

DECARBONIZATION JOURNEY

Engagements Update

The stewardship activity during the second half of 2024 was once again heavily weighted towards climate engagements, in line with our commitment to the Net Zero Asset Manager Initiative.

We approached a Brazilian steel producer, prompted by their promising initiatives to reduce their environmental footprint, including the refurbishment of their plants and the development of a 2030 Decarbonization plan. In light of these efforts, we urged the company to take additional steps, including committing to a target aligned with the 1.5-degree scenario and highlighted the Science-Based Targets framework for the steel sector. The company has yet to respond, and we plan to follow up during 2025.

Continuing our focus on hard-to-abate industries, we engaged with a producer and operator of oil and natural gas floating production, storage, and offloading vessels (FPSO) regarding their green transition efforts. Our fundamental analysis uncovered gaps in the company's climate strategy. Consequently, we inquired about the potential to set short- and long-term carbon reduction targets and a decarbonization strategy to achieve these goals. Furthermore, we addressed their plans and targets to minimize regular flaring on their operating units, which represents the largest share of their fleet's greenhouse gas emissions. We view targets to minimize flaring as a critical step in their decarbonization journey. In line with aligning capital allocation towards projects that reduce GHG emissions, we asked the company to consider implementing an internal carbon pricing framework to guide that process. The company is currently reviewing our inquiries and has committed to providing a thorough response.

During the second half of 2024, we also held a meeting with a maritime company, an owner and operator of 80 vessels. During the initial meeting, we emphasized our focus on decarbonization and key areas we consider in the company's decarbonization journey. The company followed up with an email detailing their efforts and highlighting their ambition to outperform the new IMO GHG strategy targets. It is our understanding that while the new IMO strategy is significantly strengthened, it is estimated that the targets set are aligned with a "below 2-degree" scenario and fall short of the needed 1.5-degree pathway. Our focus during the engagement was to stress the need to formalize their outperformance goals and ensure alignment with the 1.5-degree trajectory. The company remains constructive in our dialogue and will evaluate their options given the inherent uncertainties surrounding technological and regulatory developments.

Responsible Investments at Sparinvest

At Sparinvest, analysts and portfolio managers will engage directly with selected portfolio companies. Furthermore, we work with Sustainalytics, a service provider of norms screening and engagements. We often join the engagement meetings led by Sustainalytics, targeting companies in confirmed or alleged breach of international norms and maintain a strong feedback loop with our service provider. In addition to Sustainalytics, we use ESG research, ratings and analysis as well as carbon footprinting services from MSCI. Progress in stewardship activity is discussed in the relevant investment teams and in the Stewardship Forum, which includes representatives from Equity and Fixed Income investment teams and reports to the Forum for Sustainable Investments, which includes members of Nykredit's management.

*We do not disclose the name of portfolio companies involved in neither our direct nor our service provider engagements.

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Beyond climate engagements, we followed up on a previous norms-related engagement with a South African gold and PGM producer initially flagged for poor health and safety metrics. The company implemented a comprehensive new strategy in 2022, addressing the major safety risks identified, and initially showed improvement in health and safety statistics. Unfortunately, these metrics deteriorated again in 2023. We had a dialogue with the company on further steps to address the deterioration. The company shared significant improvements in leading safety indicators, such as the percentage of frontline employees initiating safety stoppages, which improved from 3% in 2022 to 74% currently. Their focus for 2025 remains to fully entrench the new safety strategy across the organization. We recognize that significant culture change requires time and will closely follow their progress in the next year, looking for substantial improvements in their health and safety metrics.