

Responsible Investment Policy

The incorporation of Environmental, Social and Governance (“ESG”) factors at Cardano

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Cardano

Cardano is an investment adviser and manager to institutional clients and has offices in the UK and the Netherlands

Cardano builds return seeking and hedging portfolios with a diverse set of exposures through the use of a range of commodity, rates and index derivatives, bonds and funds. Therefore we do not undertake direct investment in equities. In the UK we carry out research on managers of investment funds to recommend to our clients and / or include in Cardano managed portfolios. In the Netherlands, a range of bonds are incorporated into LDI portfolios including some intended to further ESG objectives. As such, our ESG activity is focused on and embedded into our manager research in the UK and bond selection in the Netherlands

Cardano

Cardano believes that incorporating Environmental, Social and Governance factors into the assessment of the sustainability of business models produces better investment outcomes and helps manage reputational risks to investors

We look to promote awareness of ESG factors amongst clients, trading counterparties and issuers

While we consider ESG factors when evaluating investment opportunities, we view responsible investment as continuously evolving, requiring long term commitment and engagement

Cardano is a signatory of the UN PRI. ESG factors are not relevant to some of the instruments that we trade, however we refer to the UN PRI to help us build our ESG framework and continuously monitor industry updates, and review how we can incorporate the best practices in our framework for manager selection

Cardano has published its UK Stewardship Code Compliance Statement on its website and is considered a tier 1 signatory by the FRC as a firm that has demonstrated commitment to stewardship

What is Responsible Investment?

Responsible Investment (“RI”) is the understanding and incorporation of Environmental, Social and corporate Governance (“ESG”) factors into investment decision making to achieve better risk adjusted returns

Environmental considerations on returns

- Taking into account the exposure of a companies’ business model and reputation to changes in trends, demand and regulation due to environmental factors

Social considerations on returns

- Considers how a Company manages relationships with its employees, suppliers, customers and the communities where it operates

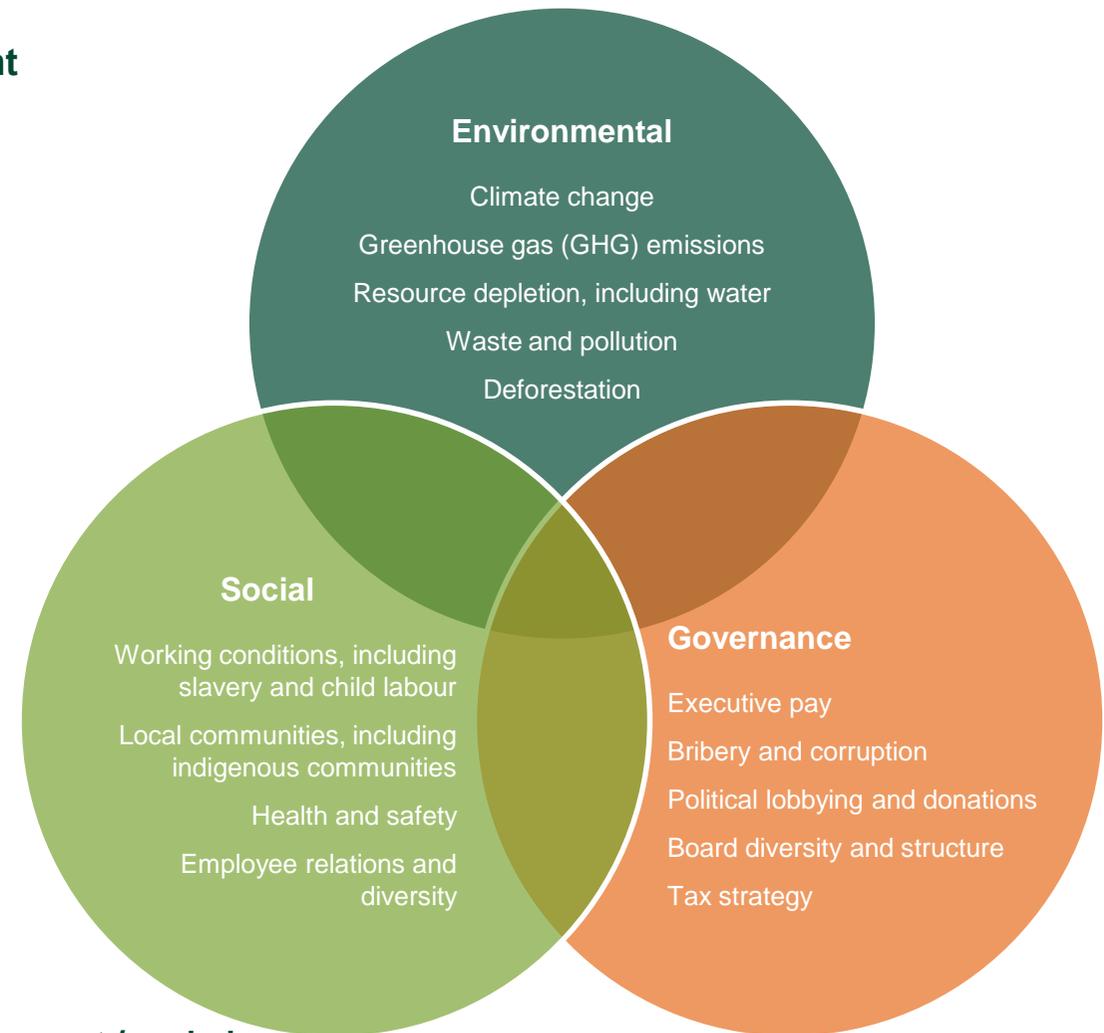
Corporate Governance considerations on returns

