cardano

Sustainable Investment Policy

Appendix G: Cardano ESG Scoring Methodology

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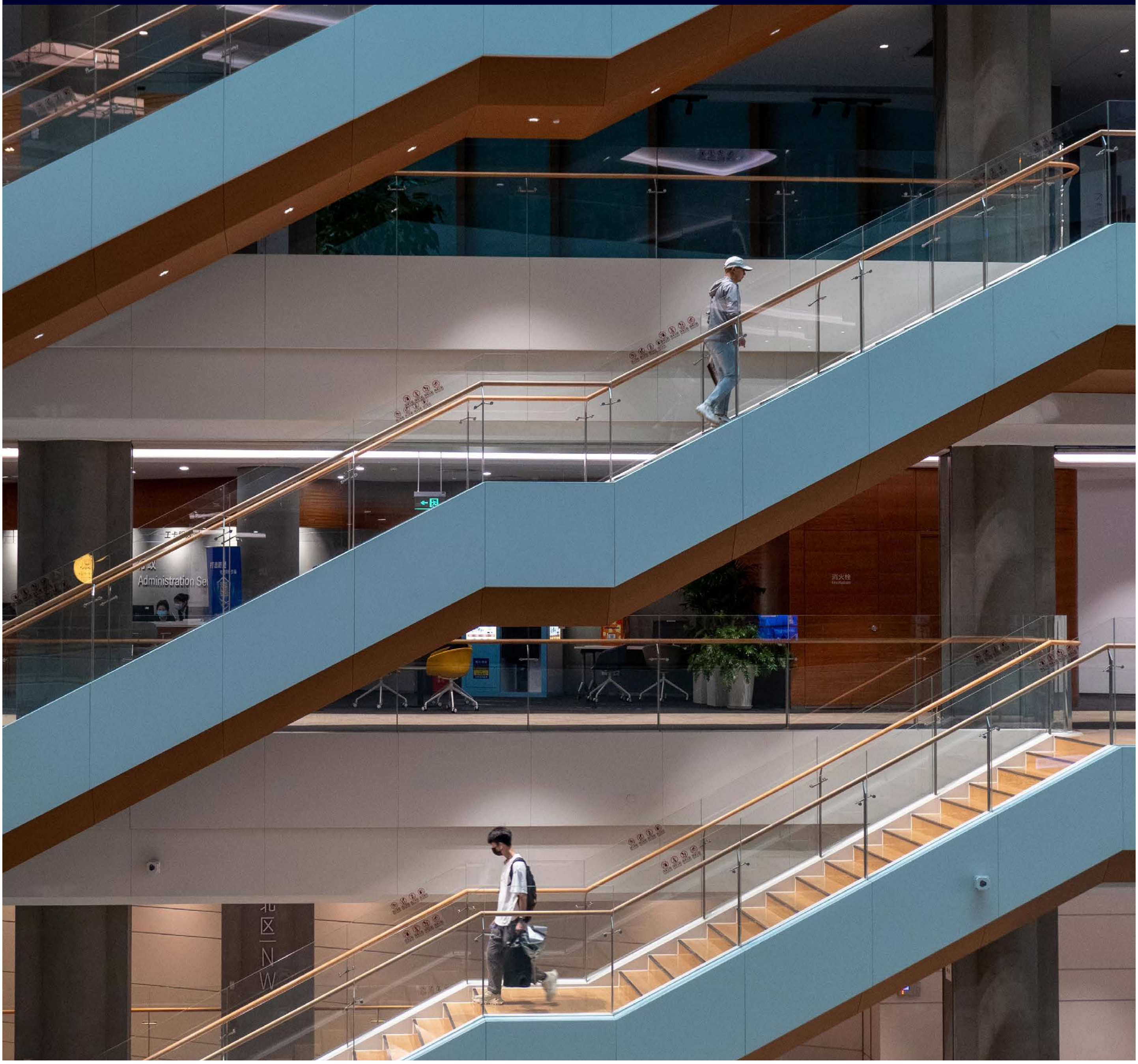
1. Cardano ESG Scoring Methodology



Based on the screening procedure as discussed in our Sustainable Investment Policy, we categorise all entities. This is the basis for stock selection for the fund ranges we manage. We further differentiate entities based on their sustainability performance using a proprietary ESG scoring system that allows for a further integration of relevant company-, sector- and/or country-level ESG information into the investment decision-making process. Next to financial information and the categorisation, portfolio managers use the ESG scores to optimise the sustainability performance of their funds and mandates.

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Cardano ESG scores are calculated for all entities, regardless of the fund range. However, it is especially of use in active investment products, as these have more room to optimise investments based on these ESG scores. Active portfolios have specified targets for their overall ESG scores compared to the benchmark’s ESG score. We distinguish between an ESG score for companies, sustainable bonds and for countries. The assessment and ESG scoring for Sustainable Bonds is discussed in Appendix F to our Sustainable Investment Policy. This document discusses the ESG scoring methods for companies and sovereigns.

2.

