

## THE GOOD, THE BAD AND THE PROGRESS

### Engagements Update

We have followed closely the progress registered at the South African mining company, which we were in dialog with last year. Our engagement focused on the deterioration in health and safety metrics during 2021. The dialog with the company was constructive with management providing details on their process and areas of focus for improvement. Our main goal was to ensure the company is taking appropriate steps in addressing the deterioration in metrics and to this end, we advised reviewing the financial incentive scheme related specifically to health and safety as well as required more details surrounding their grievance mechanism. However, the most prominent factor we are looking for in this case is an improvement in their key health and safety (H&S) metrics. During 1H23 the company published details regarding their continued efforts in this matter along with statistics for H&S for 2022. We were pleased to see that the company acknowledged the value of aligning incentives with the rights of front line employees to stop work for safety reasons and provided more granularity of their grievance mechanism system. Above all, we were encouraged to see a significant improvement in their health and safety metrics for 2022. The company has not yet reached the desired health and safety metrics, but we acknowledge the progress made and will continue to closely monitor its performance in this regard.

During this period, we followed up on our container shipping engagements started in the second half of 2022. The engagement with the first container shipping company has not proven successful, as of now, as we have failed to get an answer from the company on our multiple attempts to reach them. The company had initially shown good progress in announcing long-term carbon emission reduction goals. We believe this is a strong first step, however, we require more granularity on their plans to achieve such targets in the

medium term. These are essential when evaluating their ability to reach their long-term target and assessing whether the company has a credible transition plan. The insight we gain through engaging with companies, including their lack of a response, forms a natural part of the fundamental information we consider when we monitor our investment, assess its fair value and determine whether to remain invested as well as the position size. In this specific case, the lack of a response, among other ESG considerations, led to us assigning less credibility to their long-term plans and requiring an ESG discount to remain invested into the name. As we no longer view we are being compensated for the risks, including ESG risks, the decision was made to divest from the company. We will inform the company regarding our decision and have chosen to keep the engagement case as open for the time being, should they show an interest in a constructive dialog in the future.

On the other hand, the engagement with the second container shipping company has proven more fruitful. Here, we continued the dialog during the first part of the year. While the company had initially set specific goals and measurable targets for the medium term, in addition to their long-term targets, our focus during our engagement was on the specific initiatives/steps taken to achieve those targets. The company has since developed a Low Carbon Transition Plan, providing a strategic roadmap with clear milestones towards achieving Carbon neutrality. Furthermore, the company started disclosing under the Carbon Disclosure Project (CDP) and is collaborating with the Science Based Targets initiatives (SBTi) on their recently launched sectoral trajectories for the maritime sector, to align emissions reduction targets with 1.5 °C. We will continue to follow its progress with SBTi, stressing the importance of a commitment and look for a validated target.

### 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 footprinting 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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