



# Principal Adverse Impacts statement on sustainability factors

## Purpose

The following Principal Adverse Impact (“**PAI**”) indicators statement considers of the investments in the sub-funds under management, in particular Green Harmony I & Green Harmony II (the “**Sub-Funds**”) which European Maritime Finance A/S (the “**EMF**”) manages.

The PAI statement considers the potential impact of each of the underlying maritime investment asset (the “**Vessels**” and “**Underlying Investments**”) in compliance with Sustainable Financial Disclosure Regulation (“**SFDR**”) - Article 9. ESG performance data is collected from the relevant technical and operational suppliers (the “**Suppliers**”).

Without comparative data from multiple previous reference periods, it remains challenging to determine which sustainability factors the Underlying Investments negatively impact the most. However, since climate change poses a significant threat to the global economy and presents specific risks to the assets the EMF on behalf of the Sub-Funds invest in, reducing the climate impact of the Underlying Investments is a cornerstone of the EMF’s environmental, social, and governance (ESG) strategy.

This is in addition to EMF’s other core areas of focus - biodiversity loss prevention, water preservation, human rights, and good corporate governance. These priorities are reflected in the EMF’s engagement activities and commitments. EMF continuously assess climate change risks and the impact of the low-carbon transition on the maritime sector and suppliers.



The construction of the three vessels in the Sub-Funds have not commenced as of today's date and will undergo during the following years (2024-2027) which is reflected in the periodic reporting.

## Methodologies

The mandatory PAI indicators are defined by SFDR. The voluntary Principle Adverse Impact indicators are selected by assessing the potential risks by using SASB (Sustainability Accounting Standards Board) industry specific guidance on relevant sustainability issues on maritime transportation in corporation with sustainability consultants.

The guidance leads to the identification of:

1. GHG emissions
2. Air quality
3. Ecological impacts
4. Employee Health & Safety
5. Business ethics
6. Critical Incident Risk management

The two voluntary PAI's are chosen due to the natural alignment with the investment target, industry and product - as well as sufficient coverage on the SASB industry specific targets by the mandatory PAI's. The guidance has led to the choice of the voluntary indicators:

1. Investments in companies without sustainable oceans / seas practices
2. Lack of a supplier code of conduct

The mandatory indicators defined by the SFDR are set out in Table 1 below and the chosen voluntary indicators defined by SFDR are set out in Table 2 below. For each of these PAI indicators, EMF have included information to describe the actions that we have taken and actions that we plan to take/targets set to avoid or reduce the identified principal adverse impact.



The information is collected from the initial period of the fund between May – August 2024. We will continue to report this information on an annual basis, subject to data availability and quality.

## Definitions

'The Manager' = European Maritime Finance A/S

'GH' = Green Harmony I, Green Harmony II

'UNGC' = United Nations Global Compact

'UN PRI' = United Nations Principles of Responsible Investment

'IMO' = International Maritime Organization

'ILO' = International Labour Organization

'NetZero2050' = the UN Paris Agreement target of achieving NetZero Greenhouse gas emissions by 2050 and minimize temperature rise by 1.5 degree Celsius.

'HHI' = Hyundai Heavy Industries

'SFDR' = EU Sustainable Finance Disclosure Regulation

'Scope 1, 2 and 3 GHG emissions' = the scope of greenhouse gas emissions referred to in points (1)(e)(i) to (iii) of Annex III to Regulation (EU) 2016/1011 of the European Parliament and of the Council

'Greenhouse gas (GHG) emissions' = greenhouse emissions as defined in Article 3, point (1), of Regulation (EU) 2018/842 of the European Parliament and of the Council.



## Principles Adverse Impact Indicators

<b>Table 1 - Indicators applicable for investment assets</b>				
<b>Adverse indicator</b>	<b>Sustainability</b>	<b>Metric</b>	<b>Unit</b>	<b>Comment</b>
Greenhouse Gas Emissions and climate	GHG emissions	Scope 1	N/A	Sub-Funds adhere to the targets set by the PRI, UNGC, and IMO for achieving Net Zero fossil fuel emissions by 2050. HHI aligns with the Paris Agreement's goals regarding emission reduction targets and action plans for its own emissions, specifically those defined under Scope 1. As the project was launched in 2024, there are no Scope 1 emissions to report for this period. Estimations are expected to be included in the next report.
		Scope 2	N/A	Sub-Funds adhere to the targets set by the PRI, UNGC, and IMO for achieving Net Zero fossil fuel emissions by 2050. HHI aligns with the Paris Agreement's goals regarding emission reduction targets and action plans for its own emissions, specifically those defined under Scope 2. As the project was launched in 2024, there are no Scope 2 emissions to report for this period. Estimations are expected to be included in the next report.
		Scope 3	N/A	Sub-Funds adhere to the PRI, UNGC, and IMO targets for achieving Net Zero fossil fuel emissions by 2050. The project was launched in 2024, but production has not yet commenced. Emission



