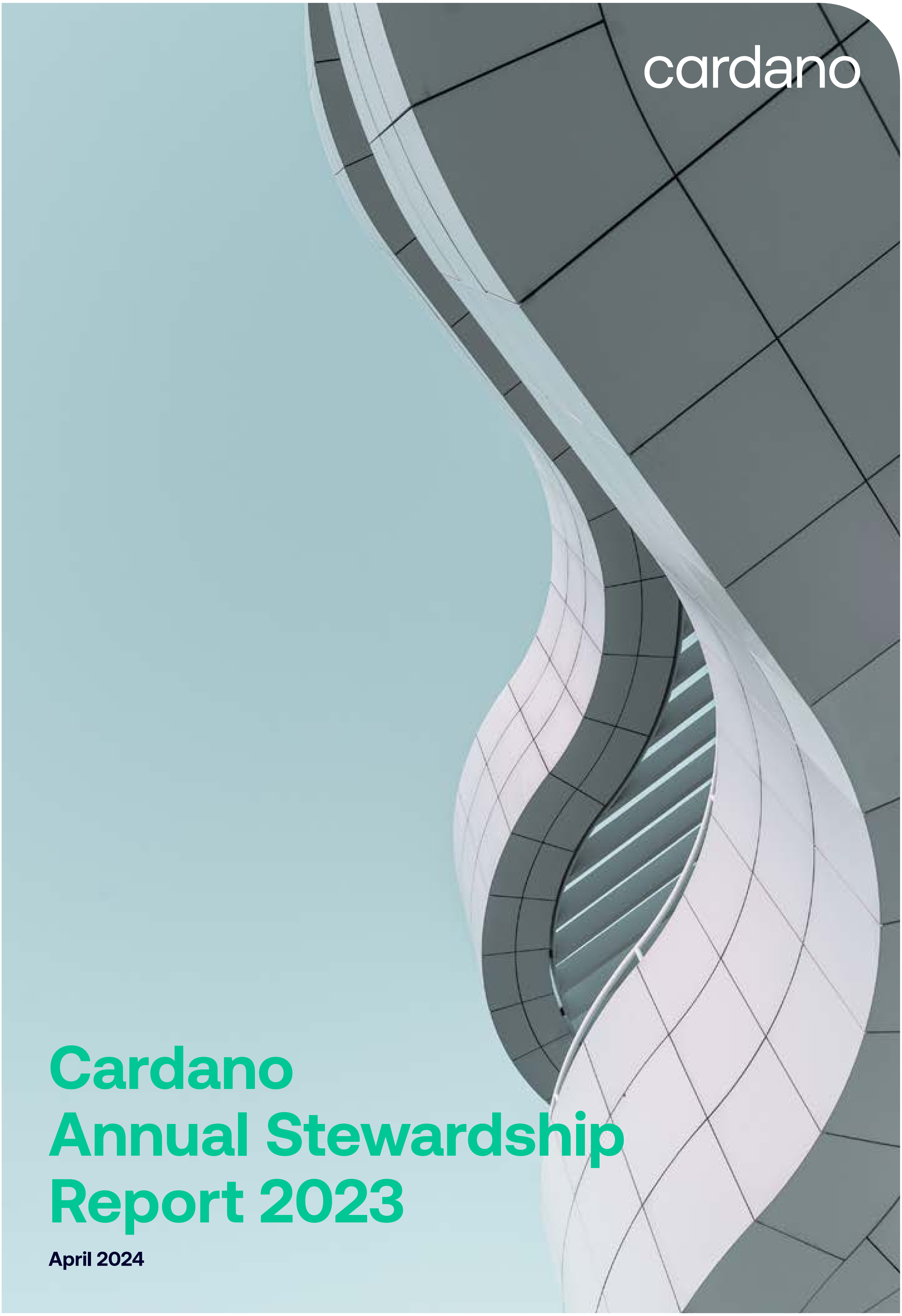


Cardano Annual Stewardship Report 2023

April 2024

Our submission

This document has been prepared by Cardano Risk Management Limited and Cardano Asset Management (hereafter, "Cardano") to comply with the UK Stewardship Code.

Cardano is a UK Stewardship Code signatory since 2021. Following the acquisition by Cardano of ACTIAM in 2022 (now renamed Cardano Asset Management), we applied in 2023 for the first time as a combined entity.

Over the course of 2023, we continued the integration of Cardano Asset Management within the Cardano Group and we updated our sustainability policies. As of June 1st 2023, ACTIAM was rebranded under a single name Cardano. On that date, the legal entity ACTIAM N.V. was changed to Cardano Asset Management N.V. and at the end of 2023, the names of the investment funds were updated to Cardano. This rebranding allows us to continue our journey as one Cardano.

As part of this journey, we went through an internal project to define a group wide Sustainable Investment Policy. The Sustainable Investment Policy from Cardano Asset Management was reformulated in 2023 such that it is now applicable for the Cardano Group. More details of this process are described in this submission.

We appreciate the feedback given by the Financial Reporting Council (FRC) after our successful application in 2023. We carefully looked at the feedback and incorporated it within the report. For example, we have tried to further explain how we serve the best interests of clients and beneficiaries, added examples where we invest indirectly through third parties and explained how our services have supported our clients in exercising effective stewardship.

Cardano Risk Management Limited is a fiduciary manager and investment advisor to UK asset owners, including pension schemes and endowments. Cardano Asset Management is an investment manager to UK, Dutch and European asset owners, including pension schemes and insurance companies. We therefore adhere to both:

- Principles for Asset Owners and Asset Managers (because we are an asset manager), and
- Principles for Service Providers (because we are an investment advisor)

When our response refers to our specific activities as an asset manager or an investment advisor, we will highlight it. Otherwise, we refer to ourselves in this document as "Cardano" as our approach to stewardship applies to our group as a whole.

Across our response we have sought to limit repetition, and we encourage readership of the report as a whole.

Kerrin Rosenberg
CEO Investments Cardano UK

Martine Snoek
Group Head of Sustainability

Contents

Our submission	**2**
Updates in 2023	**5**
Principle 1:	**6**
Our Purpose	7
Our Strategy, Culture and Beliefs	7
Social Foundations and planetary boundaries	7
The transition to a sustainable society	7
Our role	8
The continuing evolution of our culture	8
Our investment beliefs	9
Our stewardship beliefs	10
Principle 2:	**13**
Integration of stewardship in sustainability oversight and governance	14
Stewardship at Cardano	15
Our approach to stewardship	16
Resourcing stewardship activities for direct investments	18
Incentives and Training	20
Equality, diversity and inclusion (EDI)	21
Improvement	21
Principle 3:	**22**
Cardano Risk Management Limited	23
Cardano Asset Management	24
Principle 4:	**25**
Managing market-wide and systemic risks	26
Participation in policy consultations and market initiatives	30
Participation in industry initiatives	31
Principle 5:	**34**
Review of policies	35
New Voting Provider and Engagement Database	36
2023 Updates relating to our indirect investments	36
Principle 6 of the Principles for Asset Owners and Asset Managers:	**38**
Principle 5 of the Principles for Service Providers:	**38**
Reflecting clients' needs and reporting	40
Reflecting	42

Continued

Principle 7:	**43**
Integrating ESG – our Sustainable Investing approach	44
Sustainable Investment Solutions	45
Principle 8:	**53**
ESG data	54
Third-Party Manager Engagement Activities	54
Principle 9:	**58**
Engagement for our direct investments	59
Engagement with Fund Managers	62
Principle 10:	**65**
Collaboration	66
Policy Engagement	67
Principle 11:	**69**
Principle 12:	**75**
Exercise of voting rights for our direct investments	76
Cardano voting policy	76
Annual vote audit	77
Disclosure of our votes to the market, investee companies and clients	77
Voting Statistics	77
Voting Case Studies	77
Engagement on voting activities with fund managers for our indirect investments	80

Updates in 2023

Since last year's submission, several sustainability updates and publications are worth highlighting for Cardano:

- As part of the rebranding of ACTIAM to Cardano and the continued integration of the different entities under one Cardano, we went through an internal project to define a group wide Sustainable Investment Policy. The Sustainable Investment Policy from Cardano Asset Management was reformulated such that it is now applicable for the Cardano Group. All policies were rebranded.
- We published a new standalone Impact Investment Policy, which highlights the importance of financial institutions investing in impact solutions and how we as investors can help companies increase their positive impact.
- We published a new standalone Biodiversity Strategy, which describes the steps we are taking to achieve our biodiversity target.
- We went through an RFP process and changed proxy voting providers, resulting in enhanced reporting, transparency, accessibility and services.
- We subscribed to a new engagement platform and reporting tool from an external provider to improve efficiency in tracking and reporting on engagements.
- We published a Stewardship Policy, outlining our approach to effective stewardship.
- We made improvements to the Voting policy including refining wording and adding a section on cyber risk oversight.
- We continued to play leading and active roles in collaborative engagements including Climate Action 100+, our own satellite-based Engagement towards Zero Deforestation together with Satelligence, and Platform for Living Wage Financials.
- We joined new collaborative initiatives in 2023 including the Investor Initiative on Hazardous Chemicals and the Principles for Responsible Investment (PRI) led Stewardship Resourcing Working Group.
- We engaged with and provided feedback to ESG data providers MSCI and Sustainalytics to improve data quality and develop new offerings.
- We escalated engagements with companies through our votes, including at Amazon, Pepsi and Equinor.
- We pre-declared key votes on shareholder resolutions using the PRI platform to increase transparency.
- We communicated voting rationales directly to companies on key votes through letters sent ahead of the Annual General Meeting (AGM).
- For our indirect investments, we continued to drive third-party managers forward on their sustainability journeys. In 2023, we challenged managers to do more and be ambitious. In our yearly letter to managers, we outlined our views and expectations across several areas: Biodiversity, Diversity & Inclusion and Collaborative Engagement.
- We engaged with a range of third-party managers, challenging them on their stewardship practices backed by data on voting and supported by our own analysis. In some cases, managers were downgraded because of stewardship concerns.
- We published our Progress Report 2023 as part of the Net Zero Investment Consultants Initiative.
- In our Q4 ESG client report, we wrote a thought-leadership piece on the outcomes of COP28. Our other quarterly reports included thought pieces on current sustainability topics such as poverty and biodiversity.

Some of these updates will be discussed in more details in this submission.

Principle 1:

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Our Purpose

Founded in 2000, Cardano is a privately-owned, purpose-built pensions advisory and investment specialist with a leading-edge sustainability offering. We are widely recognised as a market leader in the provision of specialised services to private-sector and collective pension schemes in the United Kingdom and the Netherlands. Our c. 550 professionals strive to deliver better and more secure financial outcomes through:

- **Advisory:** We are the largest specialist provider of pensions and corporate finance advisory services in the market, advising over 350 clients, both sponsors and trustees, with combined pensions assets approaching £400 billion, ranging from £2 million to over £20 billion.

- **Investment Management:** A purpose-built asset and fiduciary management provider, with a leading-edge sustainability offering, serving pension schemes, insurance companies, banks and distribution partners with £52 billion of assets under management and £22 billion of assets under advice as of 31 December 2023.

- **Defined Contribution (DC) Pension Provision:** We manage over £20 billion in DC assets across the UK and the Netherlands. In the UK, we operate NOW: Pensions, an award-winning UK workplace pension provider, serving over 2 million members and tens of thousands of employers from a wide range of industry sectors. NOW: Pensions is applying for the first time this year to the Stewardship Code as an asset owner and their application is separate from this one.

- We bring a distinct approach to advisory and investment management that challenges the status quo. By bringing together cognitively diverse teams with a mix of perspectives and skill sets, we reduce blind spots and open up new possibilities, delivering tailored solutions for our clients. We go beyond financial returns; we contribute to pension security and to the transition to a sustainable world.

Our mission is to deliver better long-term savings solutions that benefit everyone. We believe that steady, predictable and sustainable returns are in our clients' long-term interests, and that these can be achieved through strong stewardship and risk management and by incorporating sustainability into the core of our business, and the products and services we offer our clients.

At the heart of our approach to sustainable investment are our people. Our dedicated client, investment, sustainability, operational and technology professionals are experts in understanding client needs, investments, and all things sustainability: environmental, social and governance (ESG) data, sustainability research, stewardship, impact investing, and thematic sustainability issues, such as climate change and biodiversity. By bringing together diverse teams with a mix of perspectives and skill sets, we reduce blind spots and open up new possibilities, delivering tailored solutions for our clients.

Our purpose which puts sustainability and the long-term interests of our clients at its centre enables effective stewardship. Our well-defined purpose guides our decisions, aims for long-term value creation benefitting our clients and beneficiaries, promotes accountability and fosters sustainable outcomes.

Our Strategy, Culture and Beliefs

Sustainability has always been at the core of our culture and how we run our business. Cardano Asset Management (then ACTIAM) was one of the first asset managers in the world to incorporate sustainability issues in fund and asset management.

Our clients are overwhelmingly pension schemes and insurance companies in the UK and Europe. Their members and beneficiaries are representative of society across industries, income levels, age groups and cultural and ethnic backgrounds. The youngest members of these pension schemes may be over 50 years away from retirement. Many of them will have families who will live into the next century. All will be affected by the immense challenges we face in the coming years.

Social Foundations and Planetary Boundaries

We recognise that society is at a crossroads. Current economic behaviour is putting the planet and society at risk. Climate change, increasing inequalities, security concerns, environmental degradation and resource scarcity are major global challenges faced by society and economies worldwide.

We base our sustainable investment framework on the concepts of social foundations and planetary boundaries. Global resource consumption already surpasses the earth's regenerative capacity, and to be able to feed a growing world population it is urgent that we solve these challenges. Society can only be sustainable if it produces and consumes within the boundaries of what the planet can sustain.

The transition to a sustainable society

We believe in a society in which people and businesses can prosper, while operating within the planetary boundaries and respecting social foundations, now and in the future. 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.

We believe multiple transitions (systemic changes) in human activity are needed to achieve this sustainable society, which create both financial risk and opportunity.

We support investing in these transitions to make our clients' portfolios more resilient to uncertainty and realise better returns, while aiming to contribute to the transitions in the real world. Not only are these outcomes good for society, but they would also directly reduce the systemic risks faced by the global financial system and will therefore lead to better financial outcomes for our clients' members.

Our role

We can contribute to achieving these objectives in the way we invest and manage and steward our client assets; it is our responsibility to do so. Sustainable investment stewardship is core to our corporate values and is right for our business, our society, and our world.

These concepts form the basis of our sustainable investment framework including our approach to stewardship that we elaborate on later in this submission.

The continuing evolution of our culture

In 2023, the Management Board of Cardano worked on and approved a revised Code of Conduct, applicable to all employees of the Group and which replaces the pre-existing individual codes. This Code describes our values, our commitments, and our responsibilities and is externally available.

Our Group Values are shown in the graph below.

The code also describes our commitments and responsibilities towards our clients, our markets, our colleagues, our company, and our society. This new group level code of conduct highlights how clients and sustainability are core to Cardano's values. As well as our client and colleague experience, Cardano is mindful of the real-world impacts of our activities and is committed to managing sustainability risks to our business and to wider society. Cardano has always embodied a sustainable mindset and policies and works hard to achieve better financial outcomes; managing sustainability risks is key to achieving this.

From a stewardship perspective it is important to note how our purpose, strategy and values tie directly into our investment beliefs, and our consequent stewardship practice.

We highlight:

- Our approach to stewardship is a consequence of our mission which is to deliver better long-term savings solutions that benefit everyone.
- Our approach to stewardship is motivated by our values around making an impact for a fairer society and for our planet, and by being impactful through our activities.

As we discuss in the investment beliefs below, sustainability must be at the heart of delivering the financial outcomes our clients aim to achieve.

Our investment beliefs

Our mission is to deliver better long-term savings solutions that benefit everyone. We believe that steady, predictable, and sustainable returns are in our clients' long-term interests, and that these can be achieved through strong risk management and by incorporating sustainability into the core of our business, and the products and services we offer our clients.

Our clients are typically asset owners, institutional investors such as pension funds managed by groups of trustees operating on behalf of their member beneficiaries with long term time horizons. They have a fiduciary interest to act in the best interests of their members. For most of our clients, the financial risk, return and outcomes of their investments is of primary importance. And as a fiduciary manager and advisor we aim to facilitate them achieving those outcomes.

Our approach to investing is articulated in detail in our Sustainable Investment Policy, which includes our sustainable investment framework, responsible capital allocation approach and stewardship approach, which aim to create long-term value for our investments, and sustainable benefits for the economy, the environment and society. Below we extract key concepts relevant to our approach to stewardship.

We approach making such investments on our client's behalf with "dual objectives" or a double materiality perspective. We believe that we should aim to achieve both financial returns commensurate with the risks that we take, and that we should contribute to the transition to a sustainable society (defined below in more detail). We believe these two objectives are mutually re-enforcing of each other.

Specifically:

- Financial risks are best managed by incorporating ESG factors into the risk assessment of each investment. Many ESG risks are financially material to investments. Good stewardship practices will therefore create long-term value at the individual investment level.

- That at the economy and systemic level, systemic sustainability risks (both environmental and social) are amongst the most fundamental future risks faced by investors. These systemic risks will impact economies through direct effects, policy, growth and inflation, which will in turn impact market outcomes and our client portfolio level outcomes. Our clients' portfolios are exposed to a wide range of systemic sustainability market risks, and cannot diversify some of these systemic risks away. But through sound stewardship practices we can advocate for real economy changes, that if successfully achieved will lead to lower financial risks in the future for members. Therefore, good stewardship will lead to sustainable benefits for the economy, the environment and society, and hence better financial outcomes of our client portfolios.

