

# INCREASING CLIMATE ENGAGEMENTS

## Engagements Update

We saw progress on an engagement in a Mexican oil company with other investors via our service provider. Thus far, the dialogue has been positive and highly responsive to requests for meetings and information. In 2022 the engagement has been focused on safety leadership, safety culture and process safety as there is a need to make progress in improving safety disclosures. The reduction in onshore illegal pipeline tapping is a significant achievement by all stakeholders. The company seems serious about managing safety risks, but there is inconsistent performance in lost time injury frequency and the fatal accident rate. In addition, total annual fatalities remain stubbornly high with little evidence of a pro-active and transparent safety culture linked to behaviors and pay. It was suggested that a Health & Safety Turnaround Strategy be urgently developed and implemented, with a focus on (1) conducting an independent 3rd party safety gap analysis, (2) developing a focused Fatality Prevention Program, (3) developing a High Potential Incident Program, (4) demonstrating safety leadership by appointments to boards and committees, (5) Designing and implementing a Safety Culture Transformation Program and (6) Providing annual comprehensive public disclosures on safety performance.

**Container shipping was a focus in the second half of 2022** - During the quarter, we initiated engagement with two companies that operate and manage containerships. The first, has announced long-term targets to reduce the total annual GHG emissions by at least 50% by 2050 and ultimately achieve net-zero GHG emissions. They also target to reduce vessel carbon intensity by 40% and 70% by 2030 and 2050 respectively; compared to 2008. The second, has designed and implemented an updated ESG plan in 2021, which includes some goals and targets for the years 2021–2025 and successfully implemented a "Zero

MARPOL Incident" policy with a 2021 record of zero incidents of non-compliance with environmental laws and regulations. However, we have found limited quantitative corporate targets to reduce carbon emissions, and pollutants over the medium term; in the first case, and limited evidence of the actual initiatives and steps taken by the company in the second. Therefore, we have requested a step-by-step plan with incremental targets and commensurate actions until 2030 to meet the set emissions targets, and the expected reduction rate until 2025; as well as reporting hereto. Also, as the first company had shown its intentions to move from marine bunker fuel to LNG, we highlighted evidence of methane slippage in the LNG value chain in the shipping industry and asked them about their plans regarding use of methanol ships in the future, knowing that customers and operators such as A.P. Moller-Maersk have started investing in methanol ships.

**We also initiated an engagement with a company that produces and markets titanium dioxide pigments.** The company has phased out sulfate production at one of its facilities and increased production capacity via the less energy-intensive chloride process. However, we have not come across any quantitative corporate targets to reduce emissions and also found limited evidence of initiatives to address environmental impacts from air. We requested the company to provide evidence of emission figures and initiatives to address environmental impacts from air, water and waste emissions and provide evidence of efforts to manage water usage and clarify or commit to reduction targets on emission and waste. This would provide transparency for both investors and regulatory bodies. We also proposed to have reduction targets based on Science Based Targets.

**We will be following up on all the above engagements during the coming quarters.**

## 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 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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