

An aerial photograph of a wind farm. In the foreground, a dirt road leads up a hillside to a single wind turbine. In the background, a long line of similar turbines stretches across the horizon. The sky is filled with white and grey clouds against a blue background. The overall scene is a landscape of rolling hills and a valley.

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# Net Zero Investment Consultants Initiative

Progress Report 2023

**This report covers the progress made by Cardano Risk Management Limited.**

# Introduction

Cardano Risk Management Limited is a founding signatory of the Net Zero Investment Consultants Initiative. Signatories commit to nine principles around Net Zero including reporting on the progress towards these commitments. As such, in this report we are pleased to report our progress for the period to 31 December 2022. In the report, all client and AUM numbers refer to Cardano Risk

Management Limited, a UK subsidiary of the Cardano Group. Our various policies, engagement activities, carbon emissions and other reporting refer to efforts by the entire Cardano Group which operate under a single group wide Sustainability Policy.

For further details please see our [2022 Sustainability Report](#), and our [2022 Stewardship report](#).

# Our progress with respect to the principles



## **Principle 1: Integrate advice on Net Zero alignment into all our investment consulting services as soon as practically possible and within two years of making this commitment.**

**For fiduciary clients, since 2021 Cardano have committed to Net Zero greenhouse gas emissions by 2050, with 50% emissions reduction by 2030, on 2019 baseline. For in-house portfolios where we manage the assets directly ourselves, our Net Zero target was approved by the Science Based Target initiative in 2022.**

For advisory clients, our default advice is to commit to the same targets as above. We believe this is a suitable approach for the vast majority of pension schemes. However, the trustees are ultimately responsible for making the commitment and we adapt our advice where appropriate to their circumstances.

These targets are in line with limiting global warming to 1.5 degrees. But we note that warming of 1.5 degrees is not our most likely climate scenario. Instead, we think a 2 degree scenario is most likely given slow progress on international commitments to reducing emissions. As such we seek to help clients build portfolios that are robust to a range of scenario outcomes beyond warming of 1.5 degrees.

Internally, across our various teams (e.g. Investments and Clients) we have designated Sustainability Champions who become the local expert on sustainability matters. We run regular sustainability training sessions on various topics throughout the year including Net Zero (covering, amongst other things, Net Zero Methods, Targets and Pathways). Our sustainability commitments are overseen by our Sustainability Steering Committee (from 2023 the Sustainability Policy Committee) which is chaired by our CEO Kerrin Rosenberg and includes the heads of our Sustainability Team and the deputy CIO on the Investment Team.

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**Cardano have committed to Net Zero greenhouse gas emissions by 2050.**



## **Principle 2: Work with our institutional asset owner clients to identify the investment risks from climate change, highlight the importance of Net Zero alignment and, where applicable, support our clients in developing policies that align their portfolios to a Net Zero pathway.**

**Sustainability training, including on Net Zero and TCFD, has been developed as part of the standard advice available to all advisory and fiduciary clients.**

**All fiduciary and advisory pension clients<sup>1</sup> have integrated assessment of climate risks into their Statement of Investment Principles.**

For the period ending 31 December 2022, we supported c. 60% of our advisory clients plus one large fiduciary client in the preparation of their TCFD reporting, as well as providing metrics and scenarios for their regulatory disclosures. During this process our clients received advice on aligning to Net Zero. We are pleased that all of the clients who received this advice have committed to Net Zero by 2050 or sooner and have set interim targets for 2030. We are now assisting many of these clients in assessing their transition path towards Net Zero and the implications for their investment strategies.

### **Key Performance indicators as of December 2022:**

1. Over 60% of our advisory clients plus one large fiduciary client, representing over half of all our clients' AUM in total, had:
  - a. received meaningful education on Net Zero alignment.
  - b. decided to incorporate a Net Zero ambition for 2050 or sooner into their policy;
  - c. set a Net Zero target for 2050 or sooner along with interim target(s) and the intention to be Paris-aligned.
2. We have worked with over one third of our clients, (representing over 60% of all our clients' AUM) on assessing their baseline carbon emissions data. All clients who completed analysis in 2022 had an assessment of their carbon footprint as of 2022.

However full baseline analysis was not completed for any clients in 2022 as it involves looking back to their base year emissions as of 2019 or 2020, an extensive data exercise. This retrospective baseline analysis has been completed for more clients in 2023.