Hence our approach to stewardship seeks to both deliver financial outcomes at the individual investment level, and to contribute to the transition to a more sustainable society to the benefit of the economy, the environment and society, that will ultimately deliver better financial outcomes at a portfolio level for our clients. We believe it is therefore in strong alignment with our clients' fiduciary duties to their members.

We believe that the financial outcomes are driven by two key investment processes:

- Capital Allocation
- Stewardship and Engagement

As a fiduciary manager and asset manager we manage some portfolios directly on behalf of clients and others are outsourced to third parties or make extensive use of derivative instruments. Capital allocation therefore includes two channels:

- Direct Capital Allocation: Where we are responsible for making an investment in an issuer – a corporate, a sovereign issuer, or even a specific project across public and private markets in both primary and secondary market allocations.

- Indirect capital allocation: where we gain exposure to investments either through third party managers or via derivatives executed with counter-parties.

Our approach to Capital Allocation and Stewardship and Engagement will differ between these two channels.

- For direct capital allocation we have an Investment Framework that determines our classification of every investment we make from a forward-looking sustainability perspective. This classification determines whether a direct investment is eligible for our portfolios and what our stewardship and engagement priorities for that investment will be. (For more detail see principle 7)

- For indirect capital allocation, we recognise our approach to sustainable investing is only one of many valid sustainable investment approaches. We apply a framework for assessing the approach that third-party managers or counterparties take to integrating ESG risk and sustainability into their processes, determining whether they meet our minimum standards, and we engage with those third-party managers and counterparties to improve their approach over time. (For more detail see Principles 7 and 8).

We believe in a robust approach to risk management which bears on our approach to Stewardship. This includes:

- Using scenario analysis to consider not only likely outcomes but alternative scenarios and creating portfolios that are robust to a range of potential economic and sustainability/climate scenarios.
  - We are sceptical of statistical modelling of many risks and prefer an approach that considers potential outcomes without assigning probabilities of overly relying on statistical models.
- We aim to hedge unrewarded risks where it is economic to do so (e.g. liability driven investment (LDI) risks for DB pension funds)
- Diversified asset allocation (focused on fundamental economic scenario diversification rather than statistical diversification) leads to longer term more stable outcomes
- Deliberate use of "protective" instruments, such as options
- Actively managing the asset allocation to protect the downside and capture the upside
- Access to diversified third party manager skill can lead to more portfolio diversification where this is consistent with client's expense budgets and beliefs
- Influencing risk outcomes can be done through effective stewardship and engagement both at the investment level and at the systems or ecosystem level. In the case of some systemic risks such as climate change, biodiversity loss or social inequality, this may be the only mechanism to influence risk outcomes.

Managing these risks enables Cardano to practice effective stewardship as it participates in safeguarding the long-term interests of our clients and beneficiaries.

We seek to have as much impact as possible in driving financial and real world outcomes in different investment situations using different instruments and approaches. To assist in refining the most appropriate approach in each circumstance we have developed a Model of Influence, linked here, which guides our teams towards which activities and tools are more or less impactful in different circumstances. This informs our approach to stewardship as it is applied to different strategies and asset classes.

Our investment beliefs drive our activities and hence outcomes for our clients in line with our purpose and enables effective stewardship of our clients assets. In addition to these key high-level beliefs, we have many specific investment beliefs which we have not elaborated on in more detail here.

Our stewardship beliefs

How we approach stewardship

For our direct and indirect investments, we undertake active ownership across our investment activities, engaging the companies we own (both through bonds and equities), in our equity investments voting at shareholder AGMs, and engaging our third-party managers, counterparties, regulators and policymakers.

Our purpose, investment and sustainability beliefs influence our stewardship activities. By exercising engagement and voting activities, we aim to drive positive change aligned with the interests of our clients and beneficiaries. The below describes in more detail why we do stewardship.

Managing systemic risk
As a globally diversified investor aiming to maximize risk-adjusted returns there is a benefit to us using stewardship to reduce systemic risk.

These include among other climate change and biodiversity risk, as well as financial and social stability risk

Maintain investments while pushing for improvements
For companies we see as adaptive and capable of providing long-term value – but have not yet transitioned – we use influence to engage the company to change.

Real world sustainability outcomes
We use stewardship to contribute to positive real-world sustainability impact.

Improving long term risk-adjusted returns
By using stewardship activities to encourage improvements to reduce sustainability risks (like climate change) and improve economic resiliency it lowers our systematic portfolio risk and improves our risk-adjusted returns.

Our stewardship activities are rooted in the conviction that engagement and voting are powerful tools to drive companies toward embracing and acting on the sustainability transitions currently underway. Our approach is carefully aligned with the Cardano Sustainable Investment Framework, ensuring that our investments support businesses capable of adapting to and thriving in a sustainable future. Our stewardship is not just about dialogue but about setting clear objectives, monitoring progress, and, if necessary, taking decisive actions such as voting against board members, filing shareholder resolutions, or adjusting capital allocation. We understand that some engagements may not always bring the desired outcomes, and we therefore remain transparent and realistic in our approach. Our stewardship approach is grounded in the following principles for effective stewardship:

- **Collaboration** – engagement is more efficient and impactful when managers collaborate, not just for the investors, but for the companies too (who will field fewer, but higher conviction, engagements from their investors); we collaborate with other investors and market organisations that drive sustainable investment practices.
- **Quality over quantity** – we are interested in meaningful engagements, seeking tangible results with strong reporting.
- **Long-term** – we encourage long-term relationships with companies. Successful stewardship can take many months, maybe even years.
- **Real world impact** – we are interested in engagement on topics that contribute to positive real-world sustainability impact and address systemic issues (such as, reduction in absolute carbon emissions).
- **Innovation** – we encourage innovation, for example, our satellite-based engagement towards zero deforestation.
- **Integrated** – stewardship outcomes contribute to subsequent portfolio investment decisions.
- **Goal-oriented** – we set objectives and work towards those; if progress is not meaningful, we will consider escalation including voting against board members or changes in capital allocation.
- **Transparency** – some engagements, perhaps even many, will be unsuccessful. We will report on our progress for both successful and unsuccessful engagements.

We aim to apply a consistent approach to Stewardship across asset classes, geographies and public and private markets all of which are addressed in our sustainable investment framework. The key distinctions in the process are between

- the approach applied to direct investments (for example equities or bonds purchased by our inhouse portfolio managers) where we apply our own Cardano Sustainable Investment Framework and
- third-party asset managers where we apply a consistent Third Party ESG Assessment framework to assessing their policies and processes across asset classes and geographies.

These distinctions are highlighted throughout this report.

Beliefs about Third Party Manager Stewardship
We do not believe that there is only one approach valid to sustainability or ESG integration, our approach is one amongst many that may be valid for our clients. We observe that many investment managers are early on their journey on sustainability, and many have not yet adopted an approach consistent with our "dual objective" approach.

We believe one of our most effective levers for change, given the size and importance of our clients' assets, is engagement with third party investment managers we allocate to where we can act as a partner and educator and aim to improve the standards applied in the industry.

To achieve effective stewardship of the underlying assets we believe that there needs to be consistency between an appointed investment manager's investment beliefs, their identification of the key material risks and objectives, their engagement with companies around these risks, their approach to voting, their approach to escalation if companies fail to engage (voting against board members, in favour of shareholder resolutions, and co-filing of shareholder resolutions if necessary) all of which should ultimately tie back to the portfolio through for example exclusions if engagements fail to make progress. We also believe effective stewardship is best achieved through effective collaboration with like-minded investors and we would like to see third party managers engaged in collective efforts where appropriate.

As a result of these beliefs, we usually reject the approach of "split voting" being followed by some market participants and would not ask a manager to vote in line with a different policy from their own primary policy. We believe that such an approach necessarily divorces the engagement activity of an investment manager from voting, escalation and portfolio actions and this will lead to suboptimal outcomes for our clients and is inconsistent with our beliefs.

Instead, we place great emphasis on the consistency between the investment manager's investment beliefs and their actions in terms of stewardship and engagement. This is a key criterion both at appointment and in the ongoing monitoring of investment managers. This is explained under Principle 7 and Principle 12 in more detail.

Effectiveness of Cardano in serving client stewardship needs

Through effective stewardship, we seek to integrate and serve clients' best interests.

We aim to evidence our effectiveness by being transparent about our activities, evidencing impact and through clear communication and alignment with our investment framework and seeking client feedback through regular meetings with our clients. We believe this enables us to integrate clients' interests and to service their stewardship needs better over time as we seek to learn what is working well and what could be improved.

- **Transparency:** We provide transparent updates on stewardship activities in a quarterly report to clients. These reports include engagement statistics to demonstrate progress on milestones, and other statistics about which initiatives we are involved in – highlighting progress with several case studies per quarter. These cases describe our objectives, how the dialogues are progressing, how the companies are responding and where the challenges are. At least annually (and for many clients quarterly), the reports contain comprehensive voting statistics and detailed case studies to demonstrate how we implement our voting policy with specific vote decisions and escalations. By being transparent, we enhance engagement and trust with our clients and beneficiaries.

- **Evidence of impact:** Our clients look for tangible evidence of the impact of our stewardship activities. For this, we track progress on individual engagement objectives, as well as tracking whether engagements are successful, neutral or unsuccessful. For 2024, we will be investigating improved methods for consistently tracking engagement development that can show clients how investees are progressing on a more structural basis. Annually, we also provide details via questionnaire responses for clients, highlighting key votes, the outcomes of our voting decisions, and how we observe that these have led to progress.

- **Communication and alignment:** Although our stewardship activities are an implementation of the Cardano Sustainable Investment Framework, clients may provide input on themes or engagements they find important and provide feedback on the quality, depth and breadth of our activities. We provide clients with updates over calls when requested about our stewardship activities as well to share with them how we prioritise our activities and make decisions.

- **Third party manager assessment and engagement:** We provide an annual update on our third-party manager ESG rating assessment process which includes assessments of their own stewardship and engagement processes. These ratings can and have led to re-ratings of managers including the downgrading of several managers in 2023 on the back of poor voting and engagement performance that we felt was not in line with leading sustainable investment practice. We provide clients with details on managers stewardship activities including most significant votes.

- **Collaborative action:** we believe that by participating effectively in collaborative engagement initiatives we are able to be more effective than we would be engaging on our own. This is evidenced in later principles.

- **Ecosystem participation:** As evidenced in Principle 4 and Principle 10 we have extensive involvement in industry initiatives. Involvement with bodies such as the PRI, the IIGCC, the ICSWG and others ensures we remain at the forefront of thinking on many stewardship topics and are able to contribute to future direction and shaping of the industry around these important topics.

Looking ahead, we will continue improving on our transparency, taking into account client feedback and therefore continue building on the trust with our clients. We will also continue to refine our collaborative engagement efforts and ecosystem engagement.

Principle 2:

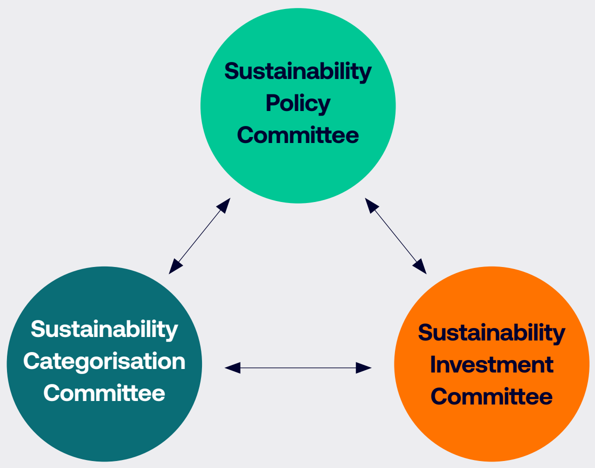
Signatories' governance, workforce, resources, and incentives support stewardship.

Integration of stewardship in sustainability oversight and governance

Sustainability governance
To oversee our sustainability activities, within Cardano, we have implemented a sustainability governance structure. This structure was updated in 2023 to integrate the governance and oversight of sustainability across the group as we moved to one unified Cardano. This supports stewardship as it allows us to have one approach to sustainability, taking into account the views of the different businesses and clients. By having representatives of different teams in our governance of sustainability, we enhance internal communication as well as consideration of multiple perspectives, which lead to better decision making.

The graph below shows this governance framework.

Our three sustainability committees



The Sustainability Policy Committee is responsible for setting overall sustainability strategy and approving sustainability policies and frameworks, prepared by Cardano Sustainability Group.

The Sustainability Investment Committee, a part of the Investment Committee, is responsible for implementation of sustainability polices and frameworks into investment strategies and decision-making.

The Sustainability Categorisation Committee is responsible for determining how entities (companies and governments) are classified under our sustainability policies and frameworks, as well as the detailed methodologies that determine ESG scores, exclusions and our approach to stewardship.

The activities of these committees are supported by the Cardano Sustainability Group (CSG) which is described in more detail in the Resourcing section below.

The Sustainability Policy Committee (SPC) oversees our sustainability policies, both for Cardano Group and for our investment client portfolios. It meets monthly with representatives from the Cardano Group Board, the Cardano Sustainability Group, Investment teams and commercial business. Decisions made by the SPC are discussed separately in the Board meetings of Cardano Group affiliates. Members from the stewardship team will attend the committee meetings when required (for example to present the voting policy updates).

- The SPC approves any changes to the group sustainable investment policy as and when these are made. This includes the sustainable investment framework, targets such as the Net Zero commitment, the stewardship policies, strategies on climate, biodiversity, and water etc.
- The SPC also approves the annual update to the voting policy. We update our voting policy every year to keep it in line with market best practice and to incorporate our evolving views on how to effectively use our votes as a stewardship tool. Each year, we have increased expectations about corporate disclosure, oversight and performance related to the sustainability topics covered in our policy. A member of the stewardship team will present the updates at the relevant committee meeting and be there to answer questions the policy committee members may have.
- The SPC also approves the annual process of the voting audit, which ensures that the vote decisions have been applied in line with the policy.

The Sustainability Categorisation Committee (SCC) decides on the classification of all investments in line with Sustainable Investment Policies agreed at the SPC, which result in decisions on what can be invested by different portfolios and what is excluded.

- The committee includes representatives from our Sustainability Group, Investment teams, Risk Management and Product Management teams, and meets at least quarterly.

- One of the voting members of the committee is the head of the stewardship team. The whole stewardship team is also present at the meeting to be able to provide input on engagements which may be relevant to our categorisation of a specific company. This allows for stewardship activities and points of view to be integrated in the investment portfolio decision process that determines whether positions are allowed in our direct portfolios.
- This committee has oversight of quantitative models and qualitative assessments and considers proposals for the reclassification of investments between categories.
- Investment teams can send non-voting representatives to this meeting and raise challenges to classification proposals prepared by the Cardano Sustainability Group.

The Sustainability Investment Committee focuses on the implementation of the sustainability policies in investment decision making in line with our Sustainable Investment Policy. It includes representatives from the Sustainability Group and our Investment teams, who meet monthly.

Kerrin Rosenberg, CEO, Cardano Investment, is the Cardano Group Management Board member with overall responsibility for Sustainability and hence stewardship.

Stewardship at Cardano

Our stewardship policy outlines what we see as effective stewardship. It describes how we see the importance of engagement, which tools we use to work with companies to make the transition towards a sustainable way of operating and how we set engagement priorities.

For our direct investments, we prioritise our engagements with entities on the topics listed in the figure below. These topics are relevant and material from an investment perspective and considered the most urgent for achieving system resiliency. Our focus is not only on the immediate sustainability performance of a company but also on its broader contribution to issues that align with the major environmental and social transitions we have identified.

We have published Climate, Biodiversity and Water strategy documents which describe in detail the corresponding targets, as well as the specific actions we will pursue to make progress on these targets. These strategies provide us with the input to set priorities and allow us to focus.

When we engage, we aim to discuss similar topics with multiple companies within one value chain (for example, all the players along the commodity value chain from retailers to producers) or with multiple companies within a sub-sector. This allows us to better understand the challenges and complexities of achieving progress or implementing solutions to complex issues. It helps us as an investor to set better-informed objectives for our dialogues. The topics which we focus on in our engagements are listed below.

Environmental				Social		
Climate	**Biodiversity**	**Water**	**Materials**	**Basic Needs Provision**	**Fairer Society**	**Governance**
Decreasing fossil fuel use Alternative energy sources Carbon capture Energy storage Lower emitting industrial processes Adapt to physical risks	Reduction of natural land conversion to agricultural, livestock or human occupation Deforestation Impacts of fertilizers, pesticides & chemical pollution Sustainable agriculture & reforestation Plant-based proteins	Reducing freshwater use for human, agricultural and industrial processes in water scarce areas Water pollution Impacts on oceans through pollution and overfishing Wastewater treatment Sustainable fishing	Reducing impacts of industrial processes and their use of natural resources, through overexploitation of scarce resources, environmental impact of the extraction and processing Pollution of by products affecting air, earth and water Moving towards a circular economy Waste management	Clean water Nutrition Healthcare Access to energy, housing & financial services	Equal opportunities through access to education & training, income & work Diversity and gender equality Community support	Strong governance that considers the impacts of activities on people, communities & environment Respecting minimum standards, right to unionize Stakeholder capitalism

Our approach to stewardship

Under Principle 1, we described our approach to stewardship and the principles we have implemented for effective stewardship: collaboration, quality over quantity, long-term, real-world impact, innovation, integrated, goal-oriented and transparency.