				estimations are expected to be provided in the next report. Sub-Funds have undertaken initiatives to minimize tailpipe emissions, including investing in the most energy-efficient engines, with the goal of operating on nearly carbon-free ammonia. Vessels are anticipated to be classified as Category A according to CII ratings.
	GHG intensity	Emissions /Investments	N/A	Launched in 2024. Production not commenced. Numbers expected by next report.
	Carbon footprint	Carbon footprint SUM scopes	N/A	Launched in 2024. Production not commenced. Numbers expected by next report.
	Exposure to companies in the fossil fuel sector	Percentage of investments within fossil fuel sector	0%	The investment goal of the vessels is to sail with and on green ammonia. Meaning there will be no exposure to fossil fuel sector within the investment target. However, this freighted amount depends on supply and demand from upstream and downstream supply chain.
	Energy consumption per high impact sector	Energy consumption in GWh per million EUR of revenue of investee companies per high impact climate sector in production period	N/A	Energy consumption intensity means the ratio of energy consumption per unit of activity, output or any other metric of the investee asset to the total energy consumption of the supplying company.
Biodiversity	Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies	0%	The Suppliers commit to consider potential negative effects on biodiversity into consideration. Where possible, we engage with Suppliers about biodiversity risks. We are involved in several



		negatively affect those areas.		initiatives to protect biodiversity. Especially to underwater wildlife.
Water	Emissions to water	Tonnes of emissions to water generated by investee companies per million EUT invested, expressed as a weighted average.	N/A	Sub-Funds are consequently assessing the vessel impact to protect waters in production & in future operations. The Vessels will comply with latest IMO Compliance to: International Convention on the Control of Harmful Anti-fouling Systems on ships, 2011. Compliance to: US EPA FINAL 2013 VGP requirement compulsorily applicable to foreign flag vessel calling US ports including Environmentally Acceptable Lubricants (EAL), anti-fouling, and ballast water.
Waste	Hazardous waste and radioactive waste ratio	% of hazardous waste in construction period.	N/A	Sub-Funds consider the hazardous waste and radioactive waste exposed with the waste ratio by constructing generated by suppliers.
Social, Staff & Governance	Remuneration	Unadjusted gender gap base (2023)	28%	The figure includes the total for HHI. We are additionally considering the average ratio of female executives to total executives where the ratio is only 1.7% as of 2023. Also an assessment of the ILO declaration the elimination of discrimination in respect of employment and occupation is considered.
	Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a	20%	An assessment of the board gender diversity is assessed as a factor of the sustainable screening – including by time.



		percentage of all board members		
	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0%	The supplier HHI respects and supports the values of human rights, labour standards, environmental stewardship and anti-corruption efforts as outlined in various ESG standards and norms such as the UN GP principles, ILO declaration for on Fundamental Principles and Rights for Work and OECD Guidelines. To put these values into practice, HHI has established an ESG management system and implements various ESG activities.
	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0%	We adhere to the UN Global Compact principles and the OECD Guidelines for Multinational Enterprises, and our aim is that the supplier companies of our investments assets into comply with these norms.
	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons.	0%	Investments in controversial weapons are excluded according to our exclusion list in the Sustainability Risk Policy. Therefore no exposure is identified.



## Voluntary PAI's

Table 2 voluntary indicators applicable for investment assets				
Adverse indicator	sustainability	Metric	Unit	Comment
Ocean and sea	Amount of investments in companies without oceans/ sea practices	Share of investments in investee companies without sustainable oceans/seas practices or policies	0%	The supplier, HHI has implemented practices as well as compliance to relevant and updated IMO standards with exposure to Ocean and sea.
Governance	Lack of supplier code of conduct	Share of investments in investee companies without any supplier code of conduct (against unsafe workings conditions, precarious work, child labour and forced labour.)	0%	HHI has established the "Supplier Code of Conduct" in collaboration with its partner companies to pursue a sustainable supply chain. All partner companies are required to adhere to this code, and it recommends equal compliance and responsibility for human rights management, safety and health, environmental standards, and ethics for second and third-tier partner companies as well.

## Maritime Investments in Sustainable Vessels: Policies and descriptions to identify and prioritise PAI's

Since the launch in 2024, EMF and the Sub-Funds have actively integrated criteria related to adverse impacts on sustainability factors into their investment decisions. Adopting a double materiality approach, Sub-Funds also consider material sustainability risks that could impact the financial performance of their investments. For further details on the integration of sustainability risks, please refer to the Sustainability Risks Integration Policy.

### Identifying and Prioritizing Principal Adverse Impacts





EMF and Sub-Funds use a variety of resources, tools, and methodologies, including third-party expert support, to identify and prioritize the principal adverse impacts of their investments. They recognize that these tools and methodologies are not perfect and may have certain margins of error due to data limitations and uncertainties, particularly with early-stage companies. EMF and Sub-Funds are committed to continuously evolving and refining their approach to ensure that no significant adverse impacts result from their investments.

