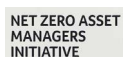




CARDANO SUSTAINABLE INVESTMENT POLICY

Signatory of:
 **PRI** Principles for Responsible Investment

 **Climate Action 100+**

 **NET ZERO ASSET MANAGERS INITIATIVE**

 **DIVERSITY PROJECT**

 **IIGCC**
The Institutional Investors Group on Climate Change

 **The Green Bond Principles**

 **The Social Bond Principles**

 **PCAF**
Partnership for Carbon Accounting Financials

 **UN GLOBAL COMPACT**
The United Nations Secretary-General's initiative to promote sustainable development

 **cardano**

CONTENTS

Introduction	3
Why are we sustainable investors?	3
How do we define sustainable investment?	3
How do we focus our efforts?	4
How have we structured the Sustainable Investment Policy?	4
About the Cardano Group	4
Our Sustainable Investment Beliefs	5
Our understanding of sustainable investment	6
What's Cardano's approach?	6
How do we balance risk, return and real-world impact?	7
Our approach to collaboration and our membership of sustainable investment organisations	8
How we apply sustainable investment in practice	9
General principles	9
Liability Driven Investment	11
Derivative Overlay	11
Multi-asset	11
Alpha	12
The UN SDGs, climate change and human rights	14
The UN Sustainable Development Goals	14
Climate Change	15
Fairer Society and Human Rights	15
Stewardship and policy engagement	16
Stewardship	16
Policy engagement	17
Sustainability oversight	17

Introduction

Why are we sustainable investors?

Sustainability has always been at the core of our culture and how we run our business. We approach sustainability from first principles. We are sustainable investors because it is the right thing to do.

Cardano's clients are overwhelmingly pension schemes. Their members and beneficiaries represent a broad swathe of society in the UK and Europe across industries, income levels, age groups and cultural and ethnic backgrounds.

The youngest members of these schemes may be over 50 years away from retirement. Many of them will have families who will live into the next century. We believe that our clients' members and their dependents should enjoy a quality of life similar to or better than that possible at present. This should be in a sustainable and less polluted environment within a fairer society where they can enjoy financial security.

We believe we can contribute to achieving this in the way we invest and manage their assets. Sustainable investment is core to our corporate values and is right for our business, our society and our world.

We believe there are additional compelling reasons to invest sustainably, including:

- Better risk-adjusted returns
- Identifying new investment opportunities
- Anticipating and preparing for sustainability-related policy and regulation

We believe that sustainable investing can contribute to more sustainable capital markets – and a more sustainable world. We focus our resources where we are passionate, knowledgeable and can have an impact. The real-world impacts we have prioritised are:

- The climate crisis, including net zero carbon emissions by 2050 in-line with the Paris Climate Agreement

We are sustainable investors because it is the right thing to do.

- promoting a fairer society
- sustainable emerging market development

Our Sustainable Investment Policy sets out our approach.

How do we define sustainable investment?

Cardano has always embodied a sustainable mindset and policies. We use the following definitions of sustainability and stewardship taken from the United Nations Bruntland Commission and the UK Financial Reporting Council to inform our approach.

- Sustainability is meeting the needs of the present without compromising the ability of future generations to meet their own needs¹
- Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and stakeholders, leading to sustainable benefits for the economy, the environment and society²

When we think of sustainability impact through the lens of investment, we think both of our generation's needs, and those of future generations. As such, we define sustainable investment as follows:

- Sustainable investment generates positive real-world impact and / or reduces negative real-world impact, while seeking to maximise risk-adjusted returns over the long-term, leading to sustainable benefits for the economy, the environment and society. We define real-world impact as meeting the needs of the present without compromising, and indeed seeking to support, the ability of future generations to meet their own needs

¹United Nations Bruntland Commission

²UK Stewardship Code: <https://www.frc.org.uk/getattachment/975354b4-6056-43e7-aa1f-c76693e1c686/The-UK-Stewardship-Cod-Review-of-Early-Reporting.pdf>

How do we focus our efforts?

Cardano recognises the importance of sustainability – but also the challenges involved in ‘doing it well’. We continue to develop and evolve our policies to reflect sustainability challenges. This reflects the evolution of our thinking on sustainability and the changes underway in the financial services sector, and society more broadly.