Cardano ESG Company Score

The Cardano ESG Company Score aims to measure a company's management of financially material sustainability risks and opportunities. The score ranges between 0 and 100. A low score implies that the company is lagging in its sustainability risk management. A high score is attributed to companies that properly manage their sustainability risks and succeed in turning risks into opportunities. These generally are the ESG leaders.

The score is to a large extent based on the ESG rating from our external data provider. It is adjusted in three ways. First, the Cardano ESG Company Score puts more emphasis on how companies manage their most material sustainability themes. Second, the Cardano score considers differences in sustainability impacts between sectors, allowing not only for a comparison of companies within a sector, but also a comparison of companies between sectors. Third, the Cardano score considers the views of the Cardano ESG analysts and how the company fits within the Cardano Sustainable Investment Framework. These views may differ from the view of our data provider.

The score is made up of three elements:

- **Company score:** The company score assesses a company's sustainability performance relative to its industry peers. The company score combines a base score that is based on key environmental, social and governance issues that are relevant for the sector and a materiality score that captures the most material sustainability risks for the company. The base score is largely based on research by our external data provider. The materiality score captures how companies score on the levers of change that are most material to them – these levers of change are discussed in section 3 of Appendix A to the Sustainable Investment Policy. Which levers are most material differs per company. Over time, when particular drivers, such as those related to fossil fuel use, become more material given the required transition, weights of these drivers will become higher leading to lower company scores for laggards and higher company scores for frontrunners.

- **Sector score:** The company score reflects sustainability performance of companies relative to their peers. However, some sectors are having a higher negative or positive impact on the planetary boundaries or social foundations than others and are therefore exposed to higher sustainability risks. For this reason, a positive or negative sector score, ranging from -20 to 20, is added to the company score, reflecting the average sector performance on the material drivers compared to other sectors. Adding the sector scores allows for a between-sector comparison of companies.

- **Analyst score:** The analyst score, ranging from -20 to 20, allows a further distinction between leaders and laggards at Cardano's discretion. This can be desirable in some cases. For example, sectors can be defined quite broadly. Sectors that have a generally negative impact can include companies with a more positive impact. In these cases, the analyst score can balance out a negative sector score. This will favour investment in the specific company as opposed to other companies in its sector. Giving a higher analyst score can also be justified if the positive solutions that a company provides are not reflected well enough in its company score. Increasing the analyst score is a tool to make investment in these companies more attractive for portfolio managers.

On top of this, issuers classified as 'non-compliant to international standards', 'harmful' or 'non-adapting' automatically receive an ESG score of zero, to show that their sustainability credentials are far below standards. Those classified as 'at-risk' receive a downgrade of 20, to reflect their material risks and negative impact.

3. Cardano ESG Country Score

Cardano calculates an ESG score for sovereigns, called the ESG Country Score. For sovereigns that are not classified as 'non-compliant to international standards' in our Sustainable Investment Policy, a further distinction in sustainability can be made by using this Cardano ESG Country Score. The score reflects a sovereign's risks related to how it manages material sustainability topics. Sub-sovereigns generally receive the same ESG score as the countries to which they belong.

The Cardano ESG Country Score ranges between 0 and 100 and consist of a weighted average of three elements:

- **Environment score (25%):** The environment score is a representation of how sovereigns manage environmental, natural resources, pollution and climate related risks and opportunities. Their environmental policies and practices impact the climate vulnerability of their economies and society, their resource scarcity and dependency, and the conservation state of their nature areas and ecosystems. A low environment score is likely to lead to a bad or declining state of the environment, which may have serious repercussions on resilience and the state of the economy and society. This is expected to have implications for the growth potential of economies, and therefore for public finance.

  The environment score combines multiple data sources. It is based on the natural resources risks and environmental externalities scores from our main external data provider, on the Environmental Performance Indicator from the Yale Center for Environmental Law & Policy and the Earth Institute from Columbia University, and on data from the Global Adaptation Initiative from Notre Dame University. The first two data sources focus on the general state of the environment and environmental policies. The last data source focusses on climate vulnerability and adaptation readiness of countries.

- **Social score (25%):** The social score considers how sovereigns manage human and social capital such as basic needs, inequality, education, living conditions and healthcare. Their social practices impact the wellbeing of the population and the economic environment in countries. Low social scores indicate that countries have a lower educated population, living in worse conditions, with more difficult access to healthcare and sufficient and healthy food and with more inequality between rich and poor groups. This is likely to be detrimental for economic resilience and therefore for public finance.

  The social score is based on the social pillar sub-scores from our main data provider. This score considers human and social capital topics such as education, basic needs, human and social capital infrastructure, economic environment and wellness of the population. The data for this mostly originate from the World Bank, IMF and United Nations.

- **Governance score (50%):** The governance score considers the political and financial governance of countries. It considers the strength of institutions, the judicial system, governance effectiveness, stability, corruption control and political rights and civil liberties. It also includes how well sovereigns financially manage government budgets. Their governance practices impact wellbeing, welfare and future growth potentials of countries. Low governance scores are an indication for higher risks in creditworthiness.

