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Engagement Policy

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1. Introduction

1.1. About Cardano Group

Founded in 2000, Cardano Group is a privately-owned, Anglo-Dutch, risk, advisory and investment management group focused on pensions and sustainability. Cardano has over 500 professionals based in London, Nottingham and Rotterdam across:

- **Advisory:** A covenant, investment, sustainability, pensions corporate finance and risk advisory business serving more than 350 clients. These schemes have aggregated assets approaching £300bn.
- **Investment Management:** A purpose-built asset and fiduciary management provider, with a leading-edge sustainability offering, serving pension schemes (and non-pensions clients with similar risk management requirements) with over £50bn of assets under management.
- **DC:** We manage over £15bn in DC assets, providing pensions to more than 2 million pension savers in the UK and the Netherlands. In the UK, we operate NOW: Pensions, an award-winning UK workplace pension provider, serving tens of thousands of employers from a wide range of industry sectors.

This document is intended to comply with the requirements of both the revised Shareholder Rights Directive (2017/828 EU) ("Shareholder Rights Directive II") and also chapter 2.2B of the FCA Conduct of Business sourcebook. Our engagement activity is applied to third-party managers regardless of the jurisdiction in which they are based or invest.

This policy should be read alongside our sustainability policies.

This policy applies to Cardano Risk Management Limited and Cardano Risk Management B.V. Cardano Risk Management B.V. is not legally required to comply with the Shareholder Rights Directive II (SRD II) nor the FCA Conduct of Business Sourcebook (COBS). We have however decided to have a single engagement policy that is compliant with the Shareholder Rights Directive II and FCA Conduct of Business Sourcebook.

For Cardano Risk Management B.V., we apply our framework to the investments we make, consistent with the mandate provided by the client. We will refer to Cardano Risk Management Limited and Cardano Risk Management B.V. as "Cardano" or "we".

1.2. Fiduciary, Investment and Advisory Services

Cardano provides fiduciary management, investment management and investment advisory services to pension funds and other savers.

We aim to help pension scheme trustees secure safer, sustainable outcomes for their members. We focus on delivering economically balanced portfolios for our clients as we navigate the complex investment landscape.

We're a multi-asset investment manager, providing essential services to pension funds and other savers. We're a direct investor with in-house investment capabilities. In other words, we're not a fund that exclusively selects third-party fund managers. That means we've designed our own approach to investing, which involves:

- clearly documented investment beliefs and policies[1]
- an investment philosophy that leads to economically balanced portfolios
- an investment process that's robust and repeatable, but subject to continuous improvement
- an unusually broad toolkit of asset classes, strategies and instruments
- a sustainable investment approach across our clients' portfolios, both our growth portfolios and liability driven investment (LDI).

We integrate sustainability factors and real-world sustainability impact in all our investment processes.

1.3. Sustainability

Our clients are overwhelmingly pension funds. The youngest members of these pension funds 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.

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.

We believe that there are additional compelling reasons to invest sustainably.

Sustainable investment leads to better risk-adjusted returns, is necessary to effectively manage risks and opportunities in investment portfolios, identify new investment opportunities, and anticipate and prepare for sustainability-related policy and regulation.

Our approach is investment-led, grounded in science and ambitious. We focus on where we can practically make a difference.

[1] See https://www.cardano.co.uk/sustainability-policies/

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Climate Change

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).

This is our default position – in our fiduciary management, our advice and our liability driven investments.

For more details, see here; https://www.cardano.co.uk/our-approach-to-sustainability/our-plan-to-address-the-climate-crisis/.

2. Engagement

2.1. Approach

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.

Good stewardship can be subjective. Our engagement preferences are 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 will prioritise the highest sustainability impacts in our portfolios
- Long-term – we encourage long-term relationships with companies, third-party managers, counterparties, stakeholders and policymakers. 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)
- Transparency – some engagement, perhaps even most engagement, will be unsuccessful. We're realistic, and we'd prefer transparency from our third-party managers
- Collaboration – engagement is more efficient when we, and our third-party 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 third-party managers link their stewardship to other engagement activity (for example, policy engagement)

2.2. Governance and Oversight Framework

All engagement activities are integrated into the day-to-day activities of our investment teams. We believe that this encourages accountability.

For our Manager Research Team, engagement is part of each team member's role and engagement-related goals form part of each team member's KPIs.