- Looks at how returns could be impacted by a Company’s leadership, executive pay, audits and internal controls, and shareholder rights

The graphic opposite sets out some of the common elements considered when looking at ESG

ESG factors may also be used by some asset managers to screen out / exclude investments that are not socially or ethically acceptable to the investor. This is referred to as ethical investment and is appropriate for those willing to accept lower returns

Example of ESG factors examined:



Why implement Responsible Investment?

There is a growing consensus that ESG factors affect the performance of companies

Studies suggest that long-term performance advantages can be gained from integrating ESG into the investment process

Incorporating ESG as part of the investment process helps to mitigate risks and present opportunities resulting in better risk adjusted returns

Management bodies of pension schemes are increasingly required to consider responsible investment and sustainable investment through ESG factors in their decision making. In the future there is likely to be increased transparency with public disclosure of policies including consideration of the views of members

Cardano works with our clients to understand and incorporate ESG into their investment approach

Why implement Responsible Investment?

Reputation

- ✓ decreased reputational risk to investors through association with / backing of / supporting unethical, exploitative or environmentally unsustainable business practices or regimes

Returns

- ✓ exposure to sustainable business models that minimise the negative impact and are able to create opportunities from change; including regulation, technology, demand
- ✓ effective stewardship drives performance
- ✓ invest in companies that are exposed to lower reputation risk through effective governance arrangements, environmental footprint and impact on society
- ✓ develop a competitive advantage should others fail to recognise the same risks or opportunities

Positive Impact

- ✓ creating positive societal impact or decreasing negative impact
- ✓ effective stewardship drives performance and improved returns and outcomes for all investors

Stewardship

Stewardship is the engagement by investors with investee companies to influence decision making and create value. This can be exercised by equity and debt holders and is an activity undertaken under the Governance or 'G' of ESG

Stewardship provides the opportunity to influence decision making through a range of activity, from shareholder voting to more active engagement on specific issues

Cardano believes that the asset management industry has a duty to engage with companies and achieve better outcomes for all investors. Therefore Cardano encourages all managers to actively engage in stewardship regardless of the strategy being followed

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Cardano Approach to Responsible Investment

We do not impose our own ethical agenda - instead we consider how ESG issues can affect performance

ESG factors are not relevant to some of the instruments that we trade, however we have built a responsible investment framework and continuously monitor industry updates and review how we can incorporate the best practices into our framework