We provide here two case studies on how this applies to our direct and indirect investments. These show how:

- For direct investment: we dedicate resources on the long term, keep engagements opened as objectives are not yet met, leading to gradual and long-term change. Our collaborative approach also allows us to be more effective and impactful.

- For indirect investment: the case study relates to our third-party manager research and how we look for investment managers with strong sustainability credentials who engage and take their stewardship role seriously.

Direct Investments
Living Wage at Sainsbury's

In our 2022 submission, we provided a case study relating to our collaborative engagement with Sainsbury's on the topic of living wage. This is an update on the ongoing engagement and how we dedicate resources for effective stewardship. The topic being still of importance and the objectives not yet met, we continued to dedicate resources to this engagement in 2023.

Importance of the topic
The payment of a living wage is one component of good human capital management and a key topic in the engagements done by the ShareAction Good Work Coalition, which Cardano is an active member of. It can contribute to mitigating legal risks, enhancing company performance, and fostering social stability, reducing long-term systemic risk.

How we engage
The collaboration engages the UK Retail sector on working practices with a focus on insecure work, workforce disclosure, living wage, and diversity and inclusion. As part of the work on living wage, the main objectives of the engagements with the companies engaged are:

- Go beyond legal minimum wage requirements and pay a Real Living Wage as set by the Living Wage Foundation to all direct employees.
- Improving oversight of regular third-party contracted worker staff pay levels and work towards implementation of the real Living Wage for these workers.
- Become accredited as a Real Living Wage Employer with the Real Living Wage Foundation.

Sainsbury's is one of the companies we have engaged on living wage and there has been significant progress achieved on this topic:

- As reported in our previous submission, in 2022, after several dialogues and the co-filing of a shareholder resolution by some members of the coalition, including Cardano, Sainsbury's updated its wage rates so that all direct employees received at least the 2022 Real Living Wage.
- In 2023, the dialogue continued with the company and a call was held with several senior executives, including the CEO, where Sainsbury informed the coalition that their security third party staff were now also receiving Real Living Wage rates.
- In December 2023, the coalition sent a letter to Sainsbury's, which Cardano signed as well, acknowledging the steps already made and asking the company to continue the dialogue on payment of the real Living Wage for direct employees and third-party security staff.
- In January 2024, the company announced it had raised its rates for direct employees, which now follow the updated 2024 Real Living Wage rates.

The engagement with Sainsbury's is still ongoing and a call is being planned in 2024.

Indirect Investments
Engaging a credit manager on their own engagement activities

Within our third-party manager research, we look for investment managers with strong sustainability credentials who engage and take their stewardship role seriously. This process requires resources, but we believe it makes a difference. An example of this activity in 2023 was with a credit manager.

What
We engaged with one of our Credit managers as we believed they could report more information on how issuer engagements were progressing as well as outcomes.

How
We communicated our expectations to the manager regularly, specifically targeting calls with the manager's Head of ESG, together with written follow-ups.

Outcome
The outcome was successful. The Credit Manager added to their reporting to include data on the % of portfolio companies that are making (a) Carbon Emissions Disclosures, (b) SBTi targets or commitments, and (c) net zero commitments. This is now provided to us on a quarterly basis through reporting.

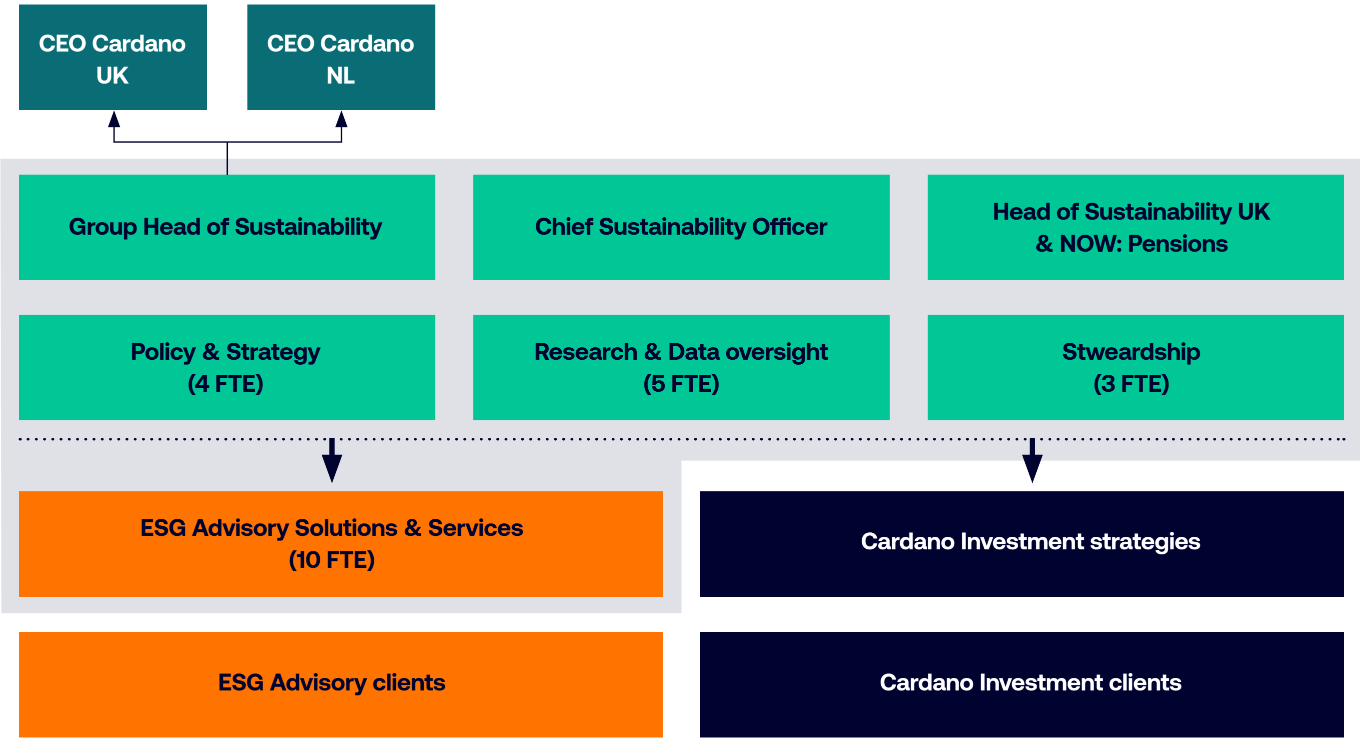
Resourcing stewardship activities for direct investments

We understand the importance of adequate resourcing of stewardship activities to enhance their effectiveness and serve clients' interests. Below we describe how our team is structured and organised, use of providers, as well as our approach to collective engagements which enables effective stewardship.

Cardano Sustainability Group (CSG)

While sustainability is a part of the objectives of every employee in the group and embedded into all of our investment processes, core Sustainability expertise, thought leadership and sustainability activities (e.g. policy development, research, screening, engagement and voting) are carried out by the Cardano Sustainability Group (CSG). The group of over 25 sustainability professionals serves the whole Cardano Group with sustainability running across all the businesses, services we provide and clients we serve. The below graph shows the make-up of the CSG:

Cardano Sustainability Group



International team of over 25 sustainability professionals with diverse backgrounds and subject matter expertise

Our stewardship activities for our direct investments are carried out by dedicated stewardship professionals and are supported by the whole CSG. For example, the stewardship individuals can draw on the experience of members of the research of policy groups when engaging businesses on a particular topic.

The CSG builds vision, intelligence and propositions for our internal sustainability strategies and external sustainability servicing. The CSG prepares our sustainability policies and strategic choices for individual sustainability themes. It performs research, organises and manages collaborative and individual engagements, implements our voting policies, and prepares shareholder resolutions. The team also provides advisory services to our clients.

The CSG operates at Cardano Group level. The Global Head of Sustainability reports to the CEOs of Cardano Risk Management Ltd and Cardano Asset Management N.V. The Chief Sustainability Officer (CSO) is responsible for thought leadership and developing innovative sustainable finance-related content for Cardano.

Every Cardano investment team is tasked with incorporating sustainability into their approach and work closely with the CSG, the CSO and the Investment Committee on Sustainability (ICS) to formulate specific implementation of our sustainability-related policies in their area. This includes implementation of stewardship activities which are coordinated with the CSG.

In 2023, we added one full time team member to the dedicated stewardship sub-team. In 2024, we plan to add another dedicated headcount to assist us with external and internal reporting of stewardship activities.

The Stewardship sub team of the CSG are responsible for

- Formulating proposals on the Stewardship and engagement policy, voting policy and stewardship priorities which are approved by the SPC.
- Implementing the stewardship process in line with the policies agreed at SPC with direct investments including engagement, voting and escalations
- Working together with various investment teams to effectively engage public investments
- Working together with our engagement support provider (Sustainalytics, see below)
- Working as part of the various collaborative engagement initiatives that we participate in including leading on specific investments in these initiatives.

For our indirect investments via third party managers, engagement is undertaken by our Manager Research and Operational Due Diligence teams. They will also draw on the expertise of the CSG if they need it on specific topics, but because other investment management organisations will have different approaches and priorities, they follow a separate process (explained in more detail in a later principle).

Thematic organisation
Within the CSG, our stewardship professionals are specialised by topics and oversee all activities relevant to stewardship for their area of expertise. They manage our relationship with investor collaborations, lead company engagements, carry out voting activities, do co-filing, participate in investor statements and other activities which are linked to stewardship.

This thematic approach to our stewardship activities has allowed individual team members to build expertise. As a consequence, the same investee company may be engaged on by different Cardano team members depending on the topic of the engagement. For example, a food manufacturer will be engaged on the topic of healthy diets by one team member while another may engage on the topic of deforestation in the supply chain. We have assessed this as being the most effective way to conduct our stewardship activities. Having several team members engaging the same company has not shown to be problematic. Usually a call is only held with an investee company around one specific topic and the interlocutors will also differ (for example Nutrition and R&D when it relates to healthy diets and Purchasing department and supply chain management when it comes to supply of raw materials). We chose this approach as we believe it is the best way for us to exercise effective stewardship and serve our client's interests.

Use of providers
We also use a provider, Sustainalytics, to support our engagement activities. Resources are dedicated to the relationship with Sustainalytics in order for the support to be as effective as possible. Sustainalytics works collaboratively with its clients to foster constructive dialogues with target companies. The use of these services helps us achieve ESG engagement outcomes on more companies and topics than we could without the use of this external provider. Although the engagements are led by Sustainalytics, Cardano strives to have an active role in some of them by participating in calls with the investee companies, attending Sustainalytics webinars and providing feedback to Sustainalytics on the development of their products.

Sustainalytics supports us in different ways:

- Engagements linked to controversies and (potential) breaches of the UN Global Compact and the OECD Guidelines for Multinationals. Sustainalytics has the ability to monitor and screen a large number of issuers and open new engagements in case of breaches. The engagements focus not only on resolving the problematic behaviour or incident but as well on asking for overall ESG improvements to mitigate the risk of reoccurrence.
- Engagements with companies with a high unmanaged risk on financially material ESG issues.
- Thematic engagements: Engaging a group of companies on a common theme such as human rights or circularity. These thematic programmes seek to achieve positive change and impact within key relevant industries.
- Since 2023, we are also receiving a voting policy overlay service from Sustainalytics, which allows us to have an additional source of information for shareholder resolutions as well as escalating votes at companies with poor ESG performance and lack of engagement responsiveness. One benefit of the service is to help us identify resolutions proposed by anti-ESG proponents as well as assess the validity of a resolution proposed by a shareholder.

In 2023, we subscribed to a new provider to help us better track all the engagements we conduct. The new platform managed by GlassLewis, and powered by Esgaia allows us to better record outcomes of engagements, track progress towards goals and report on additional data points such as meetings and calls. It also allows us to collaborate more internally with different teams at Cardano being given access. The implementation of the service happened in the second half of 2023 and has already allowed us efficiencies in tracking our engagements. It is however not fully integrated into our processes yet and this is an area of improvement for 2024.

Use of collaborative engagements
Cardano is part of collaborative engagement initiatives as well as working groups. We see collaboration as part of the way we can contribute to a more sustainable financial system. By coalescing around common themes and methodologies, we benefit from external expertise as well as sharing our own expertise too.

Collaborating with other investors on stewardship activities is an effective use of resources.

- It enhances influence and legitimacy: the collective voice of investors carries more weight and can help drive more progress
- Increased efficiency both for investors and companies.
- More industry-wide impact by contributing to broader ESG benefits.

We will go into more details on the initiatives we are part of in subsequent principles, including Principle 4 and 10.

Engagement by Portfolio Managers
Our portfolio managers also perform engagement activities by addressing ESG topics during their conversations with companies. For example, our portfolio managers will address issues such as:

- The effectiveness of a company's ESG strategy, policies, and metrics
- Verify, clarify and receive an update on controversies
- Identify and understand potential vulnerabilities, regulatory impacts/threats and identify how the company tend to deal with them
- Company's disclosures on certain metrics/policies

Case Study:
Philips Engagement

Since 2021, and through 2022 and 2023, the portfolio managers were engaging Philips on product safety, especially around the use of foam material and recalls.

While the foam material appears to be widely used in the industry, it's essential to acknowledge that recalls are not uncommon among medical technology companies. Despite several engagement dialogues over the years with Philips, our concerns persist due to several factors:

1. **Quality Issues:** Over the past few years, Philips has faced a significant number of quality-related challenges. These issues, coupled with the apparent oversight in top-management remuneration practices, raise valid questions about the company's commitment to excellence.
2. **Regulatory Scrutiny:** The US drug regulator's assessment of Philips's analysis of recalled products found it inadequate. This scrutiny underscores the importance of robust quality controls and accountability within the organization.
3. **Organisational Transformation:** Turning around organizational culture and work methods is a complex endeavor. We believe that this process will require substantial time and effort.
4. **Management Transparency:** The current management team's handling of problems remains a concern. Notably, the new CEO's previous association with the problematic unit three years ago adds to our reservations.

In summary, our confidence in Philips's credibility is currently low and our negative perspective on the company remains unchanged, prompting us to maintain a cautious stance for the time being.

To rebuild trust, we anticipate observing several quarters of solid improvements. Specifically, we look for evidence that newly implemented quality standards and risk management procedures in the factories yield positive results.

Incentives and Training
Sustainability is embedded throughout Cardano and incorporated into compensation plans. Everyone at Cardano has a core sustainability and risk management objective as one of their formal targets and is supported by dedicated sustainability resources and commitment from the department heads and board members. Stewardship is incentivised through clear KPIs which are tailored to each role and individual as well as aligned with our core values, which we described under Principle 1.

All employees of Cardano are provided with regular updates and information on sustainability. For example, in 2023, the investment team organised training sessions on each of the investment strategies and how sustainability is incorporated. The sustainability team also provided the rest of the organisation with training sessions.

ESG information, education and know-how is regularly circulated on a dedicated sustainability distribution list, accessible by the investment team. ESG factors are also regularly discussed at quarterly investment committee meetings.

Cardano has actively encouraged several employees to undertake formal training in sustainable investing through the CFA. In 2023, one of the stewardship team members completed the CFA Investing in ESG Certificate.

Equality, diversity and inclusion (EDI)
Equality, diversity and inclusion (EDI) is at the core of our culture and how we run our business. This facilitates effective stewardship by diversifying talent, managing risks and helping inform balanced decisions. We believe our own diversity makes us better stewards of our client assets.

We aspire to be truly diverse, fair and inclusive with the right talent to deliver the best possible results for our clients and to reflect the society we serve. We aim to achieve diversity across all dimensions and to make the Cardano Group a truly great place to work, where all of us can thrive and contribute to our success and where we all feel a sense of belonging. Our strong company values and beliefs lead us to engage with different initiatives and to improve the debate across all types of activities that we are engaged in around EDI. Our EDI approach and initiatives can be found here.

A few examples worth highlighting are:

- Equality, Diversity and Inclusion report 2023, in partnership with mallowstreet, a pension dedicated members-only community website. For this report, 120 UK pension professionals were surveyed to understand how EDI considerations feature in decision-making, the challenges encountered and where improvements can be made.

- External managers Diversity Inclusion Survey: Cardano conducted a survey covering all managers for Cardano delegated and advisory clients. The survey was enhanced in 2023: use of an online platform to increase automation, implemented a year-on-year manager comparison to assess progress on representation levels, requested sub-category ethnicity breakdowns to provide greater insight and applied the Asset Owner Diversity Charter questionnaire for qualitative questions. The key takeaways are positive trends in the average female representation across all categories, disclosure rates for gender are high whilst challenges continue to exist at managers with collecting and disclosing ethnicity data primarily due to GDPR. The research also found that the majority of managers are demonstrating positive cultural aspects of DEI such as having a formal EDI policy in place, senior leadership accountability, setting of diversity targets, EDI training etc. Cardano will continue to monitor and improve EDI across managers and plans to participate in working groups to help drive the EDI agenda.

- Cardano is part of the Diversity Project since 2020. This is a cross-company initiative championing a more inclusive culture within the investment and savings profession. Cardano's Group CEO Mickey de Lathauwer represents Cardano at the Advisory Council of the project.

- In 2023, we continued our partnership with the #10000BlackInterns and Able Interns Programme.

- For international women's day on March 8th, 2023, we organised an online event on gender equality and women empowerment. A member of the stewardship team presented on how Cardano looks at EDI in its responsible investment and stewardship policies.

- Via our Proud Network, Cardano aims to support LGBTQ+ colleagues and allies both within and outside the workplace.

