

FOSSIL FUEL POLICY STRENGTHENED

Unconventional O&G divestments

To ensure our alignment with the Paris Agreement we have strengthened the limits of our fossil fuel policy. This now excludes companies operating in unconventional oil and gas industry, which have not yet presented a viable plan that is in line with the 1.5-degrees scenario. The cumulative exclusionary impact was ca. 4-6% across the funds. As part of these exclusions, our previous engagement with a U.S. oil and gas company was terminated, as the company is no longer part of our investable universe. We have informed the company of the required steps needed for us to be able to reconsider it as part of the investment universe and remain open to dialog.

Engagements Update

Post our climate conversations with an Easter European integrated steel producer, initiated last year, we were encouraged to see good progress in many of the concern areas we had preciously outlined. More specifically, the company disclosed Scope 1 and 2 emissions and set a goal of reducing CO2 emissions by more than 90% by 2050. The company further provided a rough outline on how they expect to achieve this goal and expressed their intention of setting key milestones for 2030 and 2040. We once again reiterated the need for more details regarding methods of achieving targets and more importantly clear commitments that future capex plans are to be aligned with these goals. While the engagement with the company has so far proven successful, current events leading to the conflict in Ukraine have dealt a serious setback to the operations and plans of the company. As such, this engagement will be put on hold until peace is once again restored in the affected areas.

We continued our dialog with the South African mining company on their recent deterioration in health and safety metrics. The company is taking a bottom

up approach, focusing on the root cause of each incident and identifying the human or technical gaps that exist. The company further explained that Covid-19 led to a significant change in team dynamics, affecting the normal course of joint accountability as well as employees speaking up in dangerous situations. The company has taken steps towards improving the quality of their safety audit, aligning incentives across safety officials but also specific management consequences. We have recommended the company adopt a financial based incentive to encourage employee "speak-ups" to supplement their current efforts as well as requested they publicize more details regarding the efficiency of their grievance mechanism.

During the first half of the year, we have approached a North American cruise company, which has faced several environmental compliance challenges during the last years, most recently resulting in a probation violation and mandated third party reviews via a Court Appointed Monitor. The company has shown numerous efforts at improving environmental compliance systems and strengthening their own internal monitoring system along with setting a long-term commitment at carbon neutrality by 2050. These efforts led us to believe the company was on an improvement track and our dialog focused on the further steps that need to be taken. As part of these steps, we encouraged the company to disclose the number of air emissions and wash water discharge incidents. This would provide transparency for both investors and regulatory bodies. We further requested that details on top leadership incentive program, linked to environmental compliance, made public as well as details on their established program empowering employees to stop work in dangerous situations. We will continue to monitor the company's progress in the environmental area and follow-up on our recommended actions.

Responsible Investments at Sparinvest

At Sparinvest, analysts and portfolio managers will engage directly with selected portfolio companies. Furthermore, we work with ISSEthix, a service provider of ethical screening and collaborative engagements. Via ISS-Ethix, we participated in pooled engagements, targeting companies in confirmed or alleged breach of international norms. In addition to ISS-Ethix, we use ESG research, ratings and analysis as well as carbon foot printing services from MSCI. The development and implementation of responsible investment practices are driven by Nykredit Asset Management Forum for Sustainable Investments, 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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