Cardano believes the application of ESG criteria in the assessment of individual companies produces better returns. However, we do not currently invest in funds established on the basis of negative screening using fixed ESG criteria (e.g. excludes specific industries on the basis of social harm or carbon footprint etc criteria) or other ESG driven instruments (such as indices) as we do not believe that these are likely to provide as favourable risk return opportunities as non ESG constrained instruments. However, we keep this position under review

Cardano invests in a range of financial instruments that are either return seeking or hedging. The impact of ESG factors on each varies and is set out below, with a description of the Cardano engagement against each

Asset class	Relevance of ESG	Cardano RI Engagement
Macro orientated	Minimal relevance - Managers typically trade derivatives with little to no exposure directly or indirectly to individual companies	Cardano encourages managers to engage in stewardship where able to do so
Physical Commodities	Relevant – ESG factors will influence supply chains and also demand	Cardano uses derivatives and funds to gain exposure to physical commodities. The impact of ESG factors on the supply and demand of the commodity is considered at outset and monitored. This considers ethical sourcing criteria such as the application of international standards, as well as environmental considerations

Cardano Approach to Responsible Investment

Asset class	Relevance of ESG	Cardano RI Engagement
Property	Relevant	<p>Cardano will consider the jurisdiction and structure of the property manager and vehicle, and also the property type and strategy of the vehicle to assess and manage reputational and other risks that mainly reflect the social / 'S' factors. Depending on the specific exposures of the fund, environmental factors may also be considered</p>
Equities	<p>Most relevant – ESG factors can be considered and active stewardship engaged in</p> <p>ESG factors will be more significant for the managers that follow a long term buy and hold strategy</p> <p>ESG factors will have less significance for passive exposure, but ESG may be considered in the selection of an index</p>	<p>Cardano does not invest in equities directly but does use investment managers that are subject to our managers research process. This process considers ESG factors tailored to the scale and strategy of the manager through:</p> <ul style="list-style-type: none"> • Consideration of managers' ESG policies • Consideration of ESG factors specific to each fund • Signatory / certification standards through consideration of external codes and other public disclosures that Cardano can access, such as the UNRPI • Engagement with managers on their stewardship activity including monitoring of voting activity <p>All managers are assigned an ESG rating</p> <p>Cardano may also gain exposure to equities through derivatives based on indices. Cardano will not ordinarily consider ESG risks of equity indices and mainly invests in the more well known indices. The constituents of these indices provide diversification in terms of business model, global footprint and sectors and therefore ESG risks will also generally be diversified. However, Cardano will consider particular sector weightings in selecting an index (e.g. S&P 100 v S&P 500).</p>

Cardano Approach to Responsible Investment

Asset class	Relevance of ESG	Cardano RI Engagement
Credit	Relevant - ESG factors may impact on the performance of the corporate bond portfolio, higher ESG performing companies may default less	<p>Exposure is usually gained through funds</p> <p>Activity focuses on the jurisdiction and structure of the manager and their strategy, to manage return and reputational risks</p> <p>See also LDI - NL</p>
LDI - UK	Least relevant, particularly where the underlying assets are government issuers, rates and index derivatives, corporate credit is typically not managed as part of LDI	No ESG factors are considered. These are mainly hedging investments, the rates and indices used reflect the liability exposure being hedged
LDI - NL	Least relevant, particularly where the underlying assets are government and government-related issuers, rates and index derivatives, corporate credit is typically not managed as part of LDI	Despite low relevance, ESG factors are considered. Investments with higher ESG rating can help achieve hedging goals

Cardano's Manager Research Process

Each manager subject to the Cardano manager research process* is assigned an ESG rating. The ESG rating for each investment is an ongoing measurement held in our internal systems

Each UK client receives a manager monitoring report, which includes an ESG rating for each external fund manager

We rate the ESG activity of external fund managers for both the advisory and delegated solutions on a scale from 1 to 5 against their strategy best practice

- A rating of 1 indicates that the manager has no ESG policy and is not considering implementing one in the future
- A rating of 5 indicates that the manager has a strong ESG policy in place which is firmly integrated into their research and decision-making processes

However, these scores are also affected by how relevant ESG is to their strategy

- For example, none of our macro managers have ESG policies in place but score a 3 as it is not so relevant to their strategy
- This is because they rarely have any exposure either directly or indirectly to individual companies