We focus our resources where:

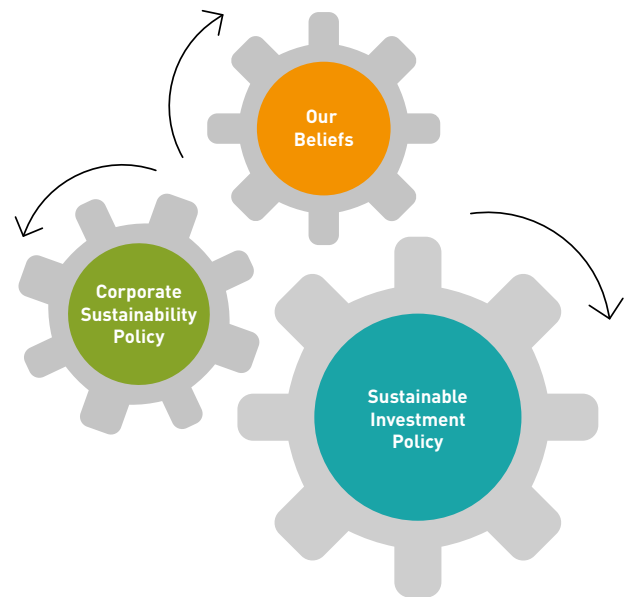
- we are passionate
- we are knowledgeable, and
- we can have an impact

That said, all of our investments will be subject to minimum sustainability requirements.

How have we structured the Sustainable Investment Policy?

Our Sustainable Investment Policy is informed by our Sustainable Investment Beliefs and our Corporate Sustainability Policy – and vice versa. All three have been developed in conjunction. Our Beliefs focus on what we believe and why. Our Policies set out how we do it. The Corporate Sustainability Policy relates to our business [\(and can be found here\)](#). The Sustainable Investment Policy relates to our investment portfolios. The two policies are consistent but have a different emphasis.

Fig 1. Our beliefs and policies



Our Sustainable Investment Policy is structured as follows:

- A summary of our six sustainable investment beliefs
- Our understanding of sustainable investment
- Our approach to collaboration and our membership of sustainable investment groups
- How we apply sustainable investment in practice
- Our focus on impact, including how we understand the UN Sustainable Development Goals (SDGs), climate change and human rights
- Our approach to stewardship and policy engagement
- Governance and sustainability oversight

About the Cardano Group

Founded in 2000, the Cardano Group is a privately-owned, purpose-built risk and investment specialist. We are widely recognised as a market leader in the provision of specialised services to private-sector and collective pension schemes in the United Kingdom and the Netherlands. Our c. 350 professionals strive to deliver better and more secure financial outcomes: stability in an uncertain world.

We published this policy in March 2021. We are on a sustainability journey – our approach will evolve as our understanding of science, technology and corporate and investment practice evolves. As such, we will update this policy periodically to ensure we’re at the forefront of thinking on sustainability issues.

Fig 2. Our purpose story



Our Sustainable Investment Beliefs

We have adopted the following Sustainable Investment Beliefs:

1. The assessment of both Environmental, Social and Governance risk and return factors (ESG factors), and real-world impact is essential to all investment decisions.
2. We will invest in sustainable investments. We will be active owners and stewards of all our assets. We will prioritise real-world impact in our engagement activities.
3. The transition to a more sustainable world economy is a journey that will evolve. The real-world impact of our portfolios should be measured. We will set ambitious sustainability targets. Our real-world impact agenda will be focused where we can be most effective.
4. The United Nations Sustainable Development Goals (SDGs) form a good basis for defining real world impact. For Cardano, areas of particular focus where we can be most effective and which contribute to the UN SDGs are:
 - a. We support the Paris Climate Agreement of aiming to limit global warming to +1.5°C versus preindustrial levels. We do this by committing our investment portfolios to net zero carbon emissions by 2050, with ambitious interim targets.
 - b. Fairer Society: We support the ideals of western liberal democracies. We respect and support human rights globally and seek to fight against human rights abuses. We will look for ways to improve societal outcomes in the UK and the Netherlands, promoting diversity and inclusion and enhancing the wellbeing and financial security of our clients' beneficiaries and their families.
 - c. Sustainable Development of Emerging Markets: We support the sustainable development of nations in the emerging world, who are most vulnerable to the effects of climate change transition and where impactful change can be most meaningful, in close alignment with the objectives of Cardano Development.
5. The transition to a more sustainable global economy will create many attractive investment opportunities. As such, sustainable investment is consistent with, and core to, maximising risk-adjusted returns.
6. Careful portfolio construction and employing an economically balanced risk allocation complements our sustainable investment beliefs and mitigates some of the factor risks that may arise when investing sustainably.