Our sustainability – including engagement responsibilities, are overseen through a robust governance structure:

Tier 1 | Manager Research Committee, chaired by the Head of Manager Research (15 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 the ESG rating of our 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.

Investment team members are responsible for:

- the integration of ESG issues in our direct investment activities
- with all third-party managers within client portfolios for our indirect investment activities (ESG ratings of third-party managers, monitoring and engagement).

Tier 2 | Investment Committee Sustainability, co-chaired by the Deputy CIO, Cardano and CIO, ACTIAM and includes the team heads for each of our investment teams across the UK and Netherlands.

This committee meets monthly and has overall responsibility for the implementation of sustainability objectives, including stewardship, across our investment activities, both internally and externally-managed investments.

Tier 3 | Sustainability Steering Committee consists of:

- Kerrin Rosenberg (Chair, CEO of Cardano in the UK and member of Cardano Group Management Board)
- Will Martindale (Group Head of Sustainability)
- Keith Guthrie (Partner, Deputy Chief Investment Officer)
- Karin Pasha (Partner, Head of Sustainability of the Netherlands)
- Michael Bushnell (Managing Director, Head of ESG Advisory)
- Dennis Van Der Putten (Head of Sustainability, ACTIAM)
- Ruben Middel (Project Manager)

The committee meets weekly 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

2.3. Model of Influence

When we invest, we consider two simultaneous objectives:

1. Risk and return, which includes sustainability-related risks and opportunities
2. Influence, which includes real-world sustainability impact

Institutional investors increasingly share this view and want to incorporate both lenses into their investment process. Yet there is little clarity about what is meant by influence, real-world sustainability impact, and how to measure it.

Model of influence

Consequently, we have developed our own 'model of influence'. This comprises three key areas of influence, based on how direct an impact these actions have. We believe investors should seek to develop their influence across all three tiers when constructing portfolios.

Tier one: Direct influence

The first tier of influence includes:

- Supplying new capital, debt or equity to a company or government, where this has an environmental or social objective.
- Collaborative company engagement on sustainability-related topics, for example through the Climate Action 100+ initiative.
- Engaging with public policymaking to create a more sustainable economy, for example engaging to decarbonise the electricity grid or rollout electric vehicles.

Tier two: Direct influence

The second tier encompasses two key elements:

- Engaging with companies and be an active steward (including exercising voting rights) as an individual investor on sustainability-related topics – this is less impactful than collaborative engagement, but nevertheless has an important impact.

Tier three: Indirect influence via cost of capital and signalling

- The third tier of influence to achieve real-world sustainability impact is one many institutional investors are already doing but could be doing more effectively. That is integrating ESG factors into buying and selling of securities, in particular through incorporating environmental and social-related objectives into mandates as part of a schemes approach.
- The mechanism is one which decreases the cost of capital for more sustainable businesses (through purchases in the secondary market) creating a competitive advantage for them and increases the cost of capital for less sustainable businesses (through denial of capital or sales in the secondary market). Where the criteria for the purchases and sales are clear this creates clear signals to the market and management about what to do to create more sustainable businesses and attract capital flows.
- This mechanism of influence can be implemented through cash equities and bespoke derivatives – both influence security pricing and cost of capital
- This includes for example ESG tilts in indices, exclusion policies such as excluding thermal coal or fossil fuels, and mandates emphasising climate change solutions.

We apply our model of influence to our investment activities to maximise our real-world sustainability impact, and how to measure it.

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How do we define sustainable investment?

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 needs**

- **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 society**

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**

2.4. Third-Party Manager Engagement Activities

Our engagement policy focused on our third-party manager engagement activities. In this section, we set out the steps we take to engage managers on ESG and sustainability topics.

Focused Framework

Our framework is designed to focus engagement resource and time on the exposures where ESG issues 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 issues could materially impact the risk and return profile of the strategy and the strategy may have real-world sustainability impact (e.g. listed or private equities, corporate credit etc.)
- Low Focus | ESG issues are less likely to impact the risk and return profile of a strategy, and the strategy is unlikely to have a substantial real-world influence or impact (e.g. macro orientated derivative-based strategies, highly diversified trend following strategies)

Regardless of the classification, we expect all managers to integrate ESG issues into their investment decisions.