* excludes money market funds and ETFs

Cardano's Manager Research Process

Selection of Managers

Integrating our RI framework into our manager selection and monitoring process is a responsibility shared by all members of the Manager Research Team

- **Cardano will request and review all new managers RI policies as part of the due diligence process, including UNPRI transparency reports**
- **While we consider ESG factors when evaluating new managers during our due diligence stage, we view RI as a continuously evolving issue that requires long term commitment and engagement**
- **We don't believe there is a one-size-fits-all framework, therefore whilst we recognise the benefits of becoming signatories of industry recognised standards, we value the manager's commitment and engagement to a RI framework that fits around their business**
- **A manager that doesn't have a robust RI policy in place at the time of our initial due diligence will not necessarily be eliminated from our investment process. We will consider their scale and nature of their specific strategy**
- **We look to promote awareness of RI and encourage managers' commitment to RI**

Cardano's Manager Research Process

On review of a managers RI policies, we typically ask a number of questions depending on the asset classes that they invest in. These include:

Equity

- Do you set objectives for responsible investment activities?
- Provide a brief description of your organisation's governance, management structures and processes related to responsible investment.

Private Equity

- Do you track the proportion of your portfolio companies that have an ESG / sustainability-related policy?
- Do you consider ESG issues at exit and indicate whether your organisation discloses information on ESG issues to potential buyers prior to exit

Credit

- Does your organisation incorporate ESG issues in the investment process?
- Do you set objectives for responsible investment activities?

Property

- Indicate the proportion of active property developments and refurbishments where ESG issues have been considered.
- Indicate the proportion of leases signed during the reporting year that used green leases or the proportion of Memoranda of Understanding (MoUs) with reference to ESG issues.

Macro / Commodities / Multi

- Does your organisation incorporate ESG issues in the investment process?
- Provide a brief description of the ESG information used, highlighting any differences of sources of information across your ESG incorporation strategies and across asset classes.

Cardano's Manager Research Process

Monitoring of Managers

Cardano will work with the manager to understand the benefits of active engagement in responsible investment to improve risk and returns, as well as the benefits for all stakeholders of engagement in wider ESG activity

Where significantly accretive:

- A monitoring questionnaire is sent out to investment managers annually to cover any relevant change to policies and to monitor their engagement
- Our monitoring questionnaires are tailored to the strategy of the manager, and where appropriate Cardano will challenge where managers are not considering ESG factors as expected, or not producing the expected value
- ESG considerations are reviewed together with other risk assessment tools to provide a comprehensive review and rating for our managers

Cardano NL LDI ESG process

Cardano NL is an investment manager of LDI assets for institutional clients. RI impact is expected to be relatively light compared to other balance sheet items. However, we acknowledge the impact that ESG factors have on investment outcomes in LDI

We do not impose our own ethical agenda - instead we consider how RI can affect the overall performance of the investment

- Cardano NL operates and regularly updates an investment policy incorporating ESG factors.
- As part of the investment process set out in the investment policy, portfolio managers are asked to be aware of the ESG-rating assigned to an investment
- As we have identified LDI to have little impact on RI, we rate investments as a default 3
- Issuers that promote ESG, e.g. green bonds, social bonds or bonds issued by development banks can be rated higher
- While we consider ESG factors when evaluating investment opportunities, we view RI as continuously evolving, requiring long term commitment and engagement.

The Future

There are several developments at local and EU level that will be placing new responsibilities on pension schemes and other market participants. Most changes will be extensions of current obligations and are being driven under a responsible investment or sustainable investment agenda

The main drivers of the developments at the international level are the 2016 Paris Agreement on Climate Change and the UN 2030 Agenda for Sustainable Development

The resulting developments have the following themes:

- Investing by pension schemes reflecting scheme member views
- Increased transparency ('non financial reporting')
- Greater stewardship

Cardano's approach to responsible investment and commitment to transparency means that we are well placed to support our clients comply with their own internal responsible investment agenda and also the evolving regulatory environment, and to take advantage of developments in financial markets and instruments

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