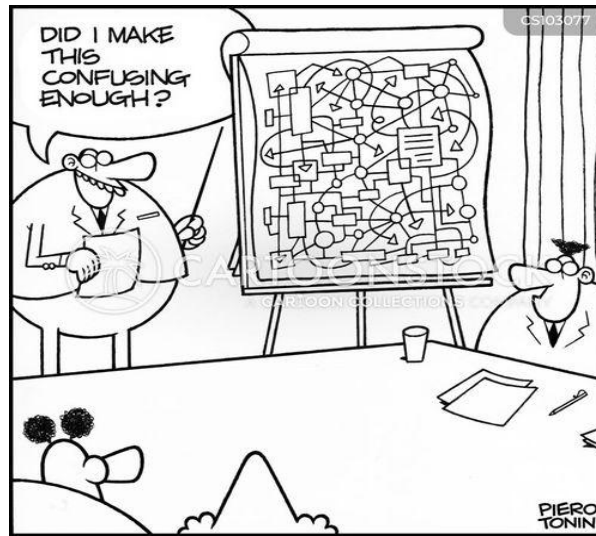


Sustainability Memo

July 1, 2025



Background

Here's the definition of sustainability: *"Able to be maintained at a certain rate or level."* We like to keep it simple. When we were first asked years ago at my prior firm if our portfolio companies were "sustainable," we said, "Yes!" Because we invest in businesses that we believe "are able to be maintained at a certain rate or level."

Then, we received feedback from clients. It was all over the map. So, we said, *"We're gonna need a bigger boat!"*

From this point on, I have been attempting to spread the word that sustainability in the business or investing context should ask whether *the business* can be maintained at a certain level over time. This has admittedly been an uphill battle, but it remains an important topic for us. The reason is, we believe this term – sustainability – will enter our playing field no matter what we do. We look for companies that we expect to endure over time. We believe they are sustainable businesses. But when we are asked about sustainability, we often get some variation of this question: *"Is this a durable company that is very profitable but might eventually kill us all?"*

Our choices are to (1) not answer sustainability-related questions because we're confused by many of the interpretations we see, (2) say we do not analyze sustainability because many others use a different definition and we'd prefer to avoid spending time explaining ourselves, or (3) say yes, we care about business sustainability, but we likely have a different interpretation. We prefer door #3 particularly considering how far awry certain other interpretations have gone. We otherwise risk the entire notion of what makes a business sustainable being turned on its head.



The Complexity

We often ask how a topic that should be so straightforward became so complex. Investing involves an expected recovery of your initial investment plus a satisfactory return. Therefore, sustainability in the investing context should equate to “business sustainability” in our view. To invert the thought, a business that cannot be maintained at a certain rate or level will not prove sustainable for customers, employees, shareholders, or anyone else involved.

However, terms such as sustainable investing, impact investing, and one of the most confusing acronyms to gain traction in the investing world in a long time, ESG, have been defined in “interesting” ways to put it mildly.

Interpretations have strayed so far from investing first principles that many in the investing ecosystem have justifiably elected to avoid using these terms altogether. It becomes an emotional topic for many because we have found that these terms can trigger personal, moral, or political views.

We have seen this type of emotional response in other areas before. For example, think about new technologies, new world events, or proposed ways of doing things that become all the rage “out of nowhere.” There can be periods when large groups of people have views on these topics that are on one extreme or the other without much in between. Then, most people weighing in typically realize both extremes are flawed and settle somewhere in the middle.

This “equilibrium phase” that follows typically occurs only after we have had sufficient time to learn, digest, and understand how these new topics, events or other things might work best for us. This can take years to play out. The initial period after a new thing rises in prominence often features a phase of innocent acceptance, fast growth, and many new entrants that have many different approaches. There are typically new entrants with sound approaches, misguided approaches, and everything in between. In the next phase, many choose to rebel against the machine as they get bombarded with what they view as misguided approaches. Eventually though, we often find there is an acceptable middle-ground that involves better understanding the positives we see in this newer way of doing things and how to distance ourselves from the negatives that might surface.