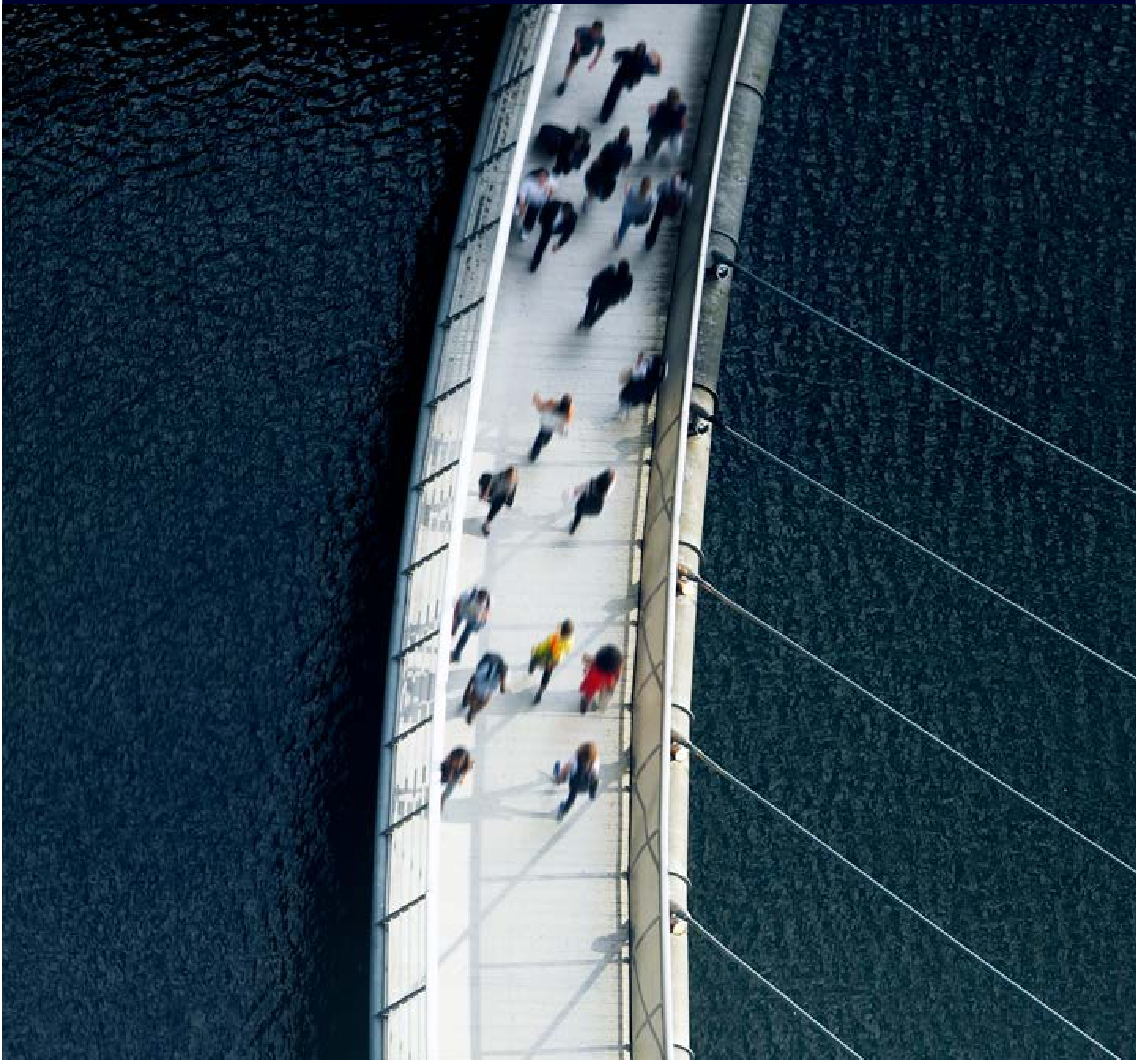
Following the FRC's feedback on our 2022 submission, please see below diversity data for Cardano. At the end of 2023, the company's management board had 17% Female and 83% Male (6 individuals), partners were 16% Female and 84% Male (the percentage went down in 2023 due to the departure of two female partners) and at group level, employees were 40% female and 60% male.

Improvement
Cardano recognises the importance of sustainability and effective stewardship – but also the challenges involved in 'doing it well'. We continue to develop and evolve our policies to reflect sustainability challenges. This reflects the evolution of our thinking on sustainability and the changes underway in the financial services sector, and society more broadly.

In early 2023, through a rigorous process, we were selected to participate in the PRI and Thinking Ahead Institute (TAI)-led Stewardship Resourcing Technical Working Group. The main objective of the group is to develop a calculation methodology to estimate the appropriate levels of resources that investors should dedicate to stewardship activities. In 2023, Cardano participated in a number of working group calls and thus contributed to the research report, which is expected to be published in May 2024.

Principle 3:

Signatories identify and manage conflicts of interest to put the best interests of clients and beneficiaries first.



The Conflicts of Interest Policies adopted by the different Cardano entities set out guidelines and procedures for identifying, monitoring, and managing actual, potential, and perceived conflicts of interest to enable conflicts to be identified and managed. The conflict of interest policies are maintained and reviewed regularly to ensure that all decisions are made putting the best interests of clients and beneficiaries first.

Cardano Risk Management Limited

Cardano has a detailed Conflicts of Interest Policy which is reviewed and updated annually. The policy is supported by a Conflicts of Interest Register and a Conflicts of Interest Inventory which are updated with details of conflicts of interest when they arise and the mitigation activity undertaken. A summary of our Conflicts of Interest Policy is available on our UK website and can be found here.

The key points are as follows, however we recommend reviewing the policy in full:

- The Conflicts of Interest Policy identifies actual and potential conflicts arising within Cardano and procedures for managing those conflicts. Everyone in Cardano (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 policy.
- Cardano has established and implemented the Conflicts of Interest Policy which is appropriate to the investment services that Cardano provides and takes into account its client base. The Conflicts of Interest Policy takes into account any circumstances, of which Cardano is or should be aware, which may give rise to a conflict of interest, including as a result of the structure and business activities of the other members of the Cardano Group.
- Cardano is required to take all appropriate steps to identify and to prevent or manage conflicts of interest that may adversely affect the interests of a client. Each person in Cardano involved in providing investment services to clients must be aware of potential conflicts of interests.
- Conflicts of interest, once identified, must be managed in a way which ensures that clients' interests are not adversely affected. This means that the conflict should be managed in such a way that all clients are treated fairly and Cardano conducts its business with integrity and according to proper business standards.

As well as the Conflicts of Interest Policy, other policies, including the Personal Account Dealing Policy, Market Abuse Policy, Anti-Bribery Policy, Inducements Policy, and Best Execution Policy ensure that certain conflicts of interest are avoided.

All colleagues receive induction and periodic training on their obligations in respect of conflicts of interest under Cardano policies and also the regulatory system. This includes:

- The obligation to take all appropriate steps to identify conflicts of interests that arise, prevent conflicts of interest from adversely affecting the interests of our clients and where we are not able to ensure this, Cardano must clearly disclose the nature of conflicts of interest to the client before undertaking business on its behalf; and
- As it is not possible to ensure that colleagues are not made party to inside information by managers and other third parties, colleagues are trained on what constitutes inside information and their obligations in respect of insider lists, not disclosing inside information and trading activity.

This approach is designed to ensure that conflicts of interest between clients of Cardano and between Cardano and one or more clients are managed appropriately.

Example of potential conflicts of interest:

We encourage an active stewardship strategy by third party managers, and we retrospectively monitor the extent of stewardship activity and stewardship results. We will not ordinarily request that a manager undertakes specific stewardship activity or give a view on a stewardship decision to be taken. Therefore, conflicts of interest will not ordinarily arise as a result of us voting or influencing voting on matters affecting a client or parent company. In the unlikely event that a conflict does arise due to Cardano giving a view to a third party manager on a stewardship decision in respect of an investee company that is either connected to a client of Cardano or a Director of a Cardano Company, as required by the Cardano Conflicts of Interest Policy, the issue will be escalated to our Compliance Officer to oversee that the conflict is managed appropriately. This will involve consultation with our Legal function, Chief Investment Officer and Chief Executive Officer as appropriate. As it is likely that more than one client will have exposure to the investment in question, in order not to favour one client over another and to stay within its mandate, we will ordinarily push for the course of action that maximises the likely return under the stated strategy of the manager. We will aim to be transparent with the client that it is in the conflicted position with, however, this may not be possible depending on the extent to which we are an insider or subject to non-disclosure obligations.

An inventory of potential conflict of interest is maintained by the UK compliance team, containing mitigation measures.

No conflict of interest issues pertaining to our stewardship activities were escalated during the 2023 period.

Cardano Asset Management

In 2023, we merged the conflicts of interest policies of Cardano Asset Management and Cardano Risk Management B.V. (Dutch legal entities of Cardano Group). The two entities now apply a consistent conflict of interest policy in order to safeguard the interests of their clients in a balanced manner.

Cardano Asset Management is an authorised Alternative Investment Fund Manager regulated by the Netherlands Authority for Financial Markets (AFM) as referred to in Article 2:65 of the Financial Supervision Act (Wet op het financieel toezicht - Wft). In addition, it is authorised to provide asset management services and investment advice as well as to receive and transmit orders on behalf of its clients as referred to in Article 2:67a (2a, b and d) (Wft). The execution of these activities can result in conflicts of interest situations, which are captured by the Conflicts of Interest policy.

The purpose of the policy is to ensure that conflicts of interest within Cardano are identified, managed and, where necessary, disclosed in order to ensure the fair treatment of clients (including a client's sustainability preferences) and to reduce the risk of legal liability, regulatory censure or damage to Cardano's commercial interests and reputation.

This responsibility rests with all colleagues of Cardano and colleagues should escalate to Compliance as and when it is appropriate to receive advice or approval to ensure that (i) conflicts of interest are managed appropriately and (ii) for conflicts of interest to be documented in the register. The Conflicts of Interest

Policy identifies actual and potential conflicts arising within Cardano and describes procedures for managing those conflicts. Everyone in Cardano (including contractors and any other person directly or indirectly linked to us by control) involved in the provision of services to Cardano's clients must adhere to the policy.

In summary:

- The policy defines a conflict of interest as a situation where competing obligations or motivations result in or are likely to result in detriment to the client and/or its sustainability preferences. The policy provides a non-exhaustive list of such situations, where such a conflict may occur.
- The policy identifies the risk owner of the policy as the Chief Financial Risk Officer. He is responsible for ensuring the effective development, operation and management of the entire policy and related processes.
- The policy mentions that the policy is maintained by the Chief Financial Risk Officer in cooperation with the Compliance team acting in close consultation with the Cardano Board of Directors and relevant Cardano departments.
- The policy details the responsibility of managers and employees to identify, prevent, manage and monitor conflicts of interest. In summary, employees are obliged to report any situations that give rise to a potential conflict of interest to their immediate manager and the Compliance Officer. Compliance will review on an annual basis the conflicts of interest register and reports to the Board of Directors.

Cardano could be in a situation where there is a financial incentive to favour the interests of one client or group of clients over the interests of another client or group of clients. The policy stipulates that Cardano is required to take all appropriate steps to identify actual and potential conflicts of interest that may cause a material risk of damage to the interests of a client and/or fund. For example, in the case of bond orders across clients with limited capacity such that a full position cannot be obtained by all clients, Cardano's allocation policy ensures that there is fair allocation between all clients on orders and ensures that no client is given preferential treatment.

To ensure the organisation is informed of potential conflicts of interest at all times, employees are obliged to report every situation that may give rise to a conflict of interest to their immediate manager and the Compliance Officer. All potential material conflicts of interest identified at Cardano are recorded in the Conflict of Interest Register.

No conflict of interest was recorded in 2023 in the Conflict of Interest Register.

Principle 4:

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Managing market-wide and systemic risks

All market and systemic risk is overseen by our Investment Committees with the exception of Sustainability risks which are overseen by the Sustainable Policy Committee. The Sustainability Investment Committee brings the sustainability team together with the investment team to make decisions which may require input from both areas.

Our clients are exposed to several market-wide and systemic risks, including:

1. Interest rate risks
2. Inflation risks
3. Equity market risks
4. Credit market risks
5. Currency risks
6. Geopolitical risks
7. Collateral risks (arising from the use of derivative contracts) and liquidity risks
8. Longevity risks
9. Systemic sustainability risks including climate change, biodiversity loss, water scarcity, cost of living crisis and other environmental, social and governance risks

These risks are identified through the extensive in-house expertise that the team have operating in these various markets. For example, our in-house LDI and Credit teams have extensive experience in managing collateral risks and monitoring the market liquidity conditions and trade regularly in interest rate and inflation linked markets and derivatives. This proved invaluable during the Gilt market crisis in 2022 where we were able to successfully navigate the extreme market conditions on behalf of clients.

Understanding of these systemic risks is supplemented by the external working bodies we are part of such as the UN PRI, IIGCC etc.

Our investment approach seeks to consciously manage the first six of these risks through diversification, the use of "protective" assets and active asset allocation.

For collateral risks, we regularly use scenario analysis to understand the potential impact of market-wide and systemic risks, which feed into both portfolio management (for example in our multi-asset team portfolios) and in collateral management. In 2023 various enhancements were made to the collateral and liquidity management frameworks in response to the experience and learnings of the 2022 Gilt market crisis and new regulatory requirements.

We have investigated longevity risk for several of our clients, and many of them use specific tools, including longevity swaps and buy-ins to manage those risks.

Regarding systemic sustainability risks, in 2023 we published an updated and rebranded Sustainable Investment Policy and related Appendices, available on our website.

The policy's starting point is based on the understanding that we face a diverse yet interlinked set of systemic sustainability risks which impact our entire portfolio and that we have a responsibility in addressing. Lack of progress in maintaining social foundations and operating within the planetary boundaries increase longer-term systemic risks that will impact the economy and our portfolio as a whole. As explained in our investment beliefs we believe that by addressing these systemic sustainability risks we can contribute to reducing these long-term financial risks by driving real world change towards a more sustainable society that operates within the planetary boundaries and with strong social foundations.

We believe that focusing on the transition to a sustainable society in our investments helps address these systemic risks. We shape our investment strategies and influence through two channels: capital allocation and stewardship.

One of our stewardship goals is to help reduce market-wide systemic sustainability risks and achieve real world positive outcomes which will improve overall economic system resiliency. In relation to systemic sustainability risks, we defined several portfolio goals including reaching:

- Net zero green-house-gas emissions by 2050 with interim objectives
- Net zero deforestation by 2030
- Water neutrality by 2030
- Although more difficult to monitor quantitatively, we have also set a goal of progress towards a circular economy by 2050 and human rights and social capital goals for our portfolio

We invest globally and need to protect the long-term value of our diverse portfolio. To do this we combine stewardship tools to effectively encourage improvements for addressing sustainability risks and opportunities. We encourage companies to address their externalised social and environmental costs, which are an outcome of insufficient regulation and market failures in having companies account for them in their balance sheet calculations.

Case Study:
Health as a market wide risk

One example of our response to market-wide risks is related to health. Good health is important to individuals, to communities and also to the economy. When applying this to our portfolio, we have considered how we can respond with tangible action in line with our Model of Influence.

Cardano sees health as an essential component of a sustainable society, in line with the third UN Sustainable Development Goal (SDG), which promotes good health and wellbeing. One way we incorporate health in our stewardship activities is to look at the role of food manufacturers and retailers and the healthiness of their product offering. This is to help tackle obesity, a condition affecting more than 1 billion people worldwide. Excess weight and obesity reduce quality of life, impacts mental health, and are linked to many noncommunicable diseases. The rising obesity figures have an impact on businesses, such as higher sick leave and lower productivity. This issue is not being ignored by legislators, with sugar taxes and/or mandatory food labelling having been introduced in many countries. The topic represents a business, legal and systemic risk for our investments.

To encourage positive developments and to reduce systemic risks related to food insecurity and the lack of affordable nutritious food, Cardano engages companies on the topic via the Access to Nutrition Initiative (ATNI) and the ShareAction Healthy Markets Initiative. Through these coalitions, Cardano works with companies in the food industry to improve the availability of affordable and healthier food.

- Within the healthy market initiative, Cardano was active in 2023 in the engagement discussions held with Nestlé. The main goals of the engagement were to ask Nestlé to disclose the healthiness of its portfolio and to set a target to increase the proportion of its sales linked to healthier products. In March 2023, the first goal of the engagement was reached as Nestlé started to disclose the healthiness of its portfolio against the Health Star Rating (HSR), a recognised government-endorsed nutrient-profiling model (NPM). The disclosure showed that Nestlé still heavily relies on the sale of less healthy food products. It was therefore important to continue the engagement with Nestlé and ask for them to set a stretch target to increase the healthiness of their portfolio. In September 2023, Nestlé announced a target to grow the sale of products withing their nutritious category by 50% by 2030. This target was disappointing as it was not a proportional growth. Indeed, they could reach that target and at the same time grow the unhealthy part of the business at a higher pace. What Nestlé categorises as healthy is also disappointing as they included products like coffee and commercial baby foods. Nestlé therefore continues to be a focus for our engagement on health in 2024.

- We participated in the 2023 ShareAction LIPH (Long-term Investment in People's Health) Survey: this survey allows ShareAction to analyse how its members integrate health in their investment and stewardship activities, identify where progress can be made (for members as well as the investment sector as a whole) and to evaluate ShareAction's work on health. The findings will assist ShareAction in determining the direction of the LIPH program and identify where its work can best help investors progress on the topic of health.

