

A BALANCING ACT: ENGAGE OR EXCLUDE?

Engagements Update

Our routine screening has identified two companies at risk for breaching international norms, prompting a review of the particular situations in our internal Stewardship Forum and the initiation of engagements with each of these companies.

The first company, providing packaging solutions in the US, is facing health claims from neighboring communities due to alleged hydrogen sulfide emissions from its paper packaging plant. We have expressed our concerns to the company, seeking a dialogue about the action plan in place to address these issues. Despite our outreach, we have yet to receive a response and plan to follow up in the coming months.

The second company, a generic pharmaceutical firm, is under scrutiny for alleged anticompetitive practices. Given the ongoing legal proceedings and the extent of the issue, we have excluded the company from the Ethical High Yield fund. Simultaneously, we are conducting an engagement with our third-party research provider. Our call with the company indicates significant progress in the company's approach to compliance and ethics, with processes and disclosures being significantly strengthened. This provides comfort on the direction the company is taking and we will continue to monitor the situation with an expectation to be able to reinstate it in our Ethical High Yield fund, should the progress continue.

Additionally, we initiated an engagement with a US consumer financing company which was downgraded by our research providers to a low ESG score. The primary reason for the downgrade was a lawsuit alleging excessive rates charged to military personnel. Our dialogue with the company highlighted an information gap between our research provider and the company.

The company revealed safeguards put in place to mitigate this risk and indicated that the trial was stayed. It further became apparent that the research providers had not fully considered the company's specific business model in their overall assessment. Our dialogue with the company provided a more nuanced understanding of the ESG risks it is facing as well as its mitigation efforts.

We have been maintaining the dialogue with the South African mining company we have described in our prior reports where the focus is on improving their Health and Safety metrics. Throughout our engagement with the company we have gotten a good understanding of all the measures they have put in place and believe the company is showing significant improvement in metrics as a result of their efforts. We will continue to monitor the situation in the upcoming months.

New Sustainable Investment Policy

In the second half of 2023, we released an updated Sustainable Investment Policy with a key change: strengthening the climate exclusion criteria. The new policy aligns with Sparinvest's commitment to a net zero 2050 Paris-aligned pathway for greenhouse gas emissions. It builds on the International Energy Agency (IEA) scenario where no new development of coal mines or oil and gas fields are needed. As a result, we now exclude companies using more than 5% of their capital expenditure to expand production against the IEA's Net Zero Emissions Scenario.

This resulted in excluding 8.5-10% of our holdings across the High Yield funds, implemented in the latter half of 2023. The new exclusions render 10-11% of our benchmarks non-investable. Simultaneously, these exclusions have significantly reduced our carbon emissions intensity, currently standing at approximately 30% below our benchmark.

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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