



## Investment Philosophy

SilverCross Global Small-Cap Fund invests in a portfolio of 25-35 high-quality smaller companies. It invests in companies with defensible business models across global developed markets.

The Manager applies four core principles in its stock selection. Its aim is to drive attractive long-term investment returns in excess of the benchmark while keeping portfolio turnover low.

## Core Selection Principles

**Create Value** with a sustainable business model.

**Compound Growth** thanks to a scalable business model.

**Undervaluation** implies an asymmetric risk / reward profile.

**Insider Ownership** ensures alignment with management.

## About The GreenBullet

A green bullet, is the ESG sibling of our longstanding SilverBullets. With this newsletter we aim to offer further insight to recent ESG events, and how they may affect the SilverCross portfolio.

## COP28: Language Matters

Last week saw the culmination of the United Nation's 28th annual Conference of the Parties (COP) of the United Nations Climate Change Conference. This year's edition, COP28, saw close to 200 signatory countries ("Parties") gather together to discuss collective action on minimising the impacts of climate change in an increasingly vulnerable world. A record number of 97,000 delegates attended this year's climate summit, almost twice the number that travelled to Sharm El-Sheikh, Egypt for COP27 last year, the previous largest in the summit's three-decade history. However, COP28 was shrouded in scepticism before negotiations had even begun. Cynicism concerning the decision to host the climate summit in the capital city of the UAE, one of the largest oil and gas exporting countries in the world, was only dwarfed by the choice of President. Dr. Sultan Al-Jaber was tasked with presiding over the conference. Critics questioned whether the current CEO of the Abu Dhabi National Oil Company, the world's 12th largest oil company by volume, could display impartiality with respect to his own, and his country's, political interests. Questions arose around the viability of proposed promises, and the credibility of the authority tasked with making these commitments. Even the immediate lead-up to the conference was marked by controversy, with a leaked story claiming that Dr Al-Jaber was using the presidency, and the large presence of oil and gas representatives, to advance his own oil and gas deals.



National leaders and other dignitaries at COP28.  
Source: Fotografía oficial de la Presidencia de Colombia

Criticism of the conference may seem overblown, however the oil and gas industry accounts for 45% of anthropogenic greenhouse gas (GHG) emissions. Fossil fuels in total (i.e. including coal) account for 75% of GHGs and almost 90% of global carbon dioxide emissions. The oil and gas industry had been touted as a significant player in the energy transition. Publicly traded energy companies, particularly those in Europe, had been on a sincere path of transition to reduce their reliance on oil and gas and broaden their portfolio of energy resources. However, the Russian invasion of Ukraine resulted in soaring oil and gas prices, causing profits to skyrocket. These same companies then began lobbying against climate policies, severely halting the evolution of the energy transition in the process. This compounded calls for COP28 to result in a commitment to phase out fossil fuels. While COP28 saw members agree on the need to "transition away from fossil fuels in energy systems", the final commitment was somewhat watered down, merely committing to phase down fossil fuels as opposed to phasing them out.

The difference in language may seem slight, but the impact is pronounced. A phase out would require a radical reduction in fossil fuel burning down to (near) zero. The weaker, phase down, indicates that fossil fuel burning would need to decline without any specification of when or by how much. Unlike previous COPs, such as COP26 which was hosted in Glasgow in 2021 and committed to achieving net zero by 2050, COP28 did not include a timeframe nor compel countries to take action. Similarly, unlike COP21 which was hosted in 2015 and resulted in the Paris Agreement which introduced the goal to limit global temperature increases to 1.5°C above pre-industrial levels, COP28 is not legally binding.

A lack of market confidence for the deal saw the price of carbon fall to its lowest level in 14 months the day after the summit concluded. Traders were unconvinced that the agreement would lead to meaningful action by governments on climate, noting the weakness of the language used. Notably, language backed by fossil fuel interests, such as "transitional fuels" which is seen as a code for natural gas, seemed to find



## Fund Details

Managers since July 2014: David Simons & Chris Andrews

Inception date: 30 July 2014

Currency: EURO

Share Class: A

Management Fee: 1.15%

Total Expense Ratio: 1.40%

Minimum Investment: 100,000

ISIN code: NL0010832242

Bloomberg: SCGSCFA NA

its way into the final text. The science is clear, fossil fuel burning is the overwhelming cause of global warming. To have any chance of reaching the 1.5°C goal, CO2 emissions must fall by 43% by 2030. As global commitments stand, there is a good chance that we may not reach the 1.5°C target, and could even exceed 2°C. While 0.5°C difference may seem insignificant, the impact again is profound. For example, a half degree more of warming would increase the proportion of the global population frequently exposed to extreme heatwaves by 400 million people from 14% to 37%. It would double the loss of vertebrate and plant species, as well as the decline in marine fisheries.