- We participated in an ongoing initiative led by a UK research fellow in collaboration with several health linked NGOs, including Nesta which is working on which metric would be the most adequate to measure the healthfulness of products sold by companies in the out of home the sector in the UK. As part of this initiative, we attended one workshop and answered two online surveys.

- Considering the importance of health as a topic for our direct investments and for some of our advisory clients, we have joined forced with three other Dutch investors to look at what other engagement and investor actions can be done to go further on the topic. The coalition started in 2023 and will publicly launch in 2024. In 2023, we discussed objectives, where there is a need for further engagements (sector, companies, objectives), invited outside presenters to inform us of ongoing initiatives, drafted an investor statement and started reaching out to companies to start engagements.

Case Study:
Engagements on biodiversity

- **We commit**

A second example of our response to market-wide and systemic risks is related to biodiversity. We have engaged on biodiversity for many years. In 2023, we published our updated biodiversity strategy, which describes the risks biodiversity loss creates for financial markets and the steps we take to mitigate for these risks. We also describe our aim to reverse the trend of biodiversity loss. To reach this, we aim to become climate neutral, halt deforestation, become water neutral and reduce waste and pollution, which all help to reverse biodiversity loss.

We take two steps to monitor progress on these goals.

- First, we monitor how well issuers in which we invest manage their biodiversity impacts and take steps to halt or reverse their negative impacts. Second, we work on novel indicators to measure the impacts of our investments on biodiversity. We have assessed the biodiversity-related risks of our investments with the UNEP-FI ENCORE tool and with the WWF Risk Filter which allows us to identify the sectors and regions that cause the highest biodiversity-related risks and impacts.

- In addition, jointly with the Impact Institute, we have developed a novel indicator to measure biodiversity loss of our investments (see here). This provides information on a company level about the impact of a company's activities on biodiversity and the driver that creates this loss.

The information helps us to improve screening and research and only select issuers that properly manage their biodiversity-related risks or that take the necessary steps to reduce their risks. It also helps us to prioritise our engagement efforts on biodiversity.

We have signed on as an early adopter for the Taskforce on Nature-related Financial Disclosure (TNFD). We are now part of the list of inaugural Early Adopters who have flagged their intent to adopt the TNFD recommendations and incorporate them into our reporting by the end of 2024 or 2025. Cardano can be found on the list here.

- **We engage**

Investor Initiative on Hazardous Chemicals

The vast majority of products rely on some form of industrial chemical processes. However, many of the chemicals used for these processes, such as PFAS, are considered hazardous to biodiversity and human health. The chemicals are seen as a major cause of the decline of animal species and global biodiversity. Despite these large risks, chemical companies continue to use these hazardous chemicals. Hazardous chemicals pose systemic risks to universal owners like Cardano because their use and distribution lead to widespread externalities. To reduce the negative effects of these chemicals and the financial risks to our portfolio, we joined the Investor Initiative on Hazardous Chemicals (IIHC) in 2023.

Within this initiative, which is coordinated by the NGO ChemSec, an engagement was started with 16 companies in 2023. The objectives of the engagements are for companies to:

1) improve transparency by publishing both the turnover share and production volume of products that are or contain hazardous chemicals;

2) publish a time-bound phase-out plan for products that contain hazardous chemicals; and

3) develop safer alternatives to these harmful chemicals.

Discussions with most companies targeted within the initiative took place in the first half of 2023 and Cardano contributed to discussions with Dupont and Solvay. During the meetings, both companies presented their plans to develop safer alternatives and our investor group encouraged the companies to be more transparent about their hazardous chemical use and phase-out plans. The companies acknowledge that investors need more transparency, although this has not yet led to concrete outcomes beyond the engagement meetings. In November 2023, the investor group sent a letter to all companies involved to once again request them to commit to the above objectives. Discussions continue in 2024 delving deeper into the implementation on phase-out strategies and the development of substitutions.

Case Study:
Satellite-based engagement towards zero deforestation (continuation of programme)

In 2023, the Cardano-led Satellite-based engagement towards zero-deforestation programme made additional progress since previously reported. Deforestation is a systemic risk involving numerous sectors. Research shows that forest degradation driven by agricultural commodity production is one of the largest drivers of biodiversity loss, with cascading impacts on climate as a result. We therefore see this engagement initiative as essential to our stewardship programme. In 2023, we continued to coordinate the programme, convene the investor group, ensure the investors continued their own engagements, provided advice, and led company engagements with Carrefour, Danone and Pepsi.

The goal of the initiative is to encourage investees to make progress on preventing forest loss and achieving sustainable, zero-deforestation supply chains. The data and analytics provided by Satelligence allows Cardano and the engagement group to detect and quantify loss in vegetation and forest cover, caused by plantation expansion or other incidents linked to palm oil commodity production.

We tailor the programme level goal to each engagement trajectory, based on where the company sits in the supply chain (producer, trader, consumer packaged goods, or retailer) and how much progress it has made on implementing policies and reaching zero-deforestation targets. Our group has continued to receive feedback from companies on how they are tackling deforestation incidents linked to their suppliers, but the conversations have also progressed towards more solutions-oriented discussions, including those on regenerative agriculture techniques, scaling of landscape programmes, increasing plant-based offerings to tackle the beef supply chain, and target-setting for financing projects with a measurable, positive impact on biodiversity.

In 2023, Cardano worked with Satelligence to update the report contents to include data that will provide more context to deforestation risks and insights on additional commodities, including soy and cocoa. While deforestation linked to palm oil in Indonesia (the world's largest producer) is declining, this doesn't hold true for other countries, and other commodities like soy and cocoa remain problematic, lacking traceability. The new reporting will help us increase our impact and address systemic risks associated with a larger set of commodities. Looking forward, the group will continue to engage on topics including:

- Moving from deforestation-free supply chains to contributing to Forest and Nature Positive goals.
- Making investments into regenerative agriculture techniques and scaling these throughout the supply chain. These methods are key to building sustainable supply chains and investments will pay off by creating long term operational efficiencies and healthier growing environments bringing stable long-term yields.
- Providing evidence that remediation efforts are successful.
- Increasing traceability in the soy and cocoa commodity supply chains.
- Engaging with smallholders to address the root cause of deforestation.
- Companies' joint efforts with governments and industry groups.

- **We innovate**

Bio-acoustic study

As managing systemic risks and contributing to sustainability becomes a priority for investors like Cardano, there is a growing demand for ways to measure progress towards stated biodiversity goals. One of the biggest hurdles is obtaining reliable data that provides real time insights into the effectiveness of different approaches for managing biodiversity impact.

In light of this, Cardano, along with investor partners, have sponsored Green Praxis, a nature-based solution provider to conduct a bio-acoustic study. The project was initially launched in September 2022, with the results becoming available in 2023. The study used bioacoustics technology to monitor and measure biodiversity levels associated with varying land use intensities within a palm oil concession.

Bioacoustics offers a low-cost, non-invasive, scalable technology which combines sound recordings with artificial intelligence to gain insight into biodiversity abundance and richness. Traditional methods for measuring biodiversity, including going into the field to count species types (richness) and number of individuals of each (abundance) are resource intensive and tend to be relatively invasive to the local ecosystem.

Cardano coordinated the project and sponsored the Green Praxis team to analyse the sound recording data gathered from six recording days over nine locations in West Kalimantan, Indonesia on land owned by a palm oil producer across these plots:

- Forested area: As close to pristine as available
- Secondary forest resulting from conservation efforts: Conservation plots
- Active palm oil plantations: Production plots

The study produced perceptible results:

- The conservation areas and production plots produced notably different acoustic landscapes.
- Production plots were dominated by monotonous activity of only insects and no mammals were detected.
- While conservation and control plots were populated by varying bird species, frogs and mammals – including primates.
- It's important to note that while both the control and conservation plots produced a significantly higher number of acoustic events demonstrating species variation, the conservation plots were not as high in terms of abundance.

Initial results showed that conservation efforts by companies are valuable and effective in restoring biodiversity richness. However, this doesn't replace the abundance found in natural extensive forests. Cardano is planning the second study at another palm oil producer's sites and a national park in Malaysia to help substantiate the initial findings.

Cardano intends to use the results to encourage companies to incorporate the technology into their own biodiversity monitoring processes. As biodiversity loss grows to be one of the largest and most urgent systemic risks facing portfolios, Cardano continues to push for innovation to scale methods for quantifying biodiversity impacts and to assess whether claims of achieving 'nature-positive' and 'net-positive biodiversity' are credible and valid.

- **Geospatial data**

Part of the challenge of addressing systemic and market-wide risks is having insights into where physical risks and impacts are occurring and the actions that should be taken to mitigate them.

Cardano's solution to this challenge was the creation of Geospatial Data. This pioneering new initiative uses remote sensing, based on cutting-edge satellite imagery, to provide a vivid picture of the environmental risks to which a particular investee company may be exposed worldwide – or of situations where its operations may be at risk of doing harm.

Risks which can be identified from space range from hurricanes, droughts, wildfires, coastal flooding, heat stress or cold stress, water depletion, untreated connected wastewater, deforestation and diminished air or soil quality.

The Geospatial Data model we have developed has a plug-and-play dashboard into which information is fed about a company's geographical locations, its plants, operations and activities, and where its revenues are generated. This information is then overlayed with heat maps to answer key questions regarding elements of risk. They could for example, be related to water scarcity, and whether a company's production facilities are water dependent. Or, if the business involves agriculture, then the tool can provide insights about any increased likelihood of extreme heat in the future.

We are now investigating how to integrate the Geospatial Data into our processes, including engagement activities. These more detailed and granular insights can help us to have more informed discussions with companies.

Participation in policy consultations and market initiatives

This past year, we responded to multiple market and public policy consultations and initiatives, covering a range of sustainability topics. Collaborating on market-wide initiatives and public policy can strengthen our influence beyond individual companies, affecting industry standards and regulatory frameworks – all with the goal of managing systemic and market-wide risks. A few examples of these are below.

- **Institutional Shareholder Server (ISS) Global Benchmark Policy**

In 2023, we submitted our recommendations to ISS on how to strengthen its policy recommendations and incorporate the principle of 'universal ownership' in its voting advice. ISS is one of the most influential proxy advisors and plays a large role in determining proxy voting outcomes. Our view is that advisors should incorporate systemic risk assessments in their voting advice. The impact of companies on environment or social factors can cause instabilities across industries or economies, leading to systemic risks that can impact the entire portfolio. We advised ISS that the prioritisation, evaluation, and mitigation of systemic risks are key elements to voting advice and that it should consider principles of 'double materiality' to inform its voting recommendations on topics including racial justice, human rights, climate, nature and biodiversity.

Our submission included among others:

- Feedback on companies' climate strategies and targets, stating that these should include all emissions include scope 3 and include short, medium and long-term goals.
- Stressed the importance of absolute GHG emissions reduction targets next to intensity targets.
- Agreed with the relevance of CapEX-related factors in assessing company climate transition plans.
- Support for proposals asking for companies to conduct independent racial equity and civil rights audits.
- Support for proposals on disclosure related to board diversity, political spending, human capital management, consumer product safety, climate and environmental justice, and oversight of technology company products and services.

- **Considering Social Factors in Pension Scheme Investments**

In 2023, we submitted a consultation response to the Department for Work and Pensions' (DWP) Social Factors Taskforce, outlining our feedback on the guidebook for pension fund trustees on social issues. Our input noted the linkage between systemic risks and social factors for pension funds, and that even pension funds that are not universal owners because of a different or more selective strategy, will be susceptible to such risks. We encouraged clarity about a double-materiality approach by the government and regulators. We suggested that there should be an explicit acknowledgement of the links between salient risks, real-world impact, and the systemic risks portfolios are exposed to. This should make it clear that Trustees adopting a double-materiality lens is well within their fiduciary duty. We stated that asset managers should actively participate in social-related engagement activities, developing and inputting to public policy. We also provided support for asset managers conducting due diligence on human rights and modern slavery in their investment portfolios.

- **Industry-wide initiative on the Global Plastics Treaty**

In 2023, we signed on to a market-wide statement supporting policy for addressing the plastics crisis and encouraging companies to support international efforts for an ambitious plastic treaty to mitigate the systemic impact of plastic pollution.

- **Open letter to global governments on the water crisis**

We provided feedback about and endorsed CDP's open letter addressing global governments at the United Nations 2023 Water Conference. The letter summarised key policy asks of governments on their commitments and targets for water targets and water secure roadmaps. It encouraged strong political commitment on using market incentives and policies to enable a scale up of capital flows towards the water secure transition.

Participation in industry initiatives

As we mentioned in Principle 2, we strongly believe in collaboration and it is one of our defining principles on how to approach stewardship. Collaboration is efficient and effective. It allows us to benefit from external expertise, and we of course contribute our expertise where appropriate to do so.

Collaboration forms a key part of our contribution to a more sustainable financial system. By coalescing around common themes and methodologies, we send clear messages to the companies we own – and to our regulators. Collaboration allows for a faster, smoother transition.

We participate in working groups, contribute our input and expertise where appropriate, and listen to and learn from others. We participate across our business so that our sustainability expertise is widely embedded across our investment, manager research, LDI and client teams. In addition, we encourage and assess our third-party managers on their participation in relevant sustainable investment organisations.

In 2023, we were heavily involved in a number of industry initiatives, including the below.

Initiatives where we play an active or leading role in a direct company engagement:

- Access to Nutrition – Supporting investor
- Access to Medicine – Supporting investor
- Climate Action 100+ – We co-lead the engagement with one of the largest global agricultural commodity suppliers.
- Dutch Climate Coalition – We lead the engagement with two Oil & Gas companies.
- FAIRR – We participate in dialogues within the Animal Pharma Anti-microbial Resistance, Biodiversity – Waste & Pollution, and Protein Diversification initiatives.
- Investor Alliance for Human Rights, part of the Interfaith Center on Corporate Responsibility (ICCR) – We contribute to the Human Rights programme area and lead an engagement with a Tech company on human rights due diligence for product use.
- Investor Initiative on Hazardous Chemicals – We are active in an engagement with a Chemicals company.
- Platform for Living Wage Financials – Cardano is an active member of the Garment workgroup, leading on two company engagement trajectories.
- Satellite-based engagement towards zero deforestation – We launched and continue to lead this innovative, award-winning collaborative engagement programme which focuses on ending deforestation in companies' commodity supply chains.
- ShareAction – Cardano actively participates in Chemicals Decarbonisation, Good Work Coalition and Healthy Markets Initiative. We participate in regular engagement dialogues, co-filing resolutions and investor letters.
- Valuing Water Finance Initiative – We are a contributing member of the Task Force and co-lead engager with two companies in the food / restaurant sector and active in an engagement with one company in the beverage sector.
- VBDO Plastics Initiative – We co-lead the engagement with two Food & Beverage sector companies.

- WBA Collective Impact Coalition engaging companies on Responsible AI. Cardano leads on two companies.

- Tech and Human Rights Coalition: led by the Swedish Council on human rights, this coalition aims to see technology companies better mitigate, manage and report on the human rights impacts of their platforms and business models. Cardano leads on two companies and is part of the investor group on another two.

Initiatives where we play an active role in a working group:

- Finance for Biodiversity – Cardano is a member of the Finance working group and represented in the advisory board.

- Partnership Biodiversity Accounting for Financials (PBAF) – Cardano participates in working groups on measurement and nature positive.

- The Network of the Dutch Central Bank on biodiversity: in this network Cardano shares experiences with members and participates in studies that are to the interest for the whole sector.

- Institutional Investors Group on Climate Change (IIGCC) – We participate in the Derivatives and Hedge Funds Working Group (co-chaired by Cardano) which finalised its findings and published guidance in early 2024. We participate in the Investor Strategies Programme Advisory Group.

Investment Consultants Sustainability Working Group (ICSWG) – We participate in the Steering Committee, and from 2024 the Influence workstream.

- Net Zero Investment Consultants Initiative – We participate in the steering committee. This initiative focuses on incorporating Net Zero objectives into Investment advice to clients.

- Partnership for Carbon Accounting Financials (PCAF) – We participate in the Sovereign Bonds Working Group.

- Pensions for Purpose – we participate in various events each year including their recent work on diversity and inclusion in the financial services industry.

- Principles for Responsible Investment (UN PRI) – We participate in the SDGs Advisory Group, the Legal Framework for Impact Reference Group and the Global Policy Reference Group. In 2023, we were selected via an application process to be an advisory committee member to PRI's new nature initiative called Spring. We have contributed input on the methodological process that informs the company selection.

- The Diversity Project: Cardano joined the Diversity Project in 2020. The Diversity Project is a cross-company initiative championing a more inclusive culture within the investment and savings profession. Cardano's Group CEO Mickey de Lathauwer represents Cardano at the Advisory Council of the project.

- ICMA: Cardano participates in the green enabling activities and impact reporting working groups.

- Working Group Social of the DNB Sustainable Finance Platform: active member of the working group.

- Member of the ICMA Social Bonds Working Group (SBWG): the main objective of the working group is to accelerate the development of the social bond market through the consolidation and promotion of the Social Bond Principles, and the establishment of a market forum for potential Social Bond issuers, investors, and other market participants. Cardano has been part of the sub-working group on the exploration of market impediments, whose aim has been to reach out to investors and issuers to identify any key impediments in the market or limitations and the need for further clarification in the current guiding frameworks.

- Global Impact Investing Network – participating in the Public Listed Equity Impact group.

- DUFAS – The Dutch Fund and Asset Management Association –chairing the Sustainability Committee.