  The governance score is based on the governance pillar from our main data provider. It considers indicators on the financial and political governance of sovereigns. The data for this mostly originate from the World Bank, IMF and Freedom House. The governance score weighs double as governance practices are one of the major drivers impacting how sovereigns manage their environmental and social risks and opportunities.

4. Oversight and governance

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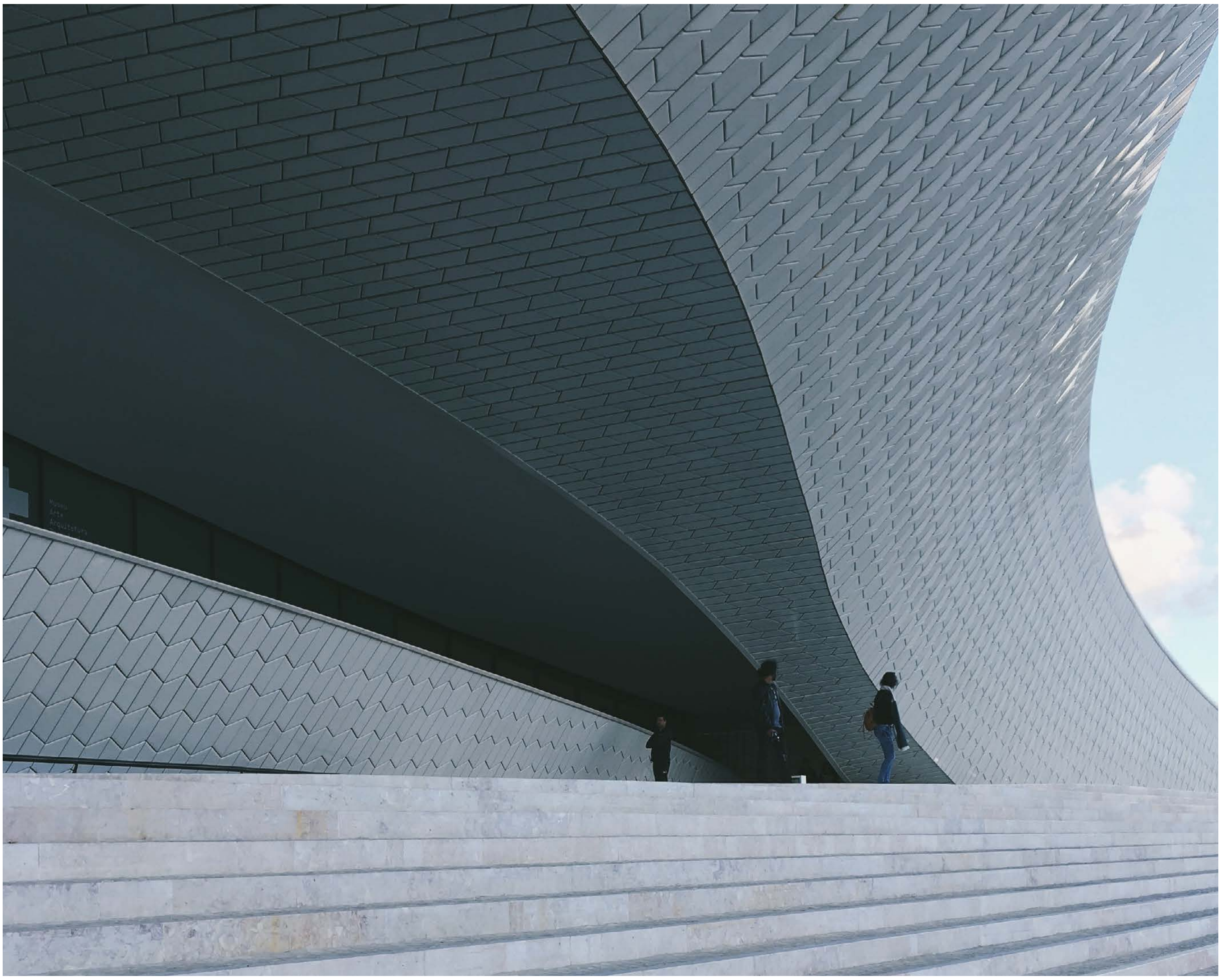
We update the Cardano ESG scores twice per year, on July 1 and January 1. The update process is carefully managed and requires inputs from multiple departments within Cardano. The process is audited by an external auditor. When updating the ESG scores, a responsible investment officer from the Cardano Sustainability Group (CSG) evaluates the differences compared to the previous scores. These differences are explained by considering changes in the behaviour of companies or sovereigns on their material sustainability themes, by considering changes in the exposure to certain sustainability themes, and by considering changes in the status of the entity in the Cardano Sustainable Investment Framework. The explanations are checked by a second responsible investment officer and discussed with the portfolio managers who can give their feedback on the changes in the scores. If there is disagreement between the CSG and the portfolio managers about a change in the ESG score, the Sustainability Categorisation Committee has the final say.



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