# Navigating the Green Transition

## Update on Engagements

During the first half of 2025, we prioritized active engagement with key portfolio companies to support their decarbonization efforts and align with our commitment to the Net Zero Asset Managers initiatives and the Net Zero Investment Framework (NZIF). As part of this, we aim to address the 70% financed emissions in high-intensity sectors, focusing on achieving net zero, aligning pathways to net zero, or initiating targeted engagement.

One notable engagement involved a large North American cruise company. Our dialogue emphasized the importance of adopting long- and short-term decarbonization targets, a robust strategy, and clear capital expenditure commitments to the green transition. We underscored the value of third-party validation, such as Science-Based Target Initiative (SBTi) and their target validation, as a credible endorsement of their net-zero pathway.

However, the company expressed reservations about SBTi's assumptions, particularly around the future availability of green fuels. This led to a focused discussion on realistic carbon reduction goals and their timeline. They highlighted the advantages of their LNG (liquefied natural gas) ships, which are already reducing emissions and are adaptable to alternative green fuels as they become viable. Discussions also included efficiency measures for existing ships, with the company expecting to achieve its initial 2030 interim carbon emission reduction target by 2026, well ahead of schedule. Encouragingly, they indicated plans to establish more ambitious interim goals. We stressed that these goals should focus on absolute carbon reductions rather than intensity metrics to ensure measurable real-world progress.
Additionally, we recommended the company makes specific capital expenditure commitments towards positioning the company for the green transition.
The company seemed open to our suggestions and we look forward to following their progress in this area.

Our engagements extended to other companies in the high-emission sectors. For instance, we followed up with a producer and operator of oil and natural gas floating storage and offloading vessels about their decarbonization efforts, although they have yet to respond to our inquiries. Similarly, we followed up with the CFO of a shipping company to seek updates on their climate action plans.

## Stricter Exclusion Criteria

During the first half of 2025, we implemented stricter exclusion criteria for Ethical and Responsible funds, further advancing our commitment to sustainable and responsible investment practices. For High Yield funds, this led to enhanced exclusions for the Ethical High Yield Fund, particularly in the area of fossil fuel involvement. Specifically, the revised criteria now exclude companies deriving more than 5% of their revenue from the exploration, extraction, manufacturing, distribution, or refining of oil and gas fuels. Additionally, retail fossil fuel operations are excluded under a 25% revenue threshold.

The implementation of these enhanced exclusions resulted in the divestment of approximately 7.4% of the portfolio's weight, spread across 15 companies. This move decreased the overall credit spread on the portfolio and increased its underweight position in the energy sector relative to it's benchmark. While these changes required careful portfolio rebalancing, they underscore our commitment to aligning investments with ethical and sustainable principles.

In tandem with these exclusions, we also tightened the definition of what constitutes a sustainable investment. The updated definition incorporates stricter criteria for fossil fuel involvement, mirroring the exclusion thresholds applied to the Ethical High Yield Fund. These changes were accompanied by new targets for the share of sustainable investments across our High Yield funds. The Ethical High Yield Fund has committed to maintaining a minimum of 50% allocation to sustainable investments, while the remaining three High Yield funds will increase their respective sustainable investment allocations to minimum of 30%.

**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 foot printing 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. This material does not constitute individual investment advice and cannot form the basis for a decision to buy or sell (or an omission thereof) of investment certificates. The material has been prepared for information purposes only and investors are encouraged to seek necessary professional advice before buying or selling investment certificates. Sparinvest does not undertake any responsibility for the advice given and actions taken or not taken in respect of this material.