

December 2020

# Engagement Policy

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# Purpose

Cardano believes that incorporating Environmental, Social and Governance (“ESG”) factors into the investment decision process produces better investment outcomes and is necessary to effectively manage risk in investment portfolios.

We believe that a commitment to engagement and education will help improve the quality of the approach to ESG across the investment industry. We promote awareness of ESG factors amongst clients, investment managers, trading counterparties and issuers.

Cardano does not include direct investment in companies in its portfolios or advise on direct investment, therefore Cardano does not engage directly with investee companies. Engagement is undertaken by the fund managers that Cardano researches and includes in delegated and advisory portfolios. Cardano encourages active stewardship by managers and believes that a robust well governed investment approach and engagement activity goes hand in hand.

This Engagement Policy sets out how Cardano Risk Management Limited promotes and monitors the shareholder engagement activity of managers that are included in the portfolios that Cardano advises on and manages on behalf of clients.

While this document is intended to comply with the requirements of both the Shareholder Rights Directive II<sup>1</sup> and also chapter 2.2 of the FCA Conduct of Business sourcebook, our engagement activity is applied to managers regardless of the jurisdiction in which they are based or invest.

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<sup>1</sup> Directive (EU) 2017/828



# Introduction

Cardano Risk Management Limited provides fiduciary management and investment advisory services to pension schemes.

We strive to deliver better and more secure financial outcomes: **stability in an uncertain world**. We do so as a Responsible Investor, by fully integrating environmental, social and governance factors into:

- our investment decision making; but also
- our interaction and engagement with our clients, wider stakeholders and counterparties to which clients are exposed.

We engage actively as long-term stewards for and on behalf of our clients.

## Overall Framework

We believe that acting as a Responsible Investor produces better investment outcomes and is necessary to effectively manage risk in investment portfolios.

We apply a single Responsible Investing framework to the way we invest:

- For advisory clients - we apply our framework via third party fund managers that are selected by our clients, based on our advice
- For fiduciary management clients – we apply our framework to the investments that we make directly (derivatives, government and supranational bonds), and to the investments we make indirectly (through our selection of third-party fund managers)

While we act as a Responsible Investor across all investments we consider, our engagement activity is a critical component in our manager research because we are better able to have a constructive dialogue in these areas and, therefore, better impact the risk-return profile for our clients.

Cardano does not make direct investments in the equity or debt issued by corporations.

## Standards / Commitments

- Cardano has been a signatory to the Principles of Responsible Investment since 2011
- We are also a signatory to the UK Stewardship Code and have a Tier 1 rating from the Financial Reporting Council
- Our Responsible Investment Policy is available on our website



# Engagement

## Approach

Several core beliefs help drive our approach to engagement. We believe in:

- **Focused governance** – spending most time on the most material issues
- **Transparency** – clear objectives (focussed on change) and improved reporting allows better quality dialogue, risk awareness and higher engagement impact
- **Engagement** – through education and close, regular dialogue
- **Integration** – leads to consistency, clarity of messaging and improved dialogue leading to greater engagement impact

## Governance & Oversight Framework

All engagement activities are fully integrated into the day-to-day roles of team members in our investment teams. We believe that this encourages accountability:

- Engagement is part of each team members' role and engagement related goals form part of each team's vision and KPIs

Day-to-day team responsibilities are overseen through a robust sustainability governance structure:

- Tier 1 | team members in the manager research team are responsible for the day-to-day interaction with all managers and derivative counterparties within client portfolios (ESG ratings, monitoring and engagement)
- Tier 2 | Manager Research Committee, chaired by the Head of Manager Research (14 years in Manager Research) and includes Senior Investment Managers and the Deputy CIO (25 years in financial services). This committee meets weekly and has overall responsibility for rating third party fund managers (including ESG assessment and setting the engagement agenda with them). Manager Research coverage teams will escalate ESG issues to this Committee for discussion
- Tier 3 | Sustainability Steering Committee has three participants, Cardano Risk Management's CEO - Kerrin Rosenberg (Kerrin founded and leads Cardano's UK team and has overall responsibility for the UK business), Deputy CIO – Keith Guthrie (Keith is an experienced multi-asset investor and has responsibility for portfolio construction methodology) and Cardano Partner – Karin Pasha (Karin is a Trader and Partner at Cardano, based in the Rotterdam office and was previously Head of Risk Analysis and Advice). The committee meets at least monthly and has overall responsibility for the Cardano Group's Sustainability agenda and policies



- Tier 4 | Group Management Board – Kerrin Rosenberg is the named individual with responsibility for Sustainability on the board; Sustainability forming a key element of his objectives

## Engagement Activities

### *Focused Framework*

Our framework is designed to focus engagement resource and time on the exposures where ESG factors have the highest potential impact to our clients' risk-adjusted returns. This focus is achieved through classifying (using Cardano's proprietary methodology) all invested strategies as either:

- **High Focus** | ESG factors could materially impact the risk and return profile of the strategy (e.g. listed or private equities, corporate credit etc.)
- **Low Focus** | ESG factors are likely to have limited impact on the risk and return profile of a strategy (e.g. macro orientated derivative-based strategies, highly diversified trend following strategies)

While we expect all managers to integrate ESG into their investment decisions, it is a critical element of our assessment for High Focus strategies.

