

BREAKING THE TIDE

Climate Goals

Our parent company, Nykredit Group, has achieved a notable milestone during 1H2024, by becoming the first major bank in Scandinavia to have climate targets validated by the Science Based Target Initiative (SBTi). These targets encompass lending, investments and our own operational footprint. The 2030 interim goal aims for 100% of the assets under management to comply with the principles of the Net Zero Investment Framework. In line with this, our engagement efforts during the first half of 2024 were focused on climate, specifically on the hard-to-abate maritime sector.

SBTi has published a framework for the maritime industry outlining a decarbonization pathway in line with the 1.5°C scenario, recognizing the challenges related to technological development and scaling. Currently there is no consensus on the future fuel for the sector. The most likely outcome is a combination of green fuels, each presenting their own specific challenges related to cost, processing, & storage capabilities, scaling capabilities and technological maturity. As such the industry's interim decarbonization efforts are heavily weighted towards optimizing existing fleet and technology. We recognize the complexities of transitioning the maritime industry to a more sustainable future, acknowledging the need for supportive regulation, innovation, the availability of green fuels, infrastructure development, and industry-wide collaboration. At the same time, we are aware that high ambition levels are essential if there is to be a chance of reaching net zero in the industry. Consequently, we have engaged with three companies during the first part of the year with details provided below.

Engagements Update

We have followed up with a US container shipping company that engaged with last year. While the com-

pany initially showed good progress and a constructive approach, collaborating with SBTi and aiming to align their decarbonization path with 1.5°C scenario, no further progress was reported. We emphasized the importance of having a verified target and inquired about their current optimization initiatives.

We previously engaged with a North American cruise company, which faced several environmental challenges, resulting in a probation violation and mandated third party reviews. We are pleased to report that the company has completed the court-supervised probation term and environmental compliance plan and while there is still work to be done, substantial progress was made. We have previously encouraged them to obtain a Science-based target, however the company remains hesitant about the SBTi and believes the framework is aggressive in assuming broad, near-term availability of low and zero carbon fuels. While we understand the challenges associated with setting long-term goals given the current uncertainties, we pressed the company to set ambitious short term decarbonization targets, emphasizing the importance of including Well-to-Wake emissions, to account for full life cycle emissions.

During the first half of the year, we engaged in a constructive dialogue with a Danish shipping company on their decarbonization efforts. While the company has an ambitious Net Zero by 2050 target in place, we scrutinized the level of ambition reflected in their interim targets and requested a decarbonization plan, which the company is currently working on.

Throughout all three engagements, there was a prevailing sense of caution regarding target setting, attributed to the uncertainty surrounding future technology and fuel.

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 footprinting 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.

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