3. To date none of our advisory clients have agreed a formal goal to increase exposure to 'climate solutions'. Some clients do have some exposure without having set formal objectives. Advising clients to allocate to such strategies depends on a range of factors, such as the strategies being suitable for their wider investment strategy. We will continue to have discussions with clients on this topic.

Please see section 8 of our [Cardano Actiam Annual Sustainability Report 2022](#) for more details on our work together with Trustees.

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**We are pleased that all of the clients who received this advice have committed to Net Zero by 2050 or sooner and have set interim targets for 2030.**

<sup>1</sup> For simplicity in this report we categorise all clients as either advisory or fiduciary. But we note that a small number of mandates fit less neatly into these categories and we have attempted to apply sensible categorisations in these cases.

## **Principle 3: Support efforts to decarbonize the global economy by helping our clients prioritize real economy emissions reductions, reflecting the target of 50% global emissions reduction by 2030 or sooner using existing decarbonization methodologies.**

**Our Group sustainability policy sets out our commitments to climate change, as well as the importance of stewardship and policy engagement as tools to meet our climate change targets. Within this, we set out our belief that all investments have both financial characteristics and real-world impact. Therefore, consideration of the impact of emissions reduction is a key part of our investment assessment processes. We are a member, supporter and participant in a range of industry groups, including PRI, IIGCC, Pensions for Purpose and UKSIF, and encourage their engagement of policymakers on decarbonising the real economy.**

Our advisory clients typically execute their strategy through allocations to third party asset managers that we research and help them select. We communicate to clients the importance of understanding an asset manager's approach to stewardship and engagement when selecting the asset manager. We favour an approach that integrates engagement with companies, together with procedures for escalation where companies are not transitioning quickly enough, and ultimately exclusion where they represent unacceptable risks.

### **Examples include:**

- We believe incorporating a Net Zero commitment is the best longer-term risk/reward approach to investing passively in equities. Our preferred options when advising clients on passive equity exposures are two low-cost index managers who incorporate Net Zero commitments, sustainability and stewardship approaches.
- We worked with one of our preferred Multi-Asset-Credit managers used by our advisory clients to develop a more sustainable version of their high yield product that introduced regular carbon reporting and engagement with the underlying credits.

- We also work with our clients to help them shape their engagement policies and encourage them to monitor the outcomes of more significant engagements. Our clients selected Climate Crisis with a focus on Net Zero greenhouse gas emissions as their stewardship priority for manager engagement.
- We worked with two advisory clients to maintain meaningful allocation to forestry in their long-term investment strategy, with one making a further allocation in 2022. They see the forest sector as having an important role to play in achieving the global transition to a net-zero economy. It responds to the demand for high-quality land-based carbon sinks and supports the emerging circular bioeconomy.

For our delegated clients, we are a lead investor in Climate Action 100+, the Dutch Climate Coalition and a range of other climate initiatives driving real economy emissions reductions. Please see section 3 of our [Cardano Actiam Annual Sustainability Report 2022](#) for examples on our engagements with companies including escalation actions.



## Principle 4: Assess and monitor asset managers on the integration of climate risks and opportunities in their investment decisions and stewardship and reflect this evaluation in our client recommendations.

### With respect to our selection of asset managers for fiduciary and advisory clients:

- All external managers are subject to our proprietary, annual ESG assessment framework, which includes a range of questions on climate risks. Within the assessment, we score all external managers across four areas: people and policies; integration; engagement; and reporting.
- We rate our external managers as “high focus” or “low focus” depending on the asset class and investment strategy. We believe high focus strategies are capable of influencing the outcomes of their investment through engagement and stewardship. Low focus strategies have less influence. We expect high focus strategies to make progress on climate change issues.
- We engage with managers on a range of ESG issues with the objective to raise the standards to which they are operating around Sustainability. Managers who are regarded as weak will have a formal engagement plan.

### Over the reporting period we have undertaken the following activities:

- Performed our annual ESG assessment for all external managers. This includes an evaluation of each manager’s approach to Net Zero alignment and climate risks.
- Written to all external managers setting out our expectations on climate risk and other ESG issues.

### Examples of how we have evaluated asset managers on Net Zero alignment and the integration of climate risks and opportunities:

- In our ESG questionnaire, we asked all external managers the following climate related questions:
  - Does your organization publicly support the Task Force on Climate-Related Financial Disclosures (TCFD)?

