

21. INTEGRATION OF SUSTAINABILITY RISKS

Policy title:	Integration of sustainability risks
Administrator:	Henrik Ramskov
Approved by the Board of Directors:	24 March 2023

21.1 Introduction

This policy has been developed in accordance with the requirements of:

- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the “Disclosure regulation”).

The policy must be reassessed annually by the Board of Directors.

The policy must be updated as a result of changes in legislation, guidelines from the Danish Financial Supervisory Authority or other matters that require an update.

21.2 Overall strategic objectives

The Company acts as a responsible fund manager with a strong corporate governance, where morality and ethics are paramount and deeply rooted throughout the organization.

Sustainability is and has always been a cornerstone of the Company’s approach. It has always been a fundamental principle that the Company will make investments in maritime assets which are considered of high quality. This must be done with emphasis on environmental integrity, under consideration of the potential impact of sustainability factors on the value of the investments.

As a responsible fund manager, the Company is committed to use all reasonable effort to comply with the provisions in the following convention:

- UN Principles for Responsible Investments

to ensure good on-board working conditions for the crew.

The Company must constantly work to promote and implement targeted sustainable solutions and routines to be able to continuously assess how sustainability risks may affect the value of the investments made.

The purpose of this policy is to set the framework for the Company’s work to integrate sustainability factors into the daily operation of the Company as manager of alternative investment funds and to ensure transparency for the investors regarding the impact of sustainability risks on the investments made.

21.3 Identified sustainability risks

The Company's identification of the sustainability risks to which it is exposed through the decided investment strategy, and which may thus affect the value of its investments in maritime assets, has uncovered the following risk picture related to sustainability:

- Physical risks, including risk of non-compliance with regulatory provisions on the vessels' greenhouse gas emissions, fuel consumption and ballast water treatment as well as environmental incidents in the form of, for example, oil or chemical spills at sea.
- Transition risks which could adversely affect the marketability and market value of the vessels, such as future tightening in regulation or technology development/progress.
- Social risks, such as human rights abuse, bad working conditions, child labour, inequality, or discrimination.
- Governance related risks, such as risk of corruption, bribery, conflicts of interest.

The above risks must all be adequately addressed through appropriate control measures.

21.4 Investment agreement

The Limited Partnership Agreement (LPA) for the individual Funds comprises, in addition to the information referred to in § 62 in the Danish AIFM Act, relevant information about the Company's integration of sustainability risks, including any consequences the Company's management of risks may have for returns to the investors.

21.5 Screening of investments

Before making any investment proposals to the Investment Committee the Company must assess relevant sustainability aspects of the proposed investment.

This must be done as part of the due diligence process in the form of a screening process in which the following aspects must be mapped and assessed:

Asset-based screening:

The proposed asset must be thoroughly screened to assess the following relevant environmental aspects:

- Emissions of greenhouse gases, including CO₂, NO_x, Sox: Assets must comply with regulatory provisions on emissions.
- Fuel consumption and fuel efficiency: Assets must comply with regulatory provisions on fuel and energy consumption.
- Ballast water treatment: Assets must comply with regulatory provisions on ballast water.

Norm-based screening:

Any proposed counterparty who is a candidate to enter into a charter agreement regarding the investment asset must be thoroughly screened to assess their competencies and their compliance with the provisions in the following international conventions. The objective of the screening is to assess the risk of violating relevant social aspects, such as human rights, bad working conditions, child labour, inequality, and discrimination, as well as governance related aspects, such as corruption, bribery, conflicts of interest:

- UN Global Compact
- UN Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- ILO Declaration on Fundamental Principles of Right at Work

The Company must consult data on the above matters in information from the relevant counterparty, including the counterparty's annual report.

The counterparties' effort to be compliant with the provisions in the above international standards must be incorporated in the internal Counterpart Assessment for each Charterer.

21.6 Investment proposal

The Company's investment proposal to the Investment Committee must include a paragraph on the integration of sustainability risks.

In this paragraph, the Company must provide information regarding the results of the screening of the proposed investment in relation to the relevant environmental aspects and the compliance with the provisions in the relevant international conventions.

By this means, the Company ensures documentation that the screening of sustainability risks is an integral part of the investment process.

21.7 Operating of the assets

The Company must have effective operational procedures covering identified transition risks which may arise in connection with the transition to a net-zero maritime sector. The transition risks which the Company has identified relate to developments in future regulation, technology shifts, new business models and changing consumer behaviour, as these developments could adversely affect the marketability and fair market value of the investments. These risks must therefore be closely monitored to ensure that they are continuously mitigated through relevant improvements to the assets.

Further, the Company must have effective operational procedures ensuring continuous follow-up on the assets' emissions, fuel consumption, and ballast water treatment.

Finally, the Company must have effective operational procedures ensuring continuous follow-up on quality, resources, results, and ESG-related matters of the counterparties having chartered the assets.

The follow-up must be organized in such a way as to ensure that the portfolio is compliant with the sustainability standards defined by the Company.

Any detected deviation must be investigated and sought to be remedied as soon as possible.

21.8 Dismantling of the assets

The Company is committed to use all reasonable effort to comply with the provisions in the following conventions:

- Hong Kong International Convention for the safe and environmentally sound recycling of ships.
- Basel Convention: Technical guidelines for the environmentally sound management of the full and partial dismantling of ships.
- EU Regulation (No. 1257/2013) on ship recycling.

Any potential dismantling process regarding the Company's vessels must comply with these provisions on dismantling of ships.

Business partners involved in the dismantling process must adhere to the provisions and support a precautionary approach to dismantling that can affect environment, and which supports a recycling mindset.

21.9 Reporting to the Board of Directors

At least annually, the Management must report to the Board of Directors on compliance with this policy, including key elements of the screening work performed in the past year.

21.10 Monitoring and surveillance

The Management shall be responsible for monitoring the compliance with this policy.

If the Management deems that the compliance is not sufficient or that further actions are required, the Management shall inform the Board of Directors together with a report on the subject matter and proposal for a solution. The Board of Directors shall then make a decision regarding the matter, which the Management shall effect.

21.11 Control

In the event of a reporting from the Managing Partner the Board of Directors shall

- (iii) review the report made by the Managing Partner, and
- (iv) consider whether the compliance requirements are fulfilled or whether there is a risk that the compliance requirements may not be fulfilled in the period until the next Board Meeting.

In the event that the Board of Directors deems that this clause 21 is not sufficiently complied with, the Board of Directors shall adopt a decision on how to remedy this and instruct the Managing Partner to effect such decision. The Board of Directors shall monitor that the adopted plan is complied with and that the plan is effected as soon as possible.

Track record:	Comments/changes:
25 March 2021:	V 1.0: New Policy prepared and adopted.
28 June 2022:	V 2.0: Elaboration and clarification regarding the impact of sustainability risks on the value of the company's various types of investments.
13 December 2022:	V 3.0: Elaboration regarding dismantling of assets.
24 March 2023:	V 4.0: Elaboration regarding dismantling of assets.