In our Sustainable Investment Beliefs we provide further explanation of and rationale for our beliefs.



Our understanding of sustainable investment

What's Cardano's approach?

We integrate ESG risks and opportunities and real-world impact across all our investment decisions.

We do so for the following reasons:

- **Better risk-return:** The incorporation of ESG issues leads to superior risk-adjusted returns³. ESG-related analysis assists investors to identify value-relevant factors undetected by financial-only analysis, such as the resilience of a company's supply chains to weather events. Institutional investors also face a number of ESG-related systemic risks, such as the transition risk caused by climate change. For example, the risk that changing government regulation imposes a cost for greenhouse gas emissions on polluting businesses. This could substantially challenge the viability of certain businesses and affect the investment rationale for particular asset classes, sectors, industries and geographies.
- **Identifying new investment opportunities:** By understanding real-world sustainability impact in investment decision-making, we can better identify and assess the investment opportunities associated with the transition to a more sustainable world.
- **Consistent with our clients' objectives:** It's reasonable to assume that savers and members would like to spend their retirement in a world that is no more polluted and no less environmentally sound than the present, with a fairer society and financial security. It seems to us consistent with the objective of providing members with a pension, that they should also be able to enjoy that pension.
- **Policy and regulation:** Policymakers in the UK and EU are increasingly focusing their attention on sustainability. This will undoubtedly continue in the months ahead and following the annual UN climate meeting, COP 26⁴, in Glasgow in November 2021.
- **Real world impact:** At Cardano, we believe that sustainable investing can contribute to more sustainable capital markets – and a more sustainable world. Within our risk-return objectives, sustainable investing directs capital towards economic activities that help us meet global sustainability goals.

Policymakers in the UK and EU are increasingly focusing their attention on sustainability.

³A comprehensive database of ESG-related academic literature can be found [here](#).

⁴<https://ukcop26.org/>

How do we balance risk, return and real-world impact?

We believe that, on average, more sustainable investments will have lower long-term risk profiles and higher quality growth characteristics compared with less sustainable investments. This improved risk/reward profile will, in time, be recognised by the market, reducing the cost of capital for these investments and conferring an ongoing competitive advantage. Sustainable investing can therefore produce at least as good of a risk/reward profile as a non-sustainable approach, and in many cases a superior outcome.

We will adopt a sustainable 'portfolio level' approach. Where we manage portfolios we will permit them, subject to minimum standards, to hold some assets that may detract from our objectives on one of these dimensions (risk, return or real-world impact), whilst potentially adding in another dimension, provided that the portfolio as a whole is on the right path and progressing in line with targets.

In exactly the same manner that some investments are judged to be too risky irrespective of the returns that they offer, some categories of investment will likewise be judged to have a too negative real-world impact.

For this reason, we will transition towards a policy of divestment, in line with clearly defined and identifiable parameters. By way of example, in 2020, we divested from fossil fuel-related direct commodity investments. Whenever constructing a portfolio there are trade-offs to be made, and we will make trade-offs between risk, return and real-world impact. For example, there may be investments that have lower returns and high positive real-world impact, that provide a high diversification benefit.

In practice, real world impact will be a primary screen for new investments being considered for portfolios, assessed on an equal footing with the investment's risk and return characteristics. Where we work with clients in an advisory capacity, we will use our knowledge and experience to support them in making their own judgements on these trade-offs.

Whenever constructing a portfolio there are trade-offs to be made...

Fig 3. Positioning Cardano's approach within the sustainability landscape



Our approach to collaboration and our membership of sustainable investment organisations

Collaboration is efficient and effective. It allows us to benefit from external expertise, and we of course contribute our expertise where appropriate to do so.

We see collaboration as part of the way we can contribute to a more sustainable financial system. By coalescing around common themes and methodologies, we send clear messages to the companies we own – and to our regulators. Collaboration allows for a faster, smoother transition.

