

## A letter to counterparties

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**Sustainability is now a widely established and socialised concept within financial markets – both as a financial risk, due to transition, physical and reputational risks, and an investment imperative, because the way in which we direct capital will support (or hinder) sustainability efforts. We want to support a safe and liveable future for all.**

**Our aim is to work with counterparties to meet our investment and clients' objectives in this area, together. Ultimately, we want their help in transitioning our global economy to one that is fairer, more stable and more sustainable.**

### **Our position**

Our sustainability priorities are:

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

We support the Paris Climate Agreement of limiting global warming to +1.5°C versus preindustrial levels. We do this by committing our investment portfolios to net zero carbon emissions by 2050.

We support global emissions reduction of 50% by 2030, with baseline year 2019. This informs our asset-class decarbonisation targets.

We support the concept of 'fair share' decarbonisation targets. In other words, countries with historically higher emissions (which tend to be developed markets) should decarbonise more rapidly than countries with historically lower emissions (which tend to be emerging markets).

- **Promoting a fairer society**

We seek to promote a fairer society for our UK and Netherlands clients and their beneficiaries. 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.

- **Sustainable development in 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.

Finally, we believe the United Nations Sustainable Development Goals (SDGs) form a good basis for defining real world impact. This is our default position – in our fiduciary management, our advice and our liability driven investments.

## Our counterparty framework

The Cardano Dealer Committee (CDC) monitors the creditworthiness of counterparties and determines an internal rating. A view on counterparties' ESG-risk exposure forms an important part of that decision-making process.

A framework has been developed which screens counterparties for material ESG issues. The assessment is based on the available ESG scores provided by different external ESG rating agencies. Counterparties that score below a threshold on these aspects are subject to further investigation. All other counterparties are deemed to pass the ESG assessment.

Further investigation requires additional analyses and might result in active engagement, where a letter will be sent which outlines Cardano's specific concerns from a ESG perspective.

Where a counterparty that is subject to active engagement is not demonstrating signs of engagement or a willingness to address Cardano's ESG concerns after a reasonable period, the counterparty ESG assessment will be deemed to be *Poor* on the ESG assessment. This will negatively impact the overall Dealer Committee Rating.

The process above sets out the ESG approach in normal course. There could be real-time news events that could overrule the ESG approach as long as the Dealer Committee has discussed the event and agreed to override the standard process.

In addition to credit risk, our expectations and level of engagement around sustainability-related policies, integration, engagement and reporting will increase. We expect some clients to favour a more stringent set of sustainability criteria, which will have our full support.

We will continue to rate a counterparty's approach to sustainability based on our counterparty rating framework and on our interactions with them. We're interested in action on topics that contribute to positive real-world sustainability impact. In particular, we encourage our counterparties to net zero carbon emissions by 2050 with commitment to halving global emissions by 2030 (we use a baseline year of 2019 emissions).

Our journey towards being a Sustainable Investor is sure to evolve. What we do now is important but we recognise this is a multi-year journey for us and potentially for you too.

## Next steps

As a firm, we are committing substantial resources to sustainability; we established a steering committee consisting of Will Martindale (Group Head of Sustainability), Keith Guthrie (Deputy CIO), Kerrin Rosenberg (UK CEO), Karin Pasha (Head of Sustainability in the Netherlands), and Michael Bushnell (Managing Director, Cardano Advisory). Our sustainability efforts are supported by over 30 Sustainability Champions integrated into all parts of our business.

As we move forward, we appreciate an open and ongoing conversation regarding sustainability. We will continue to provide feedback and transparency around how we are evaluating counterparty approaches as well as how it compares to best practice we see elsewhere. For those wanting to make refinements and enhancements to their process, like setting 2030 targets, we offer ourselves up as a sounding board. Please contact Will Martindale ([w.martindale@cardano.com](mailto:w.martindale@cardano.com)) or Karin Pasha ([k.pasha@cardano.com](mailto:k.pasha@cardano.com)).