Over the past year, we have pursued our stewardship responsibilities, making progress in addressing systemic and market-wide risks. Our collaborative engagements have been at the forefront of our stewardship strategy, allowing us to leverage collective influence to enact meaningful changes within the companies and sectors in which we invest. As a summary of the above, our accomplishments include:

- Enhanced Engagement Impact: Through strategic partnerships and innovations, we have successfully influenced corporate behaviour and regulatory frameworks, contributing to reduced risks and improved sustainability and long-term value creation.

- Focus on Systemic Risks: Our engagements have increasingly centered on systemic risks such as climate change, biodiversity, supply chain weaknesses, and social issues, aligning with our commitment to safeguard our investments from market-wide uncertainties.

- Innovative Stewardship Practices: Adoption of new technologies has enabled us to monitor and measure progress on our engagements more effectively.

Areas for Improvement

As we look ahead, we are committed to enhancing the quality and efficacy of our stewardship programme to manage systemic and market-wide risks by focusing on the following areas:

- Quality Over Quantity: While we have been active in numerous engagements, we aim to deepen our impact by prioritising quality over quantity. This involves selecting engagements that have the potential to create substantial change and allocating appropriate resources to manage these engagements more intensively.

- Increased Policy Dialogue: To further influence systemic changes, we plan to engage more extensively in policy dialogues. This will involve participating in forums and collaborations that shape regulatory frameworks and industry standards, ensuring that we can shape the 'state-of-play' in which we operate. For example in 2024 we are participating in the Investment Consultants Sustainability Working Group Influence Workstream which seeks to engage with regulators to improve the efficacy of regulation around sustainability.

Principle 5:

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Here we respond to Principle 5 for Asset Owners and Asset Managers. We respond to Principle 5 for Service Providers alongside Principle 6 for Asset Owners and Asset Managers.

Review of policies

We recognise that sustainability is a dynamic and constantly evolving topic and therefore our approach to sustainability has evolved in the past few years and continues to do so as our understanding of science, technology, corporate and investment practice evolves. Therefore, we have made the below updates to our sustainability documents in 2023:

As described in the introduction, as part of the rebranding of ACTIAM to Cardano and the continued integration of the different entities under one Cardano, we went through an internal project to define a group wide Sustainable Investment Policy. The sustainable investment policy from Cardano Asset Management was reformulated. In summary:

- The new policy is now applicable for the Cardano Group, including indirect investments and Cardano Advisory.
- Is better aligned with existing and upcoming European and UK legislation. The Sustainable Investment Framework has been extended such that it better considers SFDR guidelines on good governance, do no significant harm and contributions to sustainability objectives and such that it also fits the upcoming UK SDR guidelines.
- Better describes how Cardano evaluates whether investment solutions and individual companies create positive impact.
- Better describes the double materiality approach of the Sustainable Investment Policy and the stepwise approach to evaluating companies and sovereigns.

Alongside this overarching Sustainable Investment Policy update:

- All Appendixes to the main policy document were rebranded.
- The green bond framework and ESG scoring methodology were revised.
- We published a standalone Stewardship Policy: it outlines how we view effective stewardship. It describes the importance of engagement, what tools we use to work with companies to transition to sustainable business practices, and how we set engagement priorities.
- We published a new Impact Investment Policy: this new policy document describes our vision on impact investments. It highlights the importance of financial institutions investing in impact solutions and how we as investors can help companies increase their positive impact.
- We published a new Biodiversity Strategy: this new strategy document provides further details on the Sustainable Investment Policy, specifically in relation to the steps we are taking to achieve our biodiversity target. It details the steps we take in our screening and engagement, which sub-goals and KPIs we establish and how we monitor progress.

Improvements to our voting policy

For our direct investments, we have a standalone voting policy which provides clear guidelines on how we use the voting rights connected to our holdings and clients' capital. The views in our policy are based on international best practice guidelines for sustainability and corporate governance and are also shaped by our sustainability framework and how we want to communicate our views and expectations to investees.

We see voting as central to our stewardship activities. The annual update to this policy is critical in ensuring our votes are cast in a way that encourages an ambitious pace of progress on sustainability topics by our investees. As described under Principles 1 and 2, the voting policy updates are approved by the Sustainability Policy Committee.

During this annual process, we review the existing guidelines taking into account evolving developments and in some cases to consider how we can reflect a stricter application of votes. This year we made the following updates:

- Refining some of the wording to be more precise in our expectations. For example, we mention a few times in the policy that companies we invest in should have "clear climate goals". This was updated to mention that the goals should be Paris-aligned and that we use the TCFD framework to assess these.
- Cyber Risk Oversight: given the financial, legal and reputational risk associated with cyber-attacks, we added a paragraph to the policy to address cases where a company has suffered a security breach with material impacts and the response from the company, including board oversight is considered insufficient. In those cases, a vote against relevant directors will be considered.

New Voting Provider and Engagement Database

New voting provider
In 2023, we went through an RFP process to find a new voting provider to help us with our voting activities for our direct investments. We went through a thorough process of a RFP questionnaire and interviews and based on our needs and those of our clients, we identified GlassLewis as our new provider. The new provider leads us to better stewardship outcomes through:

- Better vote disclosure website compared to our previous solution, with daily updates and the option to show the rationale of our votes. This allows our clients to see in real time the votes we have cast and the reasoning for certain votes against management.
- More reporting options, allowing us to better report on our voting activities. We took into account the feedback from our clients regarding reporting of voting activities and ensured that the new provider could help up address this feedback.
- Integrated services with Sustainalytics voting overlay data available: this allows us to be more effective in our stewardship activities and incorporate different point of views before making certain voting decisions.
- Letter writing service allowing us to send our vote intentions and rationales to issuers on a larger scale: this service will be implemented in 2024 and allow us to increase the number of issuers to which we communicate our vote intentions to, enabling more impactful voting decisions.

New tool for recording and tracking progress of engagement activities
As part of the review of our processes, we identified that our current internal tool to log and track engagements was no longer sufficient for our growing needs. We therefore went through an internal approval process to subscribe to a purpose-built tool supplied by an external provider to improve efficiency for logging our engagement activities allowing us to better internally collaborate and improve our reporting flexibility. The aim is to increase transparency of our engagement activities for the benefit of our clients.

The new tool, which is purpose built for tracking engagements, is managed by our provider GlassLewis in collaboration with Esgaia. It allows us:

- More flexibility in recording and tracking engagement activities
- Improvements in documenting of all activities related to our engagement trajectories – including milestone, objectives, meeting minutes, email correspondence, and goals.
- Better coordination internally with the aim for multiple teams, including portfolio managers to have access to the platform
- Improved reporting

We started using the tool in the second half of 2023 and will continue working on integrating the tool in our daily processes in 2024. Since our engagements are long-term in nature, with dialogues continuing over the span of years, the new system allows us to look back at the history of an engagement and follow the progress. This helps us to become more strategic in our approach, leveraging historical insights about the engagement. Having this improved internal process helps us run higher quality engagements leading to improved engagement outcomes.

2023 Updates relating to our indirect investments

Cardano has a strong approach to select third-party managers based on sustainability. It is essential for us to assess managers based on their sustainability credentials and look at how they engage and approach stewardship.

We believe one of our most powerful areas of influence is in engagement with third party managers to drive improvement in ESG integration and sustainability across the industry.

As part of our assessment of managers where we identify gaps, we challenge managers to do more and be ambitious. For particular managers where we identified weaknesses we set up more structured engagements with specific milestones which are monitored.

Case study:
BP and Shell AGM

At the 2023 BP and Shell AGMs, one of our Trustee clients expected the third-party managers to vote in favour of a climate resolution, in line with their climate action priority sustainability theme. As this was not the case for all the third-party managers, Cardano followed up with those who did not support the resolution to understand the third-party manager's decision-making. The instance of when a manager has not voted as expected informs our ongoing assessment of that manager. In one case, the overall voting and engagement activity of a third-party manager assessed over several years, prompted a downgrading of their sustainability rating by Cardano.

In 2023, we sent our annual letter to third-party managers, setting our evolving sustainability expectations.

In the letter we sent to managers this year, we asked them to focus on future ambitions. Substantial progress has been made over the past few years, but we encourage managers to continue to do more.

The key ways we would like to see managers taking action are:

1. Plan: Develop a holistic plan to support the transition to a sustainable economy and demonstrate progress via reporting
2. Engagement: Leverage your influence via collaborative engagement opportunities

It is our view that a sustainable economy should operate within planetary boundaries and have a strong stable social foundation. Our letter outlines the important factors and best practice for consideration.

The letter we sent this year and last year to third-party managers can be found here.

In 2023, we have continued engaging with our external managers on sustainability and stewardship as described in the below case study.

Case Study:
Engaging a Private Equity Manager

What
We identified a number of areas where the manager could improve around ESG. Specifically: Policy was not as comprehensive as peers, there was in-sufficient carbon footprint analysis & TCFD reporting, Diversity & Inclusion initiatives were not in place and the manager was not a UN PRI signatory.

How
We consistently discussed these topics with the investment and IR teams of the manager, through regular monitoring discussions but we also actively (and consistently) raised these topics as a representative on the Limited Partner Advisory Committee.

Outcome
Outcome has been partially successful, with strong improvement:

- UN PRI Signatory status has been obtained.
- External consultants engaged to undertake initial carbon footprint analysis, within portfolio.
- ESG policy has been revised, to include Diversity & Inclusion and is generally more robust.
- Various Diversity & Inclusion hiring practices have been undertaken.

Monitoring the effectiveness of third-party manager stewardship
During 2023 we had several discussions with third party managers on the effectiveness of their voting and engagement approach. This includes discussions on voting activity, by discussing voting record, collaborative engagement, escalation avenues, prioritisation, voting performance and most significant votes on behalf of our various pension fund clients.

One issue identified was the issue of "Anti-ESG" resolutions. In one case we noticed a manager with a strong track-record in ESG voting, had voted in favour of an "Anti-ESG" proposal. It appeared that the manager missed several anti-ESG resolutions and mistakenly voted in favour of these. As a result, the third-party manager collaborated with their proxy advisor and the Corporate Governance Forum to understand how they and the industry can be better equipped to identify anti-ESG proposals.

New tool for external manager data collection
During 2023 we implemented a new tool for data collection from third party managers called Diligence Vault. This tool allows us to standardise and manage our data requests to third party managers.

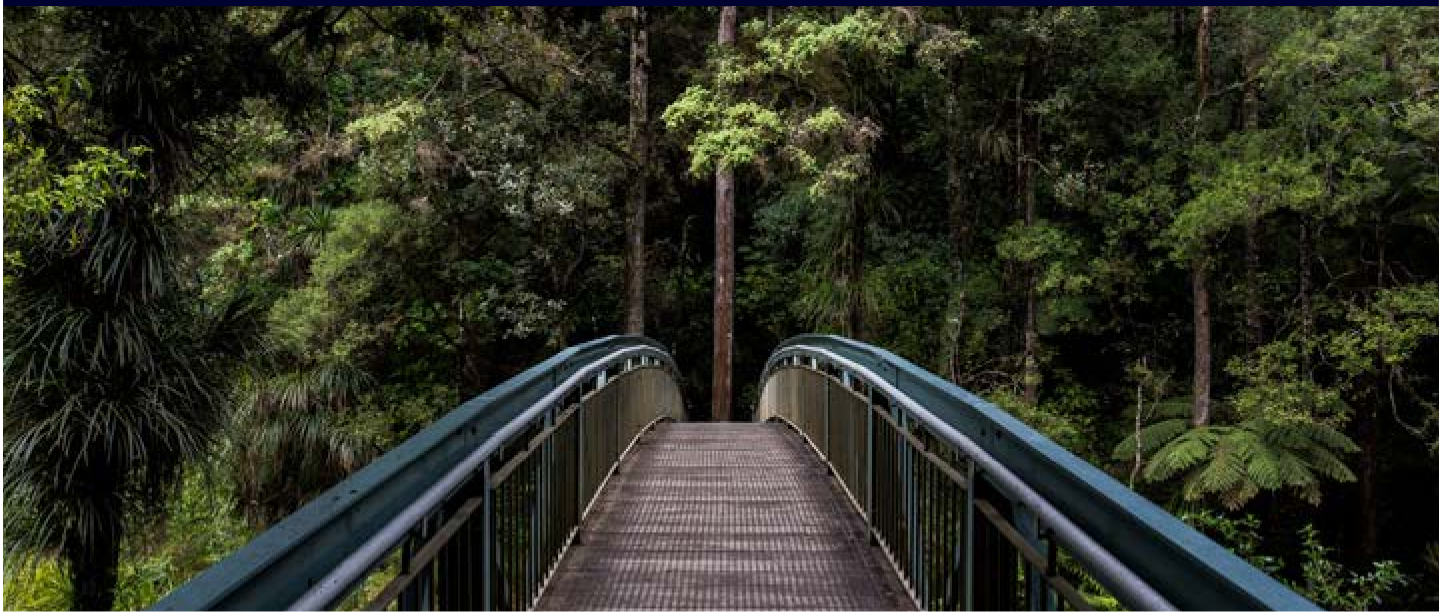
We further refined our ESG due diligence questionnaires, incorporating industry best practice based on templates from the PLSA on engagement and voting and recommendations from ICSWG on standardisation of certain manager data requests.

Principle 6 of the Principles for Asset Owners and Asset Managers:

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Principle 5 of the Principles for Service Providers:

Signatories support clients' integration of stewardship and investment, taking into account, material environment, social and governance issues, and communicating what activities they have undertaken.



Client base and objectives

Fiduciary, Risk management and Investment advisory clients

All of our UK clients are institutional investors, with the vast majority being the trustees of defined benefit pension schemes serving the corporate sector. The Cardano UK client base is summarised as follows:

Number of clients	Fiduciary	Advisory	Endowment
>£1bn	3	6	1
£500m - £1bn	2	0	0
£250m - £500m	8	1	0
<£250m	19	2	0
Total	**32**	**9**	**1**

As of 31 December 2023

Typically, our investment objectives are to outperform a Gilt or swap-based proxy for the scheme's liabilities by between 1% and 3.5% p.a. Most of our clients have long-term time horizons, typically 5 to 10 years.

Note that the fiduciary and advisory columns include DB and DC clients.

In the Netherlands we have 32 risk management clients. This includes clients for whom we implement LDI hedging programmes as well as risk management overlay programs. The LDI programmes are invested in a range of European government bonds and can occasionally include high quality green bond investments. The risk management overlay programs are typically executed through various derivative instruments

Cardano Asset Management

Cardano Asset Management manages around EUR21 billion in assets (as of 31 December 2023). Our key objectives are a financial result, environmental, social return and risk management. We serve institutional investor clients through our investment funds (active and passive strategies), impact investing funds and with segregated mandates. The Cardano Asset Management client base comprises 61 clients in total of which two are DC clients.

Cardano Asset Management also offers ESG services, helping clients for whom we may not directly manage any assets with ESG policy development, active share ownership, research and monitoring, as well as impact measurements and reporting. For ESG services, the breakdown is the following as of 31st December 2023:

Number of ESG Services Clients	
>£1bn	11
£500m - £1bn	2
£250m - £500m	2
<£250m	0
Total	**15**

AUM across Cardano Fiduciary, Risk Management, Investment Advisory, and Asset Management clients

Assets under management as of 31 December 2023 (incl third party manager advisory coverage)	GBP (bn)
Equities	13.4
LDI & Government Bonds*	26.8
Credit	2.7
MultiAsset**	4.6
Private Markets - EM Impact Debt	0.2
Third Party Managers - Managed	4.4
Total AUM	**52.2**
Third Party Managers - Advised	18.9
Total AUM & 3rd Party Manager Advised	71.1
Total Third Party Managers monitored	**23.3**

* This is major developed market government bonds except for 0.4bn of Emerging Market Sovereign Debt

** This is government bonds, green bonds, inflation assets, derivative exposures and cash (excludes third party managers and inhouse equity/credit)

We have not provided a split by geography as our systems do not break geographic asset allocation across asset classes. As broad guidance:

1) our equity exposure is broadly in line with global market cap indices across developed and emerging markets

2) government bond exposure is predominantly focused on UK and Western European developed market government bond exposure (mostly from LDI strategies), some multi asset exposure to US, Canadian and Australian government bonds with a small exposure (£0.5 billion) to emerging market debt.

3) credit exposure is UK and European investment grade corporate credit

4) Private market exposure is all emerging market impact debt

5) third party manager exposure is globally diversified across managers, asset classes and strategies with managers located in the US, UK, Europe and Asia.

We note that our approach to stewardship is consistent across asset classes and geographies with the primary distinction in process being between direct investment (where our Sustainable Investment Framework applies across debt and equity, public and private markets) and the process applied to indirect third party managers as described in this document.

Reflecting clients' needs and reporting

Fiduciary, Risk management and Investment Advisory Clients
At the outset of a new appointment, we undertake significant fact-finding and initial analysis to establish our clients' returns requirements, their appetite and tolerance for risk, their comfort with different types of investment and their investment beliefs, including their ESG beliefs and policy. This mandate specification will form the basis of our fiduciary management contract (or investment advisory agreement, in the case of an advisory client).

The mandate specification includes the risk / return requirements and approach to sustainability, including stewardship. The approach is reviewed on a regular basis (usually in conjunction with triennial actuarial valuation cycle) and is supplemented with ongoing sustainability reporting and, where necessary, training. We provide our clients with training and advice in updating their ESG policies and Statement of Investment Principles.

It is the responsibility of the Cardano Client Director to ensure that client specific stewardship and investment policies are correctly reflected in our mandates.