As such, we are members of a range of sustainable investment organisations, including:

- PRI - UN Principles for Responsible Investment
- UN Global Compact
- NZAMI - Net Zero Asset Managers Initiative
- Climate Action 100+
- ICMA - International Capital Market Association
- IIGCC - The Institutional Investors Group on Climate Change
- PCAF - Partnership for Carbon Accounting Financials
- ICSWG - Investment Consultants Sustainability Working Group
- The Diversity Project
- TCFD supporter

Joining these organisations is a first step. We will participate in working groups, contribute our expertise where appropriate, and listen to and learn from others. We do this across the business so that our sustainability expertise is widely embedded across our investment, manager research, LDI and client teams. In addition, we encourage and assess our third-party managers on their participation in relevant sustainable investment organisations.

We strongly believe in collaboration.

We participate in a number of working groups, including IIGCC's investment practice workstream, PRI's policy and regulation workstream, PCAF's sovereign bonds workstream and the ICSWG's asset management and stewardship workstreams. We are supporters of the IIGCC Paris Aligned Investment Initiative and will be reviewing IIGCC's and the UN Asset Owner Alliance net zero frameworks to support our own net zero objectives.

We are a signatory to the UK Stewardship Code, and we support the aims of the UK's green finance strategy and the EU's sustainable finance action plan. We welcome policy intervention on sustainable investment topics, and we will contribute to policy development where we have expertise.

We will review our membership of sustainability organisations on an at least six-monthly basis to consider how and where we can best contribute and whether we should consider additional organisations as our sustainable investment activities evolve.

How we apply sustainable investment in practice

General principles

Cardano works with clients in a number of different contractual ways: Fully delegated management contracts (such as fiduciary management, or integrated LDI management), advisory plus execution contracts (where we advise and then manage the underlying assets ourselves), execution only contracts (where our clients directly instruct us what to do), and advisory contracts (where we advise clients on portfolios that are managed by third party asset managers).

Whilst we believe all clients can benefit from adopting a sustainable approach and can leverage our expertise in this area, ultimately advisory clients will determine their own path. Where we manage investments, they will all be subject to sustainability requirements. Our approach is:

- **Investment-led:** Our sustainability project is led by our investment team and our sustainability steering committee is chaired by our UK CEO
- **Grounded in science:** We're building out our work on climate change scenarios. We will be led by the latest available science

Led from the top: Our Management Board is driving our approach to sustainability

- **Impactful:** We're focusing on where we can make the most impact – and we're already delivering. For example, we've ended our direct commodity exposure to oil and gas
- **Integrated:** There are over 30 sustainability champions delivering our sustainability goals. We're also working closely with our foundation, Cardano Development, to define and measure real-world impact
- **Led from the top:** Our Management Board is driving our approach to sustainability
- **Ambitious:** Our investment activity seeks to address the climate crisis, build a fairer world and support sustainable development in emerging markets

Fig 4. The following – and ongoing – five-part process guides our approach to sustainability investment

Step	Process
1. Research and education	<p>We are constantly undertaking research across sustainable investment themes, for example, from how the findings of the IPCC report will affect investment practice, to how to apply sustainability issues to derivative instruments, to which third-party managers have innovative sustainability practices.</p> <p>Our sustainability expertise is embedded across the firm through 30 sustainability champions, each responsible for contributing towards our sustainability goals.</p> <p>We undertake monthly sustainability-related education and training for our sustainability champions. We also provide ongoing sustainability-related briefings for our clients.</p>
2. Assessment and selection	<p>We have rigorous processes in place to assess the sustainability of our current and potential investments. Our primary data source is MSCI ESG and Climate Scenario analytics, which we use to assess the sustainability of our own investments and those of our managers.</p> <p>When we select investments, we seek to maximise positive real-world impact and minimise negative real-world impact.</p> <p>Our approach is to work with third-party managers to support them to improve their sustainability performance. That said, if managers do not make the progress we expect, we may reconsider our investment. We also hold new managers to higher expectations on sustainability to improve the overall sustainability performance of our portfolios over time.</p>
3. Monitoring	<p>We are continually monitoring the sustainability performance of our investments. We have ended our direct oil and gas commodity exposure. We will continue to allocate to higher performing sustainability investments through the natural life-cycle of our investment activities. We will establish a framework to decarbonise our portfolios consistent with our commitment to be net zero emissions by 2050 as set out in the Paris Climate Agreement.</p> <p>For third-party managers, we have aligned our annual survey with the UN PRI's reporting and assessment framework. We assess every investment strategy on its approach to ESG issues.</p>
4. Stewardship and policy engagement	<p>We are a signatory to the UK Stewardship Code and a member of Climate Action 100+. We expect managers to engage the companies they own, to vote and to report back to us on their stewardship activities. We set out our approach to stewardship below.</p>
5. Reporting	<p>We will report on our sustainability activities on a regular basis, through the sustainability pages on our website, and our regular client and third-party evaluator reporting.</p>