An interesting example is social media, which ironically started going viral around the same time that the acronym “ESG” was introduced. Social media came out of nowhere in the early 2000s. Society has now gotten familiar with social media 20+ years later. But at the same time, it still feels much newer and faster moving than legacy media.

In the earliest years, social media grew exponentially, globally, without much resistance. There was a largely innocent acceptance. The core innovation was a service that allowed us to connect with friends and family in mostly benign ways.

Then, there were multiple new entrants and bad actors who did unexpected things. Now, there is significant controversy surrounding social media. This makes sense as the negative consequences that have emerged are still a fairly recent societal development. Not surprisingly, extreme views have formed on both sides. At one extreme, there are large groups that believe the only solution is for social media to go back in the bottle. However, this is both unrealistic and not ideal for billions of consumers who cite certain positives that come from social media. At the other extreme, there are many who believe that we should be able to say and do *anything* on social media without censorship or content moderation. This is unrealistic, too. As we get closer to the 25-year mark of dealing with social media, we seem to be inching closer to acceptance. But with an eye toward what we can do to make more progress on mitigating the negative consequences, as should be the case.

There are many similarities with the sustainability discussion. Over time, certain issues commonly classified as sustainability-related have become more important to larger groups of consumers and employees. As a result, investors who track consumer and employee preferences have focused more of their time here. 10 years ago, there was innocent acceptance towards sustainability-related terms. The general perception was that it at least couldn't hurt to examine issues like carbon footprint. The initial thinking was that studying these issues could lead to a more thorough analysis. More "sustainable investing" traction led to more asset flows to strategies labeled as such. This led to many new entrants and different approaches to sustainability. *"Show me the incentive, and I'll show you the behavior."*

As new entrants flooded the market, we started to see the negative consequences. In fact, we have observed several approaches to sustainability that disregard the entire concept of investing. For example, some sustainability approaches in public markets claim to create viable investment portfolios by only looking at one or a very narrow set of commonly defined sustainability issues like low carbon emissions. There might be no real analysis of other key issues that must be studied to determine if the company is a strong investment candidate like competitive advantage and product differentiation. In addition, certain companies like Sustainalytics and MSCI have developed sustainability ratings. These firms suggest (even if they say otherwise in our view) that their ratings and methodologies - *that do not involve deep business analysis on critical issues like competitive advantage* - can be used to provide credible business quality ratings across thousands of companies.

These approaches are not investment approaches and cause confusion. Entire industries such as oil & gas, social media, and ecommerce infrastructure have been vilified by many of these approaches. To be clear, some industries have business sustainability questions in our view. But labeling entire industries as uninvestable is a much stronger and very different position than concluding that these industries might represent opportunity cost. Several companies have also been labeled by sustainability ratings and research firms (and by others) as violating standards like the UN Global Compact. The reasons can be that certain employees have *alleged* violations in a lawsuit. Or because a third-party sustainability ratings firm scraped a negative news headline. Allegations may or may not be cause for concern. This depends on the nature of the underlying issues. And this requires deep knowledge of the underlying issues.

We are understandably in a period of extremes with respect to any term relating to sustainability. On one extreme, we still see many approaches that claim or at least imply that leading investment opportunities can be identified based on third-party sustainability ratings. On the other extreme, we have seen certain U.S. state lawmakers try to *criminalize* the assessment of environmental, social or governance issues (see: <https://www.jdsupra.com/legalnews/new-hampshire-legislators-propose-laws-1088831/>). Many companies,

politicians and lawmakers that are closely tied to industries that have been vilified by misguided sustainability approaches justifiably believe these sustainability approaches have wrongfully targeted them. Therefore, the natural reaction can be to label anything sustainability-related as bad.



Can We Agree on *Business Sustainability*?

Terms like sustainability matter because they overlap with terms like quality and durability. These characteristics are central to what we focus on as investors. We have always believed the best path as investors is to focus on what we consider to be the least disruptable businesses with the most enduring innovation. It is based on our belief that risk can be managed more effectively by avoiding business disruption within the portfolio. It is difficult to have a view on business quality without having a view on *business sustainability*. Given our ethos as investors, we like to share our views and rationale in areas that we believe are within our core competencies.