### *Voting*

Cardano does not invest directly in equities or corporate bonds on behalf of clients. All investments of this nature are held via external fund managers. Therefore, our ability to engage directly with investment companies is limited, however, we require the external managers to engage on ESG factors on our clients' behalf.

As part of this engagement, we expect all of our managers to be using their right to vote and we monitor (amongst other things):

- how each manager has voted (to the extent the exposure allows);
- the process around how each manager votes: whether voting is carried out directly or through a proxy service provider and, if through a service provider, the level of service in place;
- where applicable, details of what the manager deems to be the "most significant" votes cast and their rationale for their inclusion as significant;
- the commitments they make to engagement

We engage with all managers to understand and challenge their voting activity. Where a manager has abnormal voting patterns or has sub-standard practices, we will engage to understand their rationale, and, if appropriate, we will apply pressure on them to improve their processes and procedures. Should a manager fail to improve sufficiently, this may result in disinvestment.

We report to our clients on their fund managers' voting pattern and our engagement with them.



### *Quality of dialogue*

We believe impactful engagement and effective stewardship flows from high quality dialogue with the managers we use for our clients. We aim to achieve this through:

- Education
  - Our approach as Responsible Investors is to prefer engagement (working with our managers to improve standards) over automatic exclusion
  - We actively work with our managers to educate them on what ESG integration means to us and our clients, as well as the expectations we have of them
  - We do this through day-to-day monitoring and discussions with managers which have included bespoke education and know-how sharing sessions around ESG
- Granular Measurement
  - Each year we gather detailed information on invested funds' practices and approach to ESG through a strategy specific ESG questionnaire
  - Through a detailed review of this information, combined with information gathered throughout the year, each fund is assigned an ESG rating
  - The granular nature of this ESG rating process allows us to track managers' practices and processes around engagement through time; enabling us to:
    - focus and set specific goals for managers around ESG; and
    - track a manager's progress against those goals. (For detail on our ESG rating process, please see our published [Responsible Investment Policy](#))
  - We seek to quantify our engagement impact by registering the changes that managers have / are about to make to their policies or practices, as a result of our education and engagement efforts
- Consistent Communication
  - A critical part of effective engagement is making clear our expectations around ESG
  - We provide this through:
    - Regular, active dialogue on relevant issues through the day-to-day monitoring that members of the Manager Research Team carry out
    - An annual communication to all invested managers, setting out our beliefs and expectations around ESG



- Every year we provide each manager with detailed information on how our rating process works, as well as how they were rated. This transparency is a critical and powerful tool for bringing about change
- We use communication to engage with managers, by articulating clear milestones for specific ESG initiatives to be in place and corresponding implications. We recognise change is a process, at times haste may be necessary, but change should not be overly rushed
- While we prefer to work with managers to bring about change, we are prepared to sell or advise our clients to sell where a manager has consistently not delivered on ESG based milestones
- Reflection
  - We reflect on the process so that lessons are learned in order to improve future engagement activity

## Other Stakeholders

Cardano plays an active role in promoting good governance and stewardship of internal and external activities that may impact our clients. For example, we play an active role in responding to consultations that could have implications on our pension scheme client assets such as Libor cessation and RPI reform, amongst others. We look to ensure that changes made to markets and regulation positively impact our pension scheme members future financial stability and ensure the continued well-functioning of markets.

## Wider Market Engagement

In addition to promoting and monitoring engagement activity to improve risk management and better outcomes in our clients' portfolios, we acknowledge and are aware of the key roles we play:

- In supporting our clients to fulfil their engagement responsibilities:
  - We support our clients in the preparation and review of their Statement of Investment Principles, helping them to set the engagement framework for their investment strategy
  - We help clients meet all regulatory requirements regarding the implementation of these policies by helping them prepare an annual Implementation Statement. This statement discloses the voting and engagement practices conducted during the previous accounting year and is made publicly available online
  - We conduct regular training sessions to ensure our clients understand their duties and are equipped to fulfil them
  - Through our regular and ongoing ESG reporting practices, we provide clients with real-time information so that they can fulfil their fiduciary duties regarding their investments
- As an investment fiduciary within the wider financial markets:





- We are an active participant in ESG forums and conferences, listening and contributing to industry initiatives with the intent of driving better practice and policy in the wider financial market
- We acknowledge that, in some instances, joint action by shareholders, is advantageous
- When researching managers, we consider the extent to which they review and use ESG factors in their investment decision making. Managers are required to explain how they identify engagement opportunities and monitor the impact of engagement activity on individual investee companies
- We discuss with managers whether, in specific instances, collaboration with other shareholders in line with local regulation / laws is advantageous

## Conflicts of Interest

All appropriate steps are taken to identify and manage conflicts of interest that arise in the Cardano Risk Management Limited business, including through engagement activity. This ensures the fair treatment of clients and reduces the risk of legal liability, regulatory censure or damage to Cardano's commercial interests and reputation. The Conflicts of Interest Policy identifies actual and potential conflicts arising within Cardano and procedures for managing those conflicts. Everyone in Cardano Risk Management Limited (including contractors and any other person directly or indirectly linked to us by control) involved in the provision of investment services to Cardano's clients must adhere to the Conflicts of Interest Policy. A summary of the Conflicts of Interest Policy is available on [Cardano.co](https://cardano.co)





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