We provide more details in the follow pages on our approach, focussing primarily on portfolios we have responsibility for managing. That said, we apply the same mindset to our advisory work so provide some comment on where this is relevant for our advisory portfolios as well.

Liability Driven Investment

Typically internally managed for delegated and execution mandates and externally managed for advisory clients.

The objective of our LDI portfolios is to closely match the financial characteristics of our client's liabilities. The aim is to do this as safely as possible with high-quality fixed income assets. Bonds and derivatives are selected that most closely reflect the liability benchmark. A significant majority of these portfolios are held in Euro, UK and US government bonds, as well as other high-quality fixed income bonds and money market funds.

The key considerations for sustainable liability driven investments are as follows:

- **First**, sustainable bonds suit liability driven investment. We favour green, social or sustainable assets where the proceeds are invested in green or social objectives, which are independently verified, and where we can source at acceptable yields in both new issuances and secondary markets. We also assess the ESG rating of the issuer. We do this using MSCI and Bloomberg ESG analytics
- **Second**, where we are entering into a derivatives transaction, we undertake an internal assessment of the ESG rating of the counterparty. If the counterparty does not meet our and/or the client's minimum ESG standards we will not trade with that counterparty
- **Thirdly**, as a significant investor in sovereigns and sovereign-related entities, we engage with national policymakers and regulators, including debt management offices on sustainability issues, such as about TCFD reporting

We will support – and proactively offer – client solutions should they wish to further pursue impact investing in their liability driven investment portfolios.

Where we use or recommend external managers for LDI services (e.g. for advisory clients), we look for them to provide similarly sustainable approaches, which we rate and review on a regular basis.

Derivative Overlay

Internally managed for delegated and execution mandates and externally managed for advisory clients.

The objective of our overlay portfolios is to hedge certain financial risks. This is done with over-the-counter (OTC) derivatives. When doing so, we assess the ESG rating of the counterparty. If the counterparty does not meet our minimum ESG standards, or the ESG standards of our clients, we will not trade with that counterparty.

We also advise many of our clients on derivative overlay structures and we can draw on the same ESG expertise to assist them in determining their own standards.

Multi-asset

Internally managed for delegated clients.

Cardano manages part of our return seeking portfolios internally – our multi-asset beta strategy.

These assets are invested in a range of instruments, largely:

- Derivatives, including futures, options, swaps and forwards
- Bonds
- Exchange Traded Funds
- Third-party collective investment schemes
- Cash

We invest in high-quality corporate bonds which are subject to direct analysis of their ESG credentials. No single name equities are invested on a direct basis. Where we use Exchange Traded Funds and Third-party collective investment schemes, these are subject to the same stewardship and governance requirements as we set out in the Alpha section below.

We will assess and monitor investments closely on sustainability criteria as follows:

- **Equity:** We will invest to support the low carbon transition, with an emphasis on stewardship across our sustainability priorities

- **Credit:** We will invest to support the low carbon transition, with an emphasis on sustainability considerations in asset selection
- **Inflation:** We do not invest in direct commodity-related fossil fuel exposure
- **Recession (government bonds):** We will apply our sustainable bond framework to our fixed income asset selection

In addition, we will explore the use of sustainable derivatives through the course of 2021 and will publish our analysis as we go.

Alpha

Externally managed for delegated and advisory clients.

Our approach encompasses all investment strategies. However, we recognise that ESG issues have a greater impact on some investment strategies than others and that some managers are able to exert a higher degree of influence and engagement than others.