We evaluate the effectiveness of our understanding of client needs by several means:

- Client customer care visit undertaken by a senior colleague who is not part of the client service team
- Survey feedback via independent third parties. Our questionnaire invites trustees to set out their views on a range of sustainability topics, which we synthesise, present and discuss
- Formal annual review of our performance (in the broader sense)

All our portfolios are managed in alignment with our clients' stewardship and investment policies. We take account of clients' views in several ways:

- Customising our advice (both style and content) to meet their requirements
- Customising our reporting to meet their requirements
- Engaging in client specific research projects (e.g. searching for a new manager to meet specific requirements, or evaluating an investment opportunity at the client's request)
- Providing training on a wide variety of investment topics, including sustainability and stewardship

Our regular quarterly reports include ESG ratings for all fund managers. Voting activity and specific engagement examples are reported annually, to coincide with the Scheme Report and Accounts completion as part of the Implementation Report.

Many of our clients employ specialist and independent advisers to help them review us, and that review will include our activity and reporting on ESG issues.

We make use of the PLSA voting template, as well as the ICSWG engagement reporting guide.

Cardano Asset Management
As Cardano Asset Management is an asset manager with a MIFID license, the sustainability preferences of our mandate clients are part of the MIFID suitability test.

As part of the suitability test, we undertake a significant fact-finding and initial analysis to establish our clients' returns requirements, their appetite and tolerance for risk, their comfort with different types of investment and their investment beliefs, including their ESG beliefs and policy. The mandate specification includes the risk / return requirements and approach to sustainability, including stewardship. The approach is reviewed on a regular basis and is supplemented with ongoing sustainability reporting and, where necessary, training.

For our direct investments, we report on our voting and engagement activities on a quarterly basis. The reports, available in Dutch in 2023 due to our client base, provide:

- A thought leadership piece on a current topic. For example, in 2023 we covered the outcomes of COP28 (Q4), Investing in livelihood security (Q3), Sustainable investing (Q2) and Biodiversity (Q1).

- Sustainability news and trends from the previous quarter (both internal and external)
- List of new exclusions and inclusions based on the outcome of our Sustainability Categorisation Committee.
- Stewardship statistics and case studies: we highlight engagements which we are opening and closing. We give updates on the ongoing progress of engagements. On the ones which have closed, we indicate whether the engagement was successful or not and provide more details in our case studies. If an engagement is closed unsuccessfully or partially unsuccessfully when not all objectives were met, we explain this in our report. We also give updates on ongoing engagements when some progress has been made or escalation is being used. We strive to provide fair, balanced and understandable reporting to our clients highlighting our successful outcomes as well as cases which were less successful.
- Voting statistics and case studies (in Q2 and Q4)

An example of a quarterly report can be found here (in Dutch).

We ask our clients feedback on our ESG report and integrate it where appropriate. For example, we were asked by clients in 2023 to provide more explanations on the closed engagements and integrated this feedback in subsequent reporting, giving more details on the outcomes of engagements (or explaining if an engagement was unsuccessful). One piece of feedback we are still working on is giving more statistics on how many objectives are being achieved in a specific period and how many meetings, conference calls, email activities have happened. The subscription to a dedicated engagement database, which we described under Principles 2 and Principle 5 is a tool for us to achieve this and an objective for 2024.

Annual vote audit
This is an annual process and part of our key controls on voting, which are assessed by our external auditor (as part of our ISAE 3402 report). The checks we have put in place service two goals, namely that:

- Votes are submitted in a timely manner by the provider, in accordance with the Cardano policy and that vote rejections are explained. A stewardship professional at Cardano analyses these rejections to see if anything can be done to prevent reoccurrence.
- Vote recommendations are done consistently in line with the Cardano policy by auditing the recommendations done by the provider on a subset of meetings.

The vote audit was updated in 2023 to reflect the change of voting provider described under the previous principle.

Regulatory Disclosures:
As well as our Annual Report and quarterly Sustainability Reports, we publish several other reports that relate to regulatory requirements:

- Sustainable Finance Disclosure Regulation (SFDR) and Taxonomy Regulation (TR): We fulfil our disclosure obligations under the SFDR, at legal entity level and at product level. As per 1 January 2023, the regulatory technical standards (RTS) under the SFDR apply, through which we make pre-contractual disclosures, create periodic reports and website disclosures for our Article 8 and 9 financial products, and report entity level information about principal adverse indicators, sustainability risks, and remuneration. Taking into consideration the requirements from the SFDR and the TR, for each financial product, we periodically publish Principal Adverse Indicators, ESG scores, greenhouse gas emissions, water use and the contributions to our sustainability targets, especially in the fields of climate, water, and deforestation.
- Taskforce on Climate-related Financial Disclosures (TCFD): We follow the recommendations of the TCFD across governance, strategy, risk management, and metrics and targets. We support our clients in preparing their TCFD reports.
- UN Principles for Responsible Investment (UN PRI): As signatories to the UN PRI, we report annually on our responsible investment policies and processes.
- Net Zero Asset Managers Initiative (NZAMI): As signatories to the NZAMI, we report on our decarbonisation targets, our metrics, and our progress towards meeting our targets.
- Net Zero Investment Consultants Initiative (NZICI): As signatories to the NZICI, we report on how we incorporate net zero climate change alignment into our investment advice.
- Dutch Climate Agreement: As a signatory to the Dutch Climate Agreement, we report on our progress in our greenhouse gas emissions and the strategies we follow to align our operations with the agreement.

Reflecting

As described under Principle 1, in 2023 we adopted new group wide values. After multiple workshops, taking into account the views from representatives from across our businesses, client focus was one of the five key themes which was identified as best reflecting our distinctive ways of thinking, acting and behaving. We define our client focus as our ability to solve problems, driven by our desire to provide the best outcomes for our clients and members. We do this by being professional, knowledgeable, and trusted advisors, through listening, understanding, and partnering with our clients. By recognising client focus as one of our core values, Cardano enhances effective stewardship by putting the best interests of its clients first and at the centre of its business strategy and culture.

Principle 7:

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Integrating ESG – our Sustainable Investing approach

Our sustainability policy revised in 2023 relates to our investment and advisory activity and sets out how we integrate Environmental, Social and Governance (ESG) issues and real-world sustainability impact insights into our investment decision-making, stewardship and policy engagement activities.

Our Sustainable Investment Policy draws on over 30 years' sustainability-related experience at the Cardano Group. It incorporates our Group-wide beliefs, sustainability targets and an overview of the policy's implementation for our internally and externally managed assets. This policy is underpinned by a series of documents, which apply to our directly managed assets:

- Our Sustainable Investment Policy, elaborates on:
  - investee entity compliance with international standards
  - investee entity involvement in activities deemed too harmful for society
  - how we assess the capacity of investee entities to transition towards a sustainable society
  - how we evaluate if investee entities make a positive contribution to society (see the Cardano Sustainable Investment Framework in appendix A and the Impact Investing Policy in appendix B.)
- Our approach to stewardship, engagement and voting (see our Engagement Policy and Voting Policy – appendices C and D.)
- Our priority sustainability themes (see thematic strategy documents on climate change, biodiversity and water – appendices E1 to E3).
- Asset class-specific policies and proprietary measurement methods (see appendices F and G.)

All documents mentioned above are available here.

Our sustainable investment framework is based on our belief that the world needs to transition towards a sustainable future. We are in the midst of a long-term global economic transition towards a more sustainable society, which creates tremendous challenges and uncertainties. This transition provides opportunities for companies and sovereigns, but also brings risks. Financial institutions face new responsibilities to mitigate and manage sustainability related risks through capital allocation and stewardship.

Stricter regulations, changing market conditions and changing consumer preferences will impact all companies and financial institutions. We identify the following priority themes, which, if tackled in combination, will contribute to a successful transition to a sustainable society:

- Fighting climate change
- Halting biodiversity loss
- Using water sustainably
- Transition towards a circular economy
- Fulfilment of a set of social foundations:
  - Basic needs such as clean water, nutritious food, healthcare, housing, energy and financial services which are accessible and affordable
  - Transition to a fairer society addresses inequality through access to education and training, income and work, improved diversity, and gender equality in the workplace.
  - Strong governance, which is vital for businesses to maintain their social license to operate and for governments to maintain their democratic legitimacy.

Our Sustainable Investment Framework is based on those priority themes and classifies each entity on its ability to transition towards a sustainable society. Where entities fit on this framework is determined by the sustainability-related risks and opportunities and the entities' real-world impacts and determines whether we should invest in them. It also determines to what extent engagement can mitigate remaining sustainability-related risks or advance their transition. Classification of each entity in the framework is based on a two steps procedure (below figure). Each step is summarised below and described in more detailed in the Sustainable Investment Policy document.

- Step 1: Evaluate if the entity behaviour and the activities fit within a sustainable society. We assess if the entity violates international standards or is involved in activities considered too harmful for society such that it would cause too much harm to the social foundations or planetary boundaries. These entities are excluded from investment.
- Step 2: Classify the entity based on its ability and likelihood to contribute to, or adapt to, the transition to a sustainable society and on how sustainable its

operations are. If the entity adapts and contributes, either through reducing negatives or accelerating positives, we may invest. If it is unlikely to adapt and, therefore, represents unacceptable risk to our portfolios and creates unacceptable negative impacts to society, we avoid investing.

Sustainable investment framework
Positive impact
Sustainable
Adapting
At risk
Non-adapting
Harmful
International standards

Sustainable Investment Solutions

We work with clients in different ways:

- As an asset manager, we invest directly (direct investment)
- As a fiduciary manager, next to our direct investments, we also invest indirectly via third-party managers and, for derivatives, via counterparties
- As an investment advisor, on pensions and risk management, and as an advisor on sustainability and corporate covenants, we support our clients to be in control and reach their ambitions in pension solutions, risk management, sustainability, and corporate covenants.

Through our capital allocation, stewardship activities, and advice, we not only create investment solutions that mitigate sustainability-related risks, but also have a real-world impact.

As explained in Principle 1 we believe that these real-world and financial objectives are mutually re-enforcing and hence inform our approach to stewardship.

Direct Investments

We invest directly in individual entities, either in equity or credit. We select direct investments in our investment funds and bespoke mandates. For our direct investments, we use our Sustainable Investment Framework to construct our portfolios (figure below).

We internally manage three types of investment strategies on behalf of our clients, each having dual objectives – delivering financial returns as well as aiming to contribute to the transition to create a sustainable society:

- Impact strategies: we allocate capital to positively impact investments and invest in entities with the intent to generate measurable positive social or environmental impacts that accelerate the transition towards a sustainable society alongside financial returns.

- Sustainable strategies: investments in entities mainly classified as 'sustainable' or 'positive impact'. Next to complying with principles of good governance and do no significant harm, these entities are operating sustainably and contribute to at least one of our sustainability targets, in line with the SFDR definition of a 'sustainable investment'.

- ESG Transition strategies: investing across 'adapting', 'sustainable' and 'positive impact' entities, while focusing attention on entities in public markets that need to transition.

We also consider a proprietary ESG score per company, and favour investments in companies with higher ESG scores than their peers. ESG scores are determined for companies, for governments and for sustainable bonds, however they are secondary to our classifications and do not directly drive company transition classifications (our ESG scoring method is described in more detail in appendix G.)

Sustainability Targets for our Direct Investments
To contribute towards the transition to being a sustainable society, all our directly managed strategies aim to achieve the sustainability targets below:

- **Climate change:**

We support the Paris Climate Agreement of limiting global warming to +1.5°C versus pre-industrial levels. We do this by committing our investment portfolios to net zero greenhouse gas (GHG) emissions by 2050, known as 'net zero'. Our climate target was approved by the Science Based Target initiative (SBTi) in 2023. We aim for an emissions reduction for our own managed strategies of 50% by 2030 and 75% by 2040, with the baseline year set at December 2019. This implies an average 7% reduction in GHG emissions every year, which informs our asset-class decarbonisation targets.

We support the concept of 'fair share' decarbonisation targets: 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). Our default position is in our fiduciary management, our asset management, our advice, and our liability-driven investments.

- **Biodiversity loss**

Deforestation is a major cause of biodiversity loss, also impacting water availability and climate change through the release of sequestered carbon. As a short-term proxy for the aim to reverse biodiversity loss, and until biodiversity loss can be better monitored, we are focused on reducing deforestation. In our directly managed strategies, we aim to reach net zero deforestation by 2030, with any deforestation replaced with reforestation of similar or higher quality.

- **Sustainable water use**

It is predicted that, by 2030, 40% of the world's population will not be able to meet their need for water if water is not used more efficiently. In our directly managed strategies, we aim to achieve water neutrality by 2030, where businesses in water-scarce areas consume no more water than nature can replenish.

- **Materials use and waste**

Transitioning towards a sustainable society also includes transforming towards a circular economy: reducing, reusing and recycling materials to minimise waste and to keep pollution and the consumption of materials within planetary boundaries. In our directly managed strategies, we aim to reach a circular economy by 2050. Until science-based pathways are determined to measure progress on this aim, we monitor whether companies adapt their processes towards a circular business model that limits the use of non-renewable resources and prevents, as much as technically feasible, chemicals and hazardous and other waste problems.

- **Social and governance targets**

Across three core social foundations – provision of basic needs, a fairer society and strong governance – we have minimum expectations of entity behaviour:

  – We aim to invest in businesses that comply with the UN Guiding Principles on Business and Human Rights (UNGP) and the OECD Guidelines for Multinational Enterprises. In addition, we expect sovereigns to comply with international treaties, conventions, or best practices such as the Universal Declaration of Human Rights, and the International Covenant on Economic, Social and Cultural Rights.

  – We expect entities to provide transparency about how they contribute to human rights and the living standards of the communities affected by their operations, secure the proper wellbeing of their employees or inhabitants, protect against social injustice and inequality, and follow principles of suitable governance, good human capital management, and appropriate social capital management.

- We exclude violators of the UN Global Compact principles. As the transition to a sustainable society progresses, we raise the minimum expectations on how entities contribute to the basic needs of affected employees and communities, contribute to a fairer society, and organise good governance in line with the Sustainable Development Goals.
- We work towards these targets through our stewardship approach and by integrating the double materiality principles into our sustainable investment solutions

As explained under Principle 1 we believe these systemic sustainability issues drive long term outcomes for our members and are therefore an essential part of our approach to good stewardship

Examples of integrations sustainability issues into our investment process
As explained above, sustainability is key to our investment framework. For equities the framework above describes the approach as do later principles on our engagement and voting activities.

We also integrate sustainability into the investment process in other ways such as:

1) Sustainability and Investment team meetings

The sustainability framework for companies and countries described above is our starting point for investment decisions and we assess all direct investments according to the sustainability levers of change. To integrate these views further across investment teams, we hold a monthly research meeting that involves our Sustainability Team and the Investment teams. The meetings cover rotating sustainability topics and how these impact our assessments at the company, issue and sector level. The goal of these meetings is to exchange views and systematically integrate our approach across the firm.

For example, in 2023, we had a research meeting on solar energy where the below was discussed:

- Overview of the global and regional solar markets, including regulations
- ESG evaluation of the solar value chain and producers
- Equity and Fixed Income exposures

2) Sustainability in bond investments

We invest in a wide range of bond asset classes including corporate credit, government bonds, LDI strategies and use of proceeds bonds (Green, Blue, Sustainable and Social bonds). Our approach in each differs according to the needs to the specific sub-asset class.

A large portion of our bond AUM comes from clients who allocate to **LDI risk management strategies** (Liability Driven Investment). These strategies invest in government bonds in the UK and Europe in order to match the cash flow characteristics of the liabilities. From a stewardship perspective for these assets, our primary approach is to engage with the issuing governments around regulation and government policy, for example net zero commitments and strategy, or pensions policy that affects our client members. We are regular responders to government and regulator consultations (see examples under other principles), consult with debt issuance departments (see the example below on the UK Green Gilt engagement with the UK Debt Management Office) and work together with like-minded investors in engaging on government policy.

Our **corporate credit** portfolios operate using the same sustainability framework as we apply to equities. This means that issues from bonds that are deemed to be non-adapting, at-risk, harmful or in violation of international standards are excluded from our credit portfolios.

Bond issuers will also be subject to the same engagement process with priority companies identified based on the systemically important transition themes. The CSG Stewardship team will lead on many of these systemic engagements. The investment teams will often lead engagement conversations with issuers as they come to market with new issuance, an ideal time to raise any sustainability concerns.

We have a detailed approach to the selection of **Green Bonds**, Blue Bonds and Sustainable -Use of Proceeds or Sustainability linked bonds detailed in this Sustainable Bond Methodology document. This process does not accept that any bond with a green label will qualify for our portfolios, rather it needs to meet our own internal criteria for sufficient ambition in promoting the transition to a more sustainable economy. In line with our Model of Influence, we believe that the key moment to engage with bond issuers is at the point of issuance of a new bond, as this provides us with leverage.

For **sovereign bonds** we adopt a different framework from corporate issuers but the objectives and principles are similar: understand the risk exposures, understand what sovereigns are doing to align themselves to a more sustainable society and engage where possible. Because no sovereigns are currently operating as "sustainable" or "positive impact" most fall into our Adapting category. However a number of sovereigns particularly in certain emerging markets are excluded from our direct investment portfolios because they are considered "Non-Adapting" as they may not comply with our policies on human rights or other relevant issues under our investment framework.

Case-study:
Our investment in UK Green Gilts

In a number of our client LDI and investment portfolios we invest in Green Gilts, a component of the green financing program created by the UK Debt Management Office (DMO) to facilitate a sustainable transition to a green economy. The Green Gilts will enable the financing of projects in line with the government's climate objectives. Projects include electric rail and sustainable agricultural and land management practices.

Participation in the financing of the programme targets the systemic risk of climate change, therefore promoting the well-functioning of financial markets, and supports the climate action priority sustainability theme.