Voting

Cardano does not invest in any equity investments directly, however, we require the external managers to engage on ESG issues and real-world sustainability impact 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 their strategy can vote)
- the process around how each manager votes: whether voting is carried our 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 set out our expectations on sustainability to all our external managers via an annual letter.

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

We have integrated the Investment Consultant Sustainability Working Group (ICSWG) engagement template into our ESG questionnaire. We do this to encourage good-practice manager disclosure on engagement and voting and to ensure disclosure is efficient and effective.

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 Sustainable 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 and real-world sustainability impact 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 factors

Granular Measurement

- Each year we gather detailed information on invested funds' practices and approach to ESG through a strategy specific ESG questionnaire. We have aligned our questions with the PRI reporting and assessment framework as well as incorporated industry recognised stewardship reporting, such as those outlined by ICSWG

- Through a detailed review of this information, combined with information gathered throughout the year, each fund is assigned an ESG rating across policies, integration, engagement and reporting

    - 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
    - Stewardship and 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 Taskforce on Climate-Related Financial Disclosures ('TCFD') recommendations?

- 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 factors; and
    - track a manager's progress against those goals. (For detail on our ESG rating process, please see our published Sustainable 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 factors and real-world sustainability impact
- 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 factors and real-world sustainability impact
    - 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
- For managers with low ratings we communicate what aspects we want to see improvement on as we engage with the manager

Reflection

- We reflect on the process so that lessons are learned in order to improve future engagement activity

Stewardship provider

In 2022 Q1 we appointed a specialist stewardship and engagement provider, Sustainalytics[2]. We are in the process of applying their service offering to our portfolios and will update this policy accordingly.

2.5. Counterparties

Cardano uses derivatives to match our clients' assets with liabilities in a cost effective and capital efficient way and as a risk and portfolio management instrument. That is why derivatives are an essential part of the investment toolkit and that will not change.

We trade over-the-counter (OTC) derivatives with investment banks, which we refer to as our counterparties. We also trade exchange-traded derivatives. We integrate sustainability considerations in all our investment processes – including our relationships with counterparties.

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[3], the counterparty ESG assessment will be deemed to be Poor on the ESG assessment. This will negatively impact the overall Dealer Committee Rating.

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 commit to net zero carbon emissions by 2050 with commitment to halving global emissions by 2030 (we use a baseline

[2] See https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services
[3] Typically a year, it would depend on the investment strategy

year of 2019 emissions).

In 2022 we enhanced this approach by sending ESG questionnaires to each counterparty.

2.6. Collaboration and stakeholder groups

In line with our theory of influence model, we believe collaborative action is more effective and efficient in creating positive real-world sustainability changes. 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, Cardano and our third-party managers can send clear messages to the companies our clients invest in – and to our regulators. Collaboration allows for a faster, smoother transition.

As such, we are members of a range of sustainable investment organisations. We co-chair the IIGCC derivatives and hedge funds working group and we co-chair the IIGCC policy steering group. We are members of the Net Zero Asset Managers Initiative and the Net Zero Investment Consultants Initiative[4].

2.7. Public policy engagement

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 respond to consultations relevant to sustainable investment in the UK, Netherlands, Europe and the US, and we will offer our expertise and experience where it is appropriate to do so. We publish our policy consultation responses to our website.

[4] For a full list of stakeholder groups, see: https://www.cardano.co.uk/our-approach-to-sustainability/

Social Risks and Opportunities

In 2021, we responded to 8 public policy consultations, in the UK, EU and US, covering a range of sustainability topics including social risks and opportunities, climate change and stewardship.

For example, the Department for Work and Pensions (DWP) call for evidence on the consideration of social risks and opportunities.

In our experience, it is not common practice for pension schemes to have a standalone policy on social issues. This is, perhaps in part, because social risks and opportunities are more difficult to quantify, there is less political urgency; nor is there the same consensus on the problems we're trying to solve.

This, however, doesn't lessen their importance.

We believe the DWP should clarify governance requirements on social risks and opportunities, set out key metrics on social issues, base regulatory requirements on international frameworks, such as the UN Guiding Principles, and for Trustees of DB pension schemes, understand the potential impact of social risks on the employer covenant.

2.8. Wider Market Engagement

In addition to promoting and monitoring engagement activity to improve risk management and better outcomes in our clients' portfolios, we undertake a number of additional and supporting roles:

- 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, their TCFD reporting and climate change-related governance requirements
- 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

3. 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 www.cardano.co.uk.

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