LAND	1.5°C	2°C	2°C IMPACTS
<b>ECOSYSTEMS</b> Amount of Earth's land area where ecosystems will shift to a new biome	<b>7%</b>	<b>13%</b>	<b>1.86X WORSE</b>
<b>PERMAFROST</b> Amount of Arctic permafrost that will thaw	<b>4.8</b> MILLION KM <sup>2</sup>	<b>6.6</b> MILLION KM <sup>2</sup>	<b>38% WORSE</b>
<b>CROP YIELDS</b> Reduction in maize harvests in tropics	<b>3%</b>	<b>7%</b>	<b>2.3X WORSE</b>

*The difference in projected climate impacts between 1.5C and 2C of warming, Source IPCC, 2018*

At SilverCross, we believe that we all have a role to play in achieving consistent reductions in GHG emissions. We emphasise the importance of absolute GHG reductions and discourage our portfolio companies from purely relying on carbon offsets. We place a higher weight on the actual progress a company has made in reducing emissions, as opposed to simply taking targets as fact. When assessing the viability of our portfolio companies' climate strategies, we focus on the language used, noting where companies make concrete commitments based on science.

### Some good news

A commitment to phase down fossil fuels, was not the only outcome of COP28. 2023 marked the year of the first ever Global Stocktake, an exercise mandated by the Paris Agreement. The Global Stocktake is the process by which countries and stakeholders see where they're collectively making progress towards their decarbonisation and resilience efforts, and where they are not. As such, there was increased pressure for Parties to ensure efforts to accelerate progress were confirmed. Member States agreed to develop a loss and damage fund to help the most vulnerable countries repair or adapt to the severe impacts of climate change. This was a major step forward for less economically developed countries, who have long argued that the biggest fossil fuel polluters should be held accountable for the climate impacts attributable to their fossil fuel use.

All Parties also committed to double the rate of energy efficiency by 2030. The global population is set to increase to 8.6 billion people by 2030 and 9.8 billion by 2050. As society looks to, at a minimum, sustain the quality of life of current generations for future generations, increasing energy efficiency will be imperative if we want to reach net zero. Population growth, economic growth and increased consumption in developed and emerging economies are major contributors to global warming, and contribute to a feedback loop. For example, as temperatures rise, more people use air conditioning systems. Such systems are becoming increasingly common as both incomes and populations rise, particularly in the world's warmer regions, such as Asia. However, these systems are energy intensive and use refrigerants that contribute to ozone depletion and global warming. This warming then requires more air conditioners, creating a vicious cycle. By 2050, it is expected that global air-conditioners may result in the equivalent GHG emissions to India, the third largest emitter today. By improving the energy efficiency of these systems, the severity of this feedback loop can be limited. One of SilverCross' long-term investments, Belimo, is doing just that and we believe it will be a beneficiary of the transition to net zero. Belimo is the global market leader in actuator solutions for controlling heating, ventilation and air conditioning (HVAC) systems. By making its HVAC controls smart, Belimo damper actuators and valves can save 30-55% energy compared to similar products. Over a 15-year lifetime, this results in a net CO2 prevention impact of 1 068kg CO2e per device. These carbon savings are 24 times larger than the emissions related to the devices' raw materials, manufacturing process, distribution, operation and disposal.



## About the author

Zinzi Dzuda is the ESG Analyst for the SilverCross Global Small-Cap Fund. SilverCross is an asset manager based in Amsterdam, the Netherlands. It is focused on managing a high-conviction global small-cap equity portfolio.

A clear positive outcome of COP28 was the commitment from more than 100 countries, including the Netherlands, United States and Japan, to triple renewable energy capacity by 2030. We believe that this pledge provides an opportunity for companies included in the SilverCross Global Small-Cap Fund. For example, Stabilus, the world market leader for gas springs and dampers. Stabilus products have various applications, including for the renewable energy sector. Its dampers minimise the effects of wind anomalies and vibration for solar trackers and wind turbines, while its gas springs help maintenance staff open and close access panels.

### What next?

The UN Secretary General, António Guterres, opened COP28 by reminding us all that this year will be the hottest year in human history. In his words “we are living through climate collapse in real time”. Yet, there is still room for optimism. Renewable energy use has continued to increase. Solar power was the fastest growing source of electricity in 2022 for the 18<sup>th</sup> year in a row. While global emissions continue to rise, the peak is in sight. Developed countries, such as the US and the UK, have seen absolute declines, while others, including the EU and Japan, are beginning to plateau. Going forward, governments and the private sector must rally together to facilitate the climate transition, including reducing our reliance on fossil fuels. For all its faults, it must be remembered that COP28 still resulted in a landmark deal. So, to mirror the words of UN Climate Change Executive Secretary, Simon Stiell, “whilst we didn’t turn the page on the fossil fuel era in Dubai, this outcome is the beginning of the end.”

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