenue Distribution: 5% revenue
Adult entertainment	 Production or distribution of pornography.	Production: 0% revenue Distribution: 5% revenue
Weapons	 Production or distribution of weapons or tailor-made components. Distinguishes between combat equipment, and other military equipment and services.	Combat: 0% revenue Other: 5% revenue
CLIMATE BASED		
Thermal coal	 Extraction of thermal coal. <sup>2</sup>	Extraction: 5% revenue
Unconventionals (Oil sands)	 Companies that derive revenue from oil sands	Production: 0% revenue Distribution: 5% revenue

Sparinvest Ethical Funds – Fund Specific Exclusionary Criteria

CARBON FOOTPRINT		We consider climate change to be the most significant sustainability challenge. This fund is committed to the Montreal Carbon Pledge meaning we publish its carbon footprint annually.	 Report <a href="#">here</a>
STEWARDSHIP		ENGAGEMENT: engagement on various issues, using combination of direct engagement by investment team, along with collaborative and service provider engagements.	More details <a href="#">here</a>
Footnotes: 1. Companies in such categories are reviewed in detail by the investment team, and the Responsible Investment Committee; the committee determines whether exclusion or engagement is appropriate in the Ethical fund. 2. Metallurgical or coking coal which is vital to the production of steel remains a permitted investment.			

<b>SPARINVEST INDEX DJSI WORLD</b>		
<b>Management style</b>	Passively managed fund, aiming to replicate the returns of its benchmark index	
<b>Investment Objective</b>	The fund seeks to replicate the returns of its benchmark index at low cost and with minimal tracking error.	
<b>Sustainability Objective</b>	The fund seeks to replicate an index that is constructed with sustainability in mind. Benchmark construction limits investments to the top 10% of large cap sustainable companies, based on their Total Sustainability Score (TSS) as assessed by RobecoSAM, the founders of the DJSI Index series. This results in a 'best in class' portfolio.	
<b>Benchmark</b>	Dow Jones Sustainability World Index (excluding Alcohol, Gambling, Tobacco, Armaments & Firearms and Adult entertainment.)	
<b>EXCLUSION CATEGORIES</b>	<b>DETAILS</b>	<b>TOLERANCE</b>
SANCTIONS	Complies with EU and UN sanctions, which can apply to countries or specific securities.	Zero
UNIVERSAL EXCLUSIONS	Controversial weapons Persistent norm violators Extreme transition laggards State-owned enterprises of countries excluded by country screening process	Zero
INDEX BASED	Companies not ranked in the top 10% of large cap sustainable companies based on RobecoSAM Total Sustainability Score	Zero
	Companies operating in the following sectors are also excluded from index construction:	
	Tobacco	Zero
	Alcohol	Zero
	Gambling	Zero
	Adult entertainment	Zero
	Firearms	Zero
STEWARDSHIP	The fund uses stewardship to influence holdings. Sparinvest exercises active ownership on behalf of all its index funds which, as a result, participate in voting on holdings of EUR 1 million+ and service provider engagements.	More details <a href="#">here</a>
Footnotes: To view DJSI index construction methodology, please click <a href="#">here</a>		

<b>SPARINVEST INDEX GLOBALE AKTIER – ETIK</b>		
<b>Management style</b>	Passively managed fund aiming to replicate the returns of its benchmark index despite the tracking error challenges of an exclusionary ethical overlay.	
<b>Investment Objective</b>	The fund seeks to offer a portfolio engineered with the aim of delivering the same returns as the benchmark but without exposure to the companies with verified norm breaches or the lowest ESG scores.	
<b>Sustainability Objective</b>	The universe is subject to norms based exclusions (verified breaches) as well as ratings based exclusions (companies rated as CCC in MSCI IVA ratings). The resulting portfolio is then adjusted so that the 'risk gap' created by the exclusion process is filled by exposure to companies that are not in breach of the exclusionary criteria and have similar characteristics to those that have been excluded.	
<b>Benchmark</b>	Benchmark is: MSCI All Country World Index	
<b>EXCLUSION CATEGORIES</b>	<b>DETAILS</b>	<b>TOLERANCE</b>
SANCTIONS	Complies with EU and UN sanctions, which can apply to countries or specific securities.	Zero
UNIVERSAL EXCLUSIONS	Controversial weapons Persistent norm violators Extreme transition laggards State-owned enterprises of countries excluded by country screening process	Zero
NORMS BASED	Companies in confirmed and unaddressed violations of international norms.	Zero
RATINGS BASED	Companies rated 'CCC' under the MSCI IVA Ratings system, meaning those companies considered to have the highest ESG risk exposure.	Zero
STEWARDSHIP	The fund uses stewardship to influence holdings. Sparinvest exercises active ownership on behalf of all its index funds which, as a result, participate in voting on holdings of EUR 1 million+ and service provider engagements.	More details <a href="#">here</a>
Footnotes: To view the methodology for the MSCI IVA ratings system, please click <a href="#">here</a> .		