### **Integration of Sustainability Factors**

Sustainability factors - environmental, social, human rights, and anti-corruption matters - are considered by EMF with respect to the Sub-Funds at different stages of the investment decision-making process and during ownership through various policies and procedures:

- **Sourcing Phase:**
  - **Thematic-Focused Investments:** EMF selects investments in opportunities with the potential to substantially contribute to climate change mitigation by reducing carbon emissions and supply clean energy to other industries.
  - **Exclusion Policy:** Potential investments have been checked against Sub-Funds' Exclusion Policy, which includes sectors and activities with high inherent sustainability risks or risks of causing significant harm to social or environmental objectives.
- **Due Diligence Phase:**
  - **Materiality Assessment (PAI):** During due diligence, EMF gathers insights and data on a prospective investment's



performance against its PAI indicators. Material adverse impact areas are identified and discussed with third-party experts and representatives from the prospective investment, leading to concrete actions for the first year of ownership.

- **DNSH Assessment:** To avoid significant adverse impacts, EMF has DNSH criteria, thresholds, and indicators linked to several PAI indicators. These thresholds are reviewed for all prospective investments through questionnaires, desk research, life-cycle analyses (for climate mitigation criteria), and dialogue with Supplier key personnel. If a DNSH threshold cannot be met, the investment is flagged, and corrective action must be taken before proceeding. The DNSH thresholds are monitored annually through PAI and bespoke indicators.
  
- **Ownership Phase:**
  - **Sustainability Action Plans (SAPs):** After due diligence, EMF collaborates with Sub-Funds to develop a SAP. The SAP ensures investments are on track to deliver climate impact potential and address any material adverse impacts through appropriate processes and safeguards. The SAP includes actions and priorities for the first year, followed by the development of a bespoke sustainability strategy for longer-term growth (3-5 years), maintaining a double materiality approach.
  - **Annual Reporting (incl. PAI):** EMF collects data annually to ensure DNSH thresholds are respected, and investments are on track with climate objectives. EMF supports investments in building adequate data collection, consolidation, and reporting systems for PAI and other sustainability indicators. If data is



lacking, secondary sources and proxies may be used, with any limitations communicated transparently.

## **Engagement Policies**

Engagement with investments is crucial for enhancing positive impact and avoiding significant adverse impacts. Engagement can be reactive, responding to specific incidents, or proactive, steering companies toward accelerated positive impact. Principles guiding engagement include:

- **Continuous Engagement and Capacity Building:** Regular discussions on sustainability issues with Suppliers to improve their management and disclosure. Sub-Funds provides access to guidance, tools, and resources to increase Suppliers' capacity over time.
- **Board Engagement:** Leveraging board positions to ensure climate impact objectives are met and addressing any principal adverse impacts or sustainability risks.
- **Cooperation:** Collaborating with other shareholders when necessary to influence sustainability considerations.
- **Conflict of Interest Management:** Identifying and managing potential conflicts between Sub-Funds and investments, ensuring integrity.

For significant controversies or confirmed adverse impacts, investments are given time to address issues, with escalation to potential exit if insufficient progress is made.

EMF's engagement activities with respect to the Sub-Funds cover all identified and prioritized principal adverse impacts and DNSH criteria, ensuring a comprehensive approach to sustainable maritime investments. We are furthermore referring to the Engagement Policy.



## **Standards and regulations**

EMF's and Sub-Funds' commitments to sustainable investments, principal adverse impacts, and sustainability risks are rooted in responsible business conduct codes and internationally recognized standards. The methodologies for managing and disclosing sustainability risks and impacts throughout the investment cycle consider the following international standards and guidelines:

- The 10 Principles of the United Nations Global Compact
- The United Nations Sustainable Development Goals (SDGs)
- The OECD Guidelines for Multinational Enterprises
- The UN Guiding Principles on Business and Human Rights
- The UN Principles for Responsible Investment (PRI)
- The Greenhouse Gas Accounting Protocol
- Project Frame (investor-focused initiative for measuring climate impact, including avoided emissions)
- Sustainable Finance Disclosure Regulation
- European Union Taxonomy
- Sustainability Accounting Standards Board (SASB)

## **ILO Declaration on Fundamental Principles and Rights at**

**Work** Regarding alignment with the Paris Agreement, the application of PAI indicators requires investments in the most climate-critical sectors to demonstrate a credible transition strategy compatible with the Paris Agreement's climate objectives. EMF and Sub-Funds fulfil this requirement by collaborating closely with their investments to ensure a positive contribution to climate change mitigation, in line with substantial



contribution criteria – and additionally the Funds has ambitious targets of investing in NetZero technology that can surpass the Paris Agreement part goals.