After studying this area for many years, we have developed the following sustainability principles:

1. We do not believe the acronym “ESG” is helpful. It has no meaning without clear definitions for what is meant by each of these letters and why. This acronym has led to great confusion among investors, asset owners, lawmakers, regulators, and companies alike. Everything or nothing can be an “ESG issue” depending on how you define each of the letters. The acronym is simply too broad and has too few acceptable standards.
2. We are happy to use terms in this area that are real words, have actual definitions, and have logical connections to investing. This includes business sustainability, or a business’s ability to maintain its strength over long periods. Every business and investor should have an interest in this type of assessment.
3. Related to the prior point, if you are investing, your approach to anything with the word sustainable in it should connect to investing. This means it should be an approach that can protect invested capital over time and allow that capital to grow at satisfactory returns over time. If your approach is not designed to do this, it is not an investment approach. It could be a charitable approach, which is great, or speculation depending on what it is. We are investors at DENMARK. We believe a company is best positioned to deliver satisfactory returns for its shareholders if the company delivers at high levels over time for its key stakeholders like the customers,

employees, and shareholders it was built to serve. Shareholder returns are generated through compound free cash flow per share growth, which is enabled by delivering for stakeholders at a high level over many years.

4. Determining whether a business is sustainable should be objective and based on sound business analysis. The businesses we are investing in were not built to serve our personal interests or moral compasses. Instead, they were built to serve much larger groups of consumers, employees, and others that can have varied and nuanced interests and values. It requires experienced business analysts who have the tools to understand these stakeholder interests and then assess how companies are delivering for these stakeholders based on what *they* (not us) are looking for. We believe people are smart and will ultimately vote with their feet if products are not adding the value they desire and are instead destined to “kill us all.”
5. Relatedly, assessing a business’s sustainability should be stakeholder centric. The definition of “sustained” is “maintained at length without interruption or weakening.” For a business to be highly sustainable or maintained at great length for the key stakeholders it was built to serve, there are many issues that need to be understood. These issues range from customer and employee-related issues to certain governance-related issues, to issues relating to the company’s scope of influence or reach, to issues relating to competitive advantages.
6. We believe any approach to sustainability or terms like it must be focused on the *long-term* sustainability of the business. To determine whether a business can maintain its strength, both today and well into the future, we must understand the company’s long-term competitive advantages. Failure to assess this greatly increases the risk of investing in companies that are not going concerns. Companies that are not going concerns will not prove sustainable for anyone involved.

Summary Thoughts

When the dust settles over the next several years, we believe sustainability and terms like it will be viewed as synonyms for quality. Just like the term “quality,” there is room for a range of interpretations. However, the range is currently too wide, with too many interpretations missing the mark. This has led to confusion and flat-out frustration in many cases. We have no doubt that most generally accepted interpretations of these terms in the investing context will eventually need to connect to careful business diligence across a wide range of stakeholder issues and an expectation for strong risk-adjusted investment returns.



Legal Disclaimer

The information herein is not intended to provide, and should not be relied upon for, accounting, legal, or tax advice or investment recommendations. You should consult your tax, legal, accounting or other advisors about the matters discussed herein.

PAST PERFORMANCE IS NOT INDICATIVE OR A GUARANTEE OF FUTURE RESULTS. This document may present past performance data regarding prior/other investments, funds, and/or trading accounts managed by DENMARK Capital Management LLC. This is presented solely for explanatory purposes. The Fund may face risks not previously experienced or anticipated by the General Partner, and therefore, prospective investors should evaluate the Fund on their own merits.

Certain information contained in this document constitutes “forward-looking statements” which can be identified by use of forward-looking terminology such as “may,” “will,” “target,” “should,” “expect,” “attempt,” “anticipate,” “project,” “estimate,” “intend,” “seek,” “continue,” or “believe” or the negatives thereof or other variations thereon or comparable terminology. Due to the various risks and uncertainties, actual events or results in the actual performance of the fund may differ materially from those reflected or contemplated in such forward-looking statements. DENMARK Capital Management LLC is the source for all graphs and charts, unless otherwise noted.

This document may also present “sample holdings” or “case studies” of a type of asset(s) the fund may invest in or are expected to be typical of its holdings. Such “sample holdings” are not currently holdings of the fund and are presented solely for explanatory purposes.