

High Yield Corporate Bonds

FIXED INCOME

Climate engagements bearing fruit

Engagements Update

The second half of 2021 was focused on following up on existing engagements, evaluating progress made by our targeted companies and identifying areas for continued improvement. Below we outline the progress and status on each of these.

Our 2020 initiated climate engagements are bearing fruit in 2021.

In late 2020 we started engaging with a gold mine company with operations in Canada, Suriname and Burkina Faso, continuing the dialog throughout 2021. Our efforts as well as the company's constructive approach and commitment to address issues, have yielded positive developments. In our conversations with the company, we identified strong progress being made on the climate front with extensive carbon emission disclosure as well as renewable energy integrated at many of their operating sites. We encouraged the company to consider setting a science based carbon emission reduction target to further cement their efforts. Throughout 2021, the company officially announced a target of Net Negative Greenhouse Gas emission by 2050. We continued our dialog with the company and stressed the need for setting medium term targets to ensure a credible path towards the 2050 goal as well as a roadmap on how they are planning on achieving their targets. The company expressed commitment towards providing these by the end of 2022.

Our initial engagement with an oil producer in the U.S. focused on encouraging the company to set a carbon emission reduction target, consider becoming a member of CDP (global disclosure system), assign board level responsibility for climate related matters and develop a transition policy. The company showed good progress in 2021 and outlined a medium term GHG (GreenHouse Gas) and methane intensity reduction target, formalized ESG oversight at Board level and began disclosure under CDP and TCFD (Task Force on Climate-Related Financial Disclosures). While these were all positive developments, we see further room for improvement. We highlighted the need for a long term science-based carbon emission reduction target as well as the need for a decarbonization roadmap and commitment towards aligning future

capex plans to the long term target. We plan on continuing the constructive dialog and following their progress.

Through the second half of 2021, we continued our conversations on climate with the Eastern European integrated steel producer

we approached during the first quarter of the year. While we understand the technological challenges making it difficult to outline a clear path towards a net zero carbon emission target, we nonetheless encouraged the company to commit to a long term target which is Paris aligned and develop a rough outline of the initiatives planned to reach that target. We have stressed the importance of credible medium and long term targets and of aligning future capex plans with these new targets and shared the Climate Action 100+ report outlining the pathway for a transition to net zero in the steel sector. The company is currently evaluating global best practices and developing its decarbonization roadmap, considering medium term focused plans as well as long term transition options.

Besides climate issues, we followed up on our engagement with the Canadian Copper mining company

to address deforestation and depletion of biodiversity allegations at their new mine in Panama. The company has had a constructive approach and provided details on their biodiversity mitigation strategy, including specific reforestation targets and percentage of completion to date. We plan to continue the constructive dialog with the company to ensure their efforts are commensurate with environmental and community standards.

We resumed our dialog with the South African mining company initiated in 2020.

Our initial dialog uncovered significant progress in strengthening their risk assessment process, commitments for completion of Social Labour Plans and community engagements, however recent developments showed signs of deteriorating health and safety conditions as well as renewed community protests, post a period of relative better performance. The company provided details regarding their improved initiatives and we plan to have follow-up discussions on the topic throughout 2022.

Responsible Investments at Sparinvest

At Sparinvest, analysts and portfolio managers will engage directly with selected portfolio companies. Furthermore, we work with ISS-Ethix, 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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