For example, managers investing directly in single name equities and credit will have greater focus than managers investing synthetically through derivative instruments. That said, minimum standards will apply to all managers. We therefore divide investment strategies into high and low focus as follows:

Focus	Example Strategies
High	<ul style="list-style-type: none"> • Equity and credit strategies • Private equity • Property
Low	<ul style="list-style-type: none"> • Derivatives-based strategies/LDI • Highly diversified strategies • Systematic trading strategies

Next, we assess managers across four areas:

- **Policy** – does the manager have a sustainable investment (or equivalent) policy in place, what's included in the policy and how is it implemented
- **Integration** – does the manager integrate ESG issues in investment decisions, are ESG issues integrated throughout the investment life-cycle, and is the manager prepared to exit an investment if the asset does not meet ESG-related expectations
- **Engagement** – does the manager engage the investee companies on ESG issues, is the manager a signatory to a stewardship code (or equivalent), and how has the manager voted on ESG issues?
- **Reporting** – does the manager report on ESG issues, does the manager report on climate-related metrics, such as greenhouse gas emissions, and does the manager disclose (or intend to disclose) against the TCFD recommendations?

Based on our assessment we score the manager:

Scoring across policy, integration, engagement and reporting

Strong
Good
Standard
Weak

Finally, we assess the progress a manager is making, adding a momentum score:

Momentum	Definition
↑	Manager is making changes to enhance their ESG capabilities
=	Manager is not taking action to materially improve their ESG capabilities

Fig 5. We continue to engage the manager through the lifecycle of the investment. For example:

Manager Example 1	Manager Example 2	Manager Example 3
Before engagement: <ul style="list-style-type: none"> • Not a UN PRI signatory • Tier 2 Stewardship status (not always transparent around voting practices) & standard proxy voting • No written ESG policy and few portfolio examples given 	Before engagement: <ul style="list-style-type: none"> • No written ESG policy • Few portfolio examples given 	Before engagement: <ul style="list-style-type: none"> • Not a UN PRI signatory • No written ESG policy
After engagement: <ul style="list-style-type: none"> • Stewardship Rating improved to Tier 1 Status (good level of transparency around voting) • Formal written ESG policy issued • Multiple examples provided of ESG factors being accounted for in portfolio decision-making • Considering UN PRI signatory status 	After engagement: <ul style="list-style-type: none"> • Introduced a comprehensive ESG policy • Rolled out training across the team • Created central oversight via executive committee • Multiple examples provided of ESG issues being accounted for in portfolio decision-making • Established proxy voting committee 	After engagement: <ul style="list-style-type: none"> • Introduced an ESG and sustainability policy • Signed up to UN PRI • Created a sustainable investing committee

We use the same approach for external managers we have advised our clients to appoint, as for those where we have the responsibility for manager selection.

The UN SDGs, climate change and human rights

The UN Sustainable Development Goals

The UN Sustainable Development Goals (SDGs), agreed in 2015, comprise 17 overarching goals, 169 targets and 232 indicators. We believe the SDGs provide the best available framework for understanding real-world impact.

We see clear overlap between the integration of ESG risks and opportunities and the SDGs. We distinguish between the two as follows:

- **ESG issues are associated with risk management.** ESG issues capture the way in which companies and funds are responding to the sustainability transition. The focus is from the outside world to the investment decision: How the sustainability transition affects risk and return

- **The SDGs are associated with real-world impact.** The SDGs set the global goals for society and all its stakeholders – including investors. The focus is from the investment decision to the outside world: How the investment decision contributes to, or hinders, sustainability goals

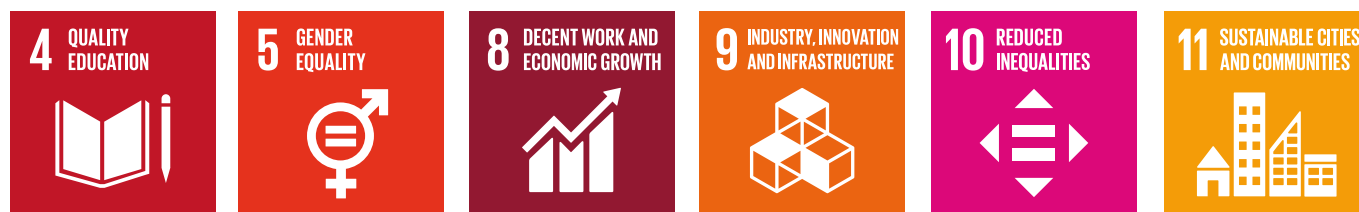
We believe the SDGs provide the best available framework for understanding real-world impact.