- During the reporting year, did your organization publicly disclose climate-related information in line with the TCFD recommendations?
- Has your organization identified climate-related risks and opportunities affecting your investments?
- Which industry initiatives are you signed up to? (This question has one response that is “Net Zero Asset Managers Initiative”)
- Does this fund monitor/consider absolute emissions, emissions intensity and alignment metrics? If so, what are they for this fund?
- Have you set a decarbonization target for this fund? If yes, please provide details of your decarbonization target including target, date and starting point. If no, please explain why not.
- Please describe the process & people involved in identifying climate-related risks and opportunities in the portfolio and how this is incorporated into investment decisions?
- Does your organisation use scenario analysis to assess climate-related investment risks and opportunities? If yes, please explain.
- Are you able to provide reporting on the look through carbon footprint of the portfolio in accordance with TCFD? If yes, please provide examples of this reporting.
- Do you track the number of portfolio companies that have science-based targets in place?
- Do you encourage your portfolio investments to disclose against Science-Based Targets Initiative (or equivalent)?

**Examples of how we have engaged with asset managers to encourage improvements in Net Zero alignment:**

- In our 2022 letter to all external managers, we encouraged managers to:
  - Make Net Zero commitments and to report on climate metrics; specifically (i) emissions intensity; and (ii) absolute emissions.
  - Challenge companies to develop clear science-based plans that target a transition over realistic but ambitious timescales based on the nature of the underlying business or country, and tracking and holding management and governments accountable to those plans.
  - Produce transition alignment metrics.

For more information our approach to assessing managers please see our website [Selecting managers based on sustainability](#).

**On climate change and Net Zero commitments specifically:**

We assessed more than 170 funds on ESG in 2022; public and private strategies across US, Europe and the Rest of the World. We saw a material improvement in our ratings across managers versus prior years. Notable improvements were made around climate:

- 53% of managers now publicly support TCFD,
- 50% signed up to Climate Action 100+,
- >50% are tracking their portfolio's carbon footprint.

**While the trends are positive, we want to see continued progress in these areas – we believe there is still more to do. Areas for further development include:**

- Decarbonisation Targets: Only a quarter of managers have targets in place. We look for Science-Based Targets which include medium-term milestones and consider absolute levels of emissions as well as emission intensity of the portfolio. Importantly, managers should be assessing the alignment of the underlying companies they own; what proportion have set decarbonisation targets, have credible Science-Based Targets and have plans to meet those ambitions.
- Private Markets: We have seen limited progress in this asset class, particularly in the US where managers lag their European counterparts. For an asset class with significant ability to drive positive change, we expect ESG policies, practices, and targets to keep pace with or surpass public market peers.

For more information see our 2023 letter to managers which reviewed some of the 2022 results: [Cardano's Latest Thinking on Sustainable Investing 2023](#).

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**53% of managers now publicly support TCFD.**





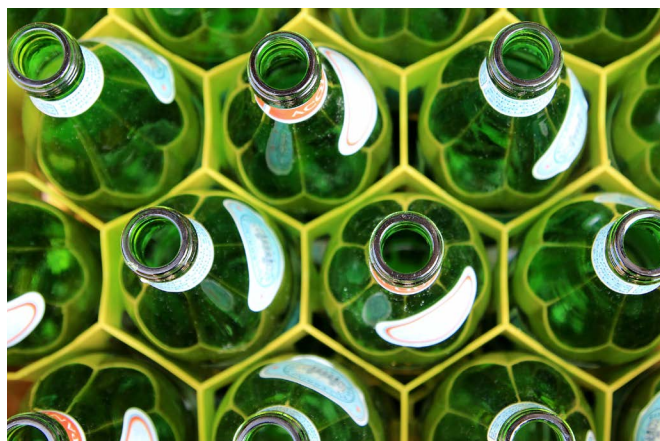
## Principle 5: Align with the Net Zero Asset Manager Initiative as soon as practically possible and within two years of making this commitment.

We became signatories of the Net Zero Asset Manager Initiative in Q1 2021, and have reported our GHG emissions metrics via CDP (in 2022) and PRI (in 2023).

We are in the process of aligning our investment processes with the Net Zero Investment Framework developed by the IIGCC.

### Key Performance Indicators:

1. All of our fiduciary discretionary clients are managed in line with a Net Zero commitment by 2050 with interim targets at 2030 or earlier with the intention to be Paris Aligned.



## Principle 6: With respect to our own business operations, we will set emissions reduction targets across all our operational emissions in line with 1.5°C scenarios.

We're committed to reducing our operational emissions wherever possible and have done so since 2021.