We consider all the SDGs to guide our areas of focus. We encourage our managers to use the SDGs as a framework for their investment activities, and to disclose to us on how their investments support the aims of the SDGs. We assign the SDGs which are most relevant to our three priority sustainability objectives as follows:

Climate crisis:



Fairer world:



Sustainable development in emerging markets:



Climate Change

The climate crisis is one of the most fundamental challenges the global economy faces.

The climate crisis refers to global warming and the resulting increase in weather events driven by the emissions of greenhouse gases.

Despite recent momentum, government action to tackle the climate crisis has so far been highly insufficient. Climate change is now a widely established and socialised concept within financial markets – both as a financial risk, due to transition and climate-related risks, and an investment imperative, because the way in which we direct capital will support (or hinder) climate targets.

We support the goals of the Paris Climate Agreement to limit global warming to +1.5C above pre-industrial levels.

- We will have our portfolios consistent with net zero carbon emissions by 2050, with interim goals to be defined in 2021. We will use commitments made by UK and EU policymakers to guide our 2030 target
- We will produce TCFD reporting by the end of 2021, including greenhouse gas emissions metrics and climate change scenarios. We intend to prepare scenarios on a smooth 1.5 degree transition, a disruptive (or inevitable policy response) transition, and a 3 degree transition
- We will support and undertake engagements on related environmental goals on topics such as natural capital, biodiversity, land and water use

Despite recent momentum, government action to tackle the climate crisis has so far been highly insufficient.

Fairer Society and Human Rights

There is a growing visibility and urgency around human rights issues, and the role required from businesses, including their investors.

Human rights have been at the forefront of policy reform in the UK, Netherlands and Europe. We support and respect human rights, and avoid human rights abuses, as such, we:

- Commit to UN Global Compact principles
- Adopt minimum safeguards in our investment activities, including (but not limited to) UN Guiding Principles on Business and Human Rights and OECD Multinational Enterprise Guidelines
- Prioritise diversity and inclusion including, but not limited to, targets on gender
- Undertake a modern slavery assessment, taking mitigating action where necessary

Business and human rights frameworks distinguish between the type of investment activity and use the following terminology:

- “has caused”
- “has contributed to” or
- “is directly linked to” human rights issues

“Has caused” would relate to our own business activities, and we expect this would be low probability for Cardano.

“Has contributed to” would relate to a direct investment (for example, through our LDI or strategy investment). Again, we would expect this would be low probability.

“Is directly linked to” would relate to an external investment, and we think this has the potential to be higher probability, across equity, fixed income, private equity, infrastructure and property funds. As such, we will prioritise our human rights activities on our third-party manager research and oversight.

We will use OECD Multinational Enterprise Guidelines, UN Global Compact and UN Guiding Principles on Business and Human Rights, as well as guidance from the UK Equality and Human Rights Commission and the EU’s do no significant harm and minimum safeguards frameworks. We expect this area of our sustainability journey to evolve in the months and years ahead.

Stewardship and policy engagement

Stewardship

Our preference is to engage (and change behaviour) rather than divest. That said, in the same manner that some investments are judged to be too risky irrespective of returns, some investments will be judged to have too negative a real-world impact, in particular, with regard to systemic issues, such as climate change or respect for human rights.

We are a signatory to the UK Stewardship Code and a member and supporter of Climate Action 100+. While we do not invest in single equities, we do invest in single credits, including sovereigns, and we do have high expectations of our managers' stewardship activities.

Good stewardship can be subjective. We set out our preferences as follows.

- **Quality over quantity** – we're interested in a few meaningful quality engagements, with strong reporting (rather than, being interested in the quantity of votes). We want managers to prioritise the highest sustainability impacts in their portfolios
- **Long-term** – we encourage managers to form long-term relationships with companies. Successful stewardship can take many months, maybe even years
- **Real world impact** – we're interested in engagement on topics that contribute to positive real-world sustainability impact (such as, reduction in absolute carbon emissions)
- **Honesty** – some engagement, perhaps even most engagement, will be unsuccessful. We're realistic, and we'd prefer honesty from managers
- **Collaboration** – engagement is more efficient when managers collaborate – not just for the managers, but for the companies too (who will field fewer, but higher conviction, engagements from their investors). We encourage managers to participate in collaborative initiatives, such as Climate Action 100+
- **Innovation** – we welcome innovation, for example, third-party tools to assess a company's conviction on sustainability topics
- **Integrated** – we're interested in how (if at all) stewardship contributes to the investment thesis and whether managers link their stewardship to other engagement activity (for example, policy engagement)



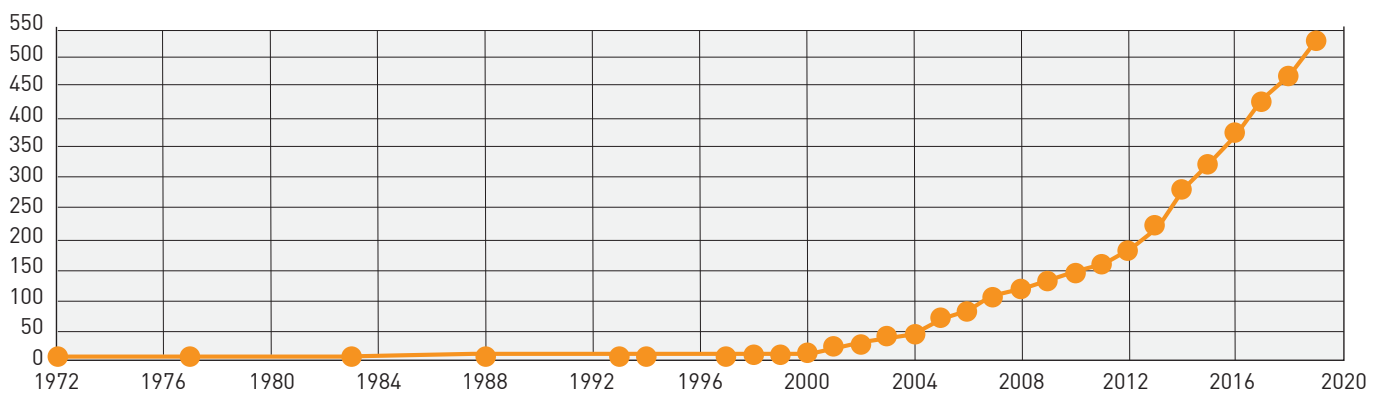
Policy engagement

Over the past few years, there has been a dramatic increase in the attention paid by financial policymakers to sustainability issues. Indeed, analysis by the UN PRI identifies over 730 hard and soft-law policy revisions, which support, encourage or require investors to consider ESG issues across world's 50 largest economies⁵.

Accompanying, and in some markets, leading this change, institutional investors have actively engaged with these policymakers on sustainability issues – including Cardano.

We see policy engagement as a natural extension of our sustainability commitments. We recognise the need to improve the sustainability of the market as-a-whole and that there are clear benefits to us and our clients through well-designed and implemented sustainable investment policy reform.

In particular, we will respond to consultations relevant to sustainable investment in the UK, Netherlands and Europe, and we will offer our expertise and experience where it is appropriate to do so.



Source: PRI responsible investment regulation database

Sustainability oversight

Cardano's Sustainability Steering Committee oversees the continual development and implementation of our Sustainability policies, both for our firm and client portfolios. The Sustainability Steering Committee comprises of:

- **Kerrin Rosenberg** (Chair, CEO of Cardano in the UK and member of Cardano Group Management Board)
- **Keith Guthrie** (Deputy Chief Investment Officer)
- **Karin Pasha** (Partner, Head of Sustainability of the Netherlands)
- **Michael Bushnell** (MD, Employer Covenant)
- **Will Martindale** (Group Head of Sustainability)
- **Ruben Middel** (Project Manager)

Sustainability projects are being carried out by a network of around 30 Sustainability champions distributed throughout the wider firm including Lincoln Pensions and NOW: Pensions. Sustainability projects are included in individual and team objectives and form part of year-end assessments and appraisals. Kerrin Rosenberg is the Cardano Group Management Board member with overall responsibility for Sustainability.

The challenges we face in sustainability are shared by peers and competitors and we believe that collaboration is important to achieve industry wide improvement. We therefore work collaboratively with peers through our membership of several industry wide organisations.

⁵ https://d8g8t13e9vf2o.cloudfront.net/Uploads/c/j/u/pripolicywhitepapertakingstockfinal_335442.pdf

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