Where we are unable to reduce emissions further we purchase voluntary carbon offsets targeting 10% in excess of our emissions.

Please see our 2022 Sustainability report section 13 for more details on the actions we are taking to reduce emissions and the voluntary offsets we have purchased: [Cardano Actiam Annual Sustainability Report 2022](#).

Key performance indicator: We report on our emissions one years in arrears after we are able to complete the assessment of our carbon footprinting, so the 2022 Annual Sustainability Report contains details of the 2021 emissions. In 2022 we emitted 1319.7 t CO<sub>2</sub>e through our operations.

This covers our Scope 1, 2 and 3 emissions for the whole Cardano group combined over our three locations. As in 2021, in 2022 we offset these +10% through the purchase of voluntary carbon credits.

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We're committed to reducing our operational emissions wherever possible...

## **Principle 7: Within the wider financial community, we will, where suitable Net Zero methodologies do not exist, work collaboratively for the benefit of our clients to address these challenges, seeking harmonized methodologies.**

**We are part of a wide range of industry initiatives working to develop and enhance methodologies across a range of asset classes.**

**Examples include:**

- Climate Action 100+ – We co-lead the engagement with one of the largest global agricultural commodity suppliers.
- We have held multiple dialogues with Repsol, Equinor and OMV in 2022 about their energy transition strategies and sent letters with our recommendations signed by multiple investors to their CEOs.
- Institutional Investors Group on Climate Change (IIGCC) – We participate in the Derivatives and Hedge Funds Working Group and Policy Working Group, both co-chaired by our Deputy CIO, Keith Guthrie.
- We were involved in the publication of the IIGCC Discussion Paper on the role of derivatives, ‘shorts’ and hedge fund strategies in achieving targeting real world decarbonisation and in reporting and target setting. This white paper is being developed into guidance for the Net Zero Investment Framework during 2023.
- Satellite-based engagement towards zero deforestation – We launched this innovative, award-winning collaborative engagement programme which focuses on ending deforestation in companies’ commodity supply chains. Deforestation is a major contributor to climate change.
- Investment Consultants Sustainability Working Group (ICSWG) – We participated in the Steering Committee, Stewardship Working Group, Policy Advisory Group.
- Partnership for Carbon Accounting Financials (PCAF) – We participate in the Sovereign Bonds Working Group and have been an active participant over many years.

For more detail please see our [Cardano Stewardship Report 2022](#), in the section on Principle 2, Stewardship.

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**We co-lead the engagement with one of the largest global agricultural commodity suppliers.**



## Principle 8: Engage, directly or in collaboration, with regulators and policymakers, to facilitate the transition to Net Zero carbon emissions, addressing any barriers to our clients adopting and achieving their Net Zero targets.

We see policy engagement as a natural extension of our Net Zero commitment. 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 policy 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.

In 2022 we have responded to seven public policy consultations, in the UK, EU and US, covering a range of sustainability topics including social risks and opportunities, climate change and stewardship. In general, we welcome the direction of policy makers on sustainability topics many of which affect climate change and Net Zero objectives.



### Highlights include:

- A particular focus for us over 2022 was deforestation and the impact that it makes on both climate change and biodiversity. To achieve our goal of Net Zero deforestation by 2030 across our portfolios and to increase impact, in addition to the collaborative company engagement programme that we initiated, we also engaged at the policy level. In November 2022, we co-signed an open letter to the EU Commissioner about the inclusion of the financial sector in the Deforestation Regulation.
- In July 2022, we provided our initial reflections on the International Sustainability Standards Board (ISSB) general-requirements exposure draft and climate-related exposure draft. Our primary suggestion to the ISSB is that the drafts need to address real-world impact (or “double materiality”), not the current sole focus on enterprise value.
- In April 2022, following the V0.1 beta release of the TNFD framework, we wrote to the co-chairs to provide feedback and support for further iterations of the framework.
- Public statements are one of the tools to support our direct corporate engagement to increase our impact and respond to market-wide risks. In October 2022, we jointly published a statement calling on the oil and gas sector to “Prove its commitment to Paris”. The statement called for action in three areas: greenfield oil phase-out, natural gas as a transition fuel and only when necessary, or as a replacement for dirtier alternatives such as coal, and an increase of low-carbon solutions.

Further examples can be found in our [Cardano Stewardship Report 2022](#) under Principle 4 on responding to market-wide and systemic risks to promote a well-functioning financial system.

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