In terms of stewardship and engagement, the Investment Manager has met with representatives from the UK's Debt Management Office DMO to understand how the framework that is applied to the use of proceeds from green gilts is consistent with the our sustainable bond policies and to ensure Green Gilt proceeds are used as consistent with the prospectus.

Indirect Investments:

Third Party Managers
In addition to our direct investments, we help our clients invest in more than 100 external investment managers and monitor over 180 external managers across most major markets, asset classes (public and private), and geographies. We have a flexible approach to account for different strategies, underlying asset classes and geographies without compromising on ESG focus, which we believe drives the best outcomes. We comprehensively assess and integrate sustainability issues at every investment stage when assessing external investment managers.

We recognise there are many valid sustainable and responsible investing approaches and we do not apply our in-house sustainability framework or stewardship policies to external managers. Instead, we expect external investment managers to:

- Be aware of financially material ESG issues associated with an investment
- Take ESG issues into account where they have the potential to materially affect the financial risk and/or return
- Engage strategically on ESG issues, where possible within the portfolio and externally
- Exercise their voting rights where possible
- Weigh substance over form – we look for the genuine integration of ESG issues
- Provide case studies and practical examples of their approach and performance

Our ESG assessment framework for external investment managers is deliberately detailed and assesses external managers across people and policies, investment integration, stewardship and engagement, and reporting.

We engage with external investment managers across strategy, geography and size and we regularly discuss sustainability topics as part of our ongoing monitoring of external investment managers, including challenging individual stocks and stewardship activity.

As stated above, we ask managers to report on engagement activities. The below two case studies are examples of what we receive from third party managers:

Case-study:

Manager Type
US Long/Short Equity Manager

Engaged With
Telecommunications Company

Description of Engagement
In July 2023 the WSJ had multiple articles out about lead-coated telecom wiring that is found underground, in water, and on overhead wire lines in US markets. The lead wiring was deployed from 1880s-1960s and is generally no longer in use. The lead was used to cover copper wires to protect

and sheath the cable from outdoor elements because lead is stable and does not rust. There is significant concern over worker and public safety near the wiring given lead's toxicity, especially to children.

The US Long/Short Equity Manager reached out to two companies it has investments in following these events to understand how much of their copper wiring contains lead shielding, whether the company had worker procedures to handle lead wiring, and if the company had received any worker or consumer complaints or is facing litigation related to lead wiring or lead poisoning. They simultaneously conducted significant research into the history of lead used in wiring, litigation history of each company and spoke to industry experts on the health risks. They were able to determine that both companies had less than a single digit % of copper miles using lead sheathing which dramatically reduced the potential health exposure risk. Most of the lead wiring was underground and not in areas exposed to the public. They spoke to the EPA and other environmental consultants who indicated that in cases where the lead wiring was underground it was more hazardous to remove it than to leave it. The EPA indicated that in some cases it could make sense to remove overhead and underwater lead installations, but in their own testing they were not able to find hazardous concentrations of lead near the wiring. They also researched what they thought it would cost to remove the wiring. They worked with the companies to confirm they had employee procedures in place to deal with contact with lead. They were able to confirm with one of the companies that it has not received any litigation or health complaints to date.

The US Long/Short Equity Manager were able to verify significant conflicts of interest in the reporting from the WSJ with questionable experts used to perform analyses that also couldn't be repeated. After working with the companies and their own research they felt that the health risk of the lead wiring was overblown. Since these stories have come out the larger exposed companies, have had the EPA re-test multiple sites including those cited in the article and the EPA indicated the sites posed no health hazard. They are continuing to follow-up with these companies in meetings to see if anything has changed and if it makes sense to remove some lead wiring where there is potential for consumer exposure.

Case-study:

Manager Type
Credit Manager

Engaged With
Metal Packaging Company

Description of Engagement
The objective of the engagement was to understand the Metal Packaging Company's efforts in promoting the circular economy through their manufacturing of glass and metal packaging. Additionally, the engagement aimed to address the company's level of diversity across its employee base and encourage actions to improve gender representation.

The engagement involved discussions with the Metal Packaging Company's management regarding their approach to the circular economy and their strategies for enhancing diversity and inclusion. Material items identified included the secular shift away from single-use plastic, regulatory and health risks associated with plastic waste, and the importance of attracting and retaining diverse talent. We raised concerns about the low representation of women in their organization.

We believe the engagement successfully shed light on the Metal Packaging Company's solutions to addressing current gaps in diversity and talent retention while promoting sustainable outcomes. The company prioritizes recyclable and biodegradable packaging, complying with global regulations and contributing to environmental and human well-being. The Metal Packaging Company's recyclable products not only save over 90% of the energy used in making beverage containers from virgin materials, but also help mitigate the risk of chemical contamination linked to single-use plastic alternatives.

With respect to human capital and diversity, the company has taken steps by investing in local schools and STEM programs for young women, with the aim of building a diverse talent pipeline and fostering increased female representation in the traditionally male-dominated field. While this initiative may take time to increase representation, we were encouraged by their thoughtful acknowledgement of diversity as an important driver of innovation and success for the company. Next steps may include monitoring the Metal Packaging Company's progress in diversifying their employee base, tracking the implementation of their talent attraction and retention initiatives, and assessing their continued efforts to promote the circular economy.

Stewardship approach of third-party managers
Our approach to stewardship starts with data. Granular data drives higher quality discussions. Our ESG questionnaire and manager framework is deliberately detailed and assesses fund managers across four areas: People and policies, ESG integration, stewardship and engagement, and reporting. Where possible, we have aligned our framework with key industry initiatives.

Engagement
We are passionate about active engagement with third party managers as we believe this is one of our most powerful forms of influence in the industry.

As referenced earlier we send a letter each year identifying the key issues we want to see progress on. We treat managers as partners, feeding back ESG ratings and using these to set specific, time-based milestones for managers to make progress.

From there, we are able to engage with managers further to ensure ESG issues remain at the forefront of their investment decision-making. We regularly discuss ESG related topics as part of our ongoing monitoring throughout the year.

For example:

Case Study: Engaging an equity manager on UN Global Compact screening

What
We set a minimum standard for what we describe as High Focus managers – managers who can have a substantial influence on their portfolio companies. Part of this is that we expect managers to exclude persistent United Nations Global Compact (or equivalent principles) violators. One of our Equity managers did not have this screen in their process.

How
We engaged through regular interactions on calls with our contacts at the Manager.

Outcome
The outcome was successful. The Equity Manager implemented a screen on the portfolio for violators against two sets of ESG minimum standards: the United Nations Global Compact Principles and the OECD Guidelines. To do this, the manager uses data from S&P Capital IQ. Following the introduction of this screen, we receive the exclusions confirmation report via the monthly reporting we receive from the Manager.

Case Study: Downgrades due to poor voting outcomes

What
Over 2020 to 2022 we conducted research into passive managed ESG funds, reviewing:

- all the leading ESG data providers used in ESG index construction
- the spectrum of ESG index solutions available; with a preference for approaches that were broad (addressed E, S, and G issues), and that had strong climate credentials
- passive index managers' ESG capabilities – conducting multiple deep dives into managers' stewardship abilities paying particular attention to voting and engagement behaviours

In 2020 a certain manager was appointed on the basis that we believed they were showing genuine improvement in their approach to voting and engagement. As part of our monitoring of managers we regularly engage on their voting record and improvements were evidenced in subsequent years voting statistics and activity. However over the 2022/2023 period we noticed a stark reversal in this as voting records had deteriorated substantially on climate and ESG related issues in recent years.

How
We engaged with the manager in several calls to understand their decision making and progress and the various pressures that had led to this change in activity.

Outcome
Our conclusion is that the manager is struggling with competing political pressures from clients with different perspectives influencing their investment stewardship strategy. The outcome has been unsuccessful to date. As a result we downgraded the manager's ESG scores and ratings and this was communicated to clients. In some cases this resulted in disinvestment from the manager.

We remain engaged with the manager who has sought input in how they could accommodate their various client preferences and we will continue to engage in a constructive manner.

Aligning to industry best practice
We believe that a critical part of improving sustainability and stewardship practices requires improved clarity and standardisation (around terminology but also metrics and reporting).

This is why, we have aligned our strategy specific ESG questionnaires – detailed sets of questions we send to all our managers annually – with the UN PRI's reporting framework, the PLSA template and ICSWG resources.

We hope this will encourage managers to align to a single, standardised means of reporting, as well as becoming UN PRI signatories themselves (see case study under Principle 5 where this was achieved).

Investment Consultants Sustainability Working Group (ICSWG): We are an active participant in the ICSWG – a body made up of 19 investment consultant firms to UK asset owners. The group published in November 2021 guidance designed to improve the engagement reporting by managers, which we have included in our manager ESG questionnaire:

- The ESG Metrics for Asset Managers[1]
- The ICSWG Engagement Reporting Guide[2]

We have given a more detailed explanation of our manager selection process and integration below under Principles 8 and 9.

Derivative exposure and counterparty engagement
In a number of investment strategies, we make use of derivative instruments. Where these derivatives reference standard market indices we do not apply our normal framework on a look-through basis to the underlying exposures. Custom derivative baskets will apply our normal sustainability framework. Over-the-counter derivatives are invested via a counterparty, usually an investment bank. To understand a counterparty's ESG risk exposure, we screen counterparties for material ESG issues using our Sustainable Investment Framework. Our Dealer Committee 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.

For example, in one case a counterparty was flagged on an ESG issue and received an amber rating as a result for their ESG score. This was not combined with credit deterioration so did not affect the ultimate credit score from the Dealer Committee, but it could have had other risk factors combined. The issue was ultimately resolved and the counterparty is no longer flagged as amber.

Sustainability Advisory Services
We offer sustainability services that support our clients to achieve their sustainable ambitions in both their investment portfolio and in a direct corporate and trustee context.

Sustainable Investment Services
We advise a number of asset owners (pension funds, insurance companies and banks) on socially responsible investment, supporting them to realise their sustainability ambitions, translating these into policy with concrete and measurable objectives that meet their legal obligations. We support them across a range of sustainable investment activities: sustainable policy development, sustainable investment policy choices, legislation and regulations, reporting, monitoring and other sustainability-related activities. In certain cases this extends to supporting them on engagements with companies.

Our experienced sustainability team, sustainability data and reporting infrastructure support these clients to better integrate sustainability and stewardship into their policies and mitigate sustainability-related risks and impacts in their investments.

For many clients we are involved in producing their TCFD reports. This includes using climate change scenario analysis to assess the risks and opportunities of a client's investments at the portfolio level.

Corporate Sustainability Advisory
Our Sustainability Advisory team in the UK provides advice and support to trustees, corporate clients and asset owners on the interplay between corporate financial strength, sustainability, and strategic planning. This forms an extension of our ability to steward assets.

For pension funds a crucial element is their corporate sponsor covenant risk. This includes unique in-depth analysis of the credit and sustainability risks pertaining to a sponsor including the ESG risks they may be exposed to. We have developed in-house propriety models to support its work, including the MACCI model (which we use to provide corporate climate risk analysis) and the EARTH model (to assess broader corporate sustainability risk analysis). This then leads to conversations with the corporate sponsor about these risks and can often result in actions taken by the corporate to improve these risk areas.

In some cases (when not in conflict) we will work directly with corporate clients to consider how to mitigate and adapt to transition risks, and we support them in aligning their entity towards science-based transition plans so they can operate within planetary boundaries and respect social foundations.

This advisory activity contributes to the stewardship of our investment client portfolios in cases where these corporates are part of the investment portfolio.

1 https://www.icswg-uk.org/_files/ugd/9624a9_12e6622be8e14cbd8f4b12b3b31caf80.pdf
2 https://www.icswg-uk.org/resources

In conclusion and reflection: Integration throughout our processes
In conclusion we aim to integrate both ESG assessment and real-world impact throughout our processes, whether for internal or external, and we believe this is key to driving good stewardship outcomes. These processes are always a work in progress, and we will continue to enhance these processes over the next year.

Key areas of further enhancement in 2024 will include:

- Closer integration between our investment teams and the CSG stewardship team on engagement with issuers
- Improvements in measurement of some of the key sustainability risks around deforestation and water usage.

Principle 8:

Signatories monitor and hold to account managers and/or service providers.

ESG data

For our direct investments, our primary sustainability data source is MSCI's ESG and Climate metrics, including scenario analysis insights and temperature alignment metrics. We use this data to feed into our model to assess our own investments and those of our managers.

We also use Sustainalytics for engagement support as well as regulatory disclosures linked to SFDR.

To ensure the integrity of the data we use for our own research and assessment processes, we have engaged MSCI on several instances about its data quality, consistency, and meaningfulness. We have provided input for its development of new data and research products.

Below are examples of interactions with our ESG data providers in 2023:

- We challenged MSCI on several aspects of its Paris Aligned Benchmark methodology.
- We regularly ask MSCI to explain changes of individual company scores. In some occasions, our feedback is incorporated into their assessment.
- We challenged Sustainalytics on its EU Taxonomy and SFDR data to improve clarity of scoring outcomes.
- We responded to several Sustainalytics client consultations regarding the development of their thematic engagement programs and provided feedback along the year. We volunteered to be part of Client Consultations Panels on Overall stewardship Services and the ESG Voting Policy Overlay Services. The work of these panels will start in 2024.

We are seen by the data and research providers that we work with as a front-running investment manager with valuable insights that can help shape their research offerings.

In 2023, we joined an investor initiative where institutional investors work together to advance the corporate human rights data environment. The main objective is to enable investors to better and more systematically incorporate human rights data into their investment and stewardship activities. As part of the group, Cardano lead discussion with GlassLewis on their approach to human rights data. The work of this investor group continues in 2024, when it will be made public and opened to other investors to join.

Third-Party Manager Engagement Activities

ESG Rating Framework

All fund managers that we invested in are monitored through our ESG rating framework. Part of this framework focuses specifically on managers' stewardship and engagement and assists our investment team and Manager Research Committee (MRC) in ensuring that investments are being managed in accordance with our expectations around ESG.

Timing of when strategies are rated:

1 Prior to investment: investment proposals for all new investments tabled at the MRC must contain a dedicated section setting out (i) the ESG rating; and (ii) a summary of the rationale used to get to that rating. Managers also need to complete our ESG questionnaire prior to investment.

2. Post-Investment: (i) all strategies' ESG ratings are formally reviewed on an annual basis by the relevant coverage team; and (ii) ESG ratings are updated on an ad-hoc basis: coverage teams speak to all invested managers regularly as part of the overall monitoring process - this will include discussing ESG issues. We use MSCI and internal data sources to analyse manager portfolios and support our initial and ongoing rating of managers. For example we will regularly challenge managers on stocks that our internal framework classifies as non-adapting. This data provides a challenge for whether managers are implementing their sustainability beliefs.

Each ESG Rating consists of two parts:

Part 1 | High or Low Focus

- Strategies are designated either (i) High Focus (strategies where ESG factors are deemed to potentially materially impact financial risk return and real-world impact); and (ii) Low Focus (strategies where ESG factors are deemed to have less potential to materially impact financial risk return and real-world impact).
- This is based on an internal methodology in order to seek to ensure consistency of approach.

Part 2 | Overall Rating (Strong, Good, Standard or Poor)

Strategies are assigned an overall rating.

- The rating is calculated by aggregating scores from four specifically assessed categories: (i) People and policy; (ii) Process integration; (iii) Monitoring, Stewardship & Engagement; and (iv) Reporting.

- Each category score carries with it certain weightings, to reflect areas we deem to be most appropriate in the assessment of ESG within the particular type of strategy.

Data Capture
Information to assist in this rating process is gathered from managers as follows:

- Annual Questionnaire: a detailed questionnaire is sent to all invested managers annually; the questionnaires are tailored to reflect the differences in our core manager strategies (e.g. equity, fixed income, multi-asset, private equity etc.)
- Quarterly voting information: we ask all High Focus managers to provide details of their voting records on a semi-annual basis. This includes details on voting against and for management, as well as asking managers to explain their most significant vote in the reporting period
- Additional information: added information is gathered by the investment team as part of the formal day-to-day investment monitoring is stored in our databases, throughout the year.

Focused Framework
Our framework is designed to focus engagement resources 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-oriented derivative-based strategies, highly diversified trend following strategies).

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

For all managers, but in particular, high focus managers, an assessment of their stewardship approach will be an important component of the initial stages of the manager selection process.

Voting
We require external managers to engage on ESG issues and about real-world sustainability impact on our clients' behalf. As part of this engagement, we expect all our managers to be using their right to vote. We monitor (amongst other things):

- how each manager has voted (to the extent they have voting rights associated with the strategy)
- the voting process: 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 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 the 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; an

  > track a manager's progress against those goals.

- We seek to quantify our engagement impact by registering the changes that managers have or 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 that structural change is a process.

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 (see the example case study in Principle 7).

Engagement
For managers with low ratings, we communicate what aspects we want to see improvement on as we engage with the manager. We set clear milestones that are then monitored for improvement. In 2022, we only set milestones for High Focus Funds that were scored "Poor" in our ESG rating process. This totalled 2 funds. In 2023, we set milestones for all Recommended Managers, which totalled 84 funds.

Reflection
We reflect on the process so that lessons are learned to improve future engagement activity.

1) For our direct investments, we work closely with our providers, regularly volunteering to provide feedback and challenging them when data issues are identified. This can lead for example to data errors being corrected by our data providers or to new themes or companies being engaged on by our engagement service provider, widening the scope of our engagement activities.

We also set annual objectives to improve processes and identify key projects to keep advancing. In 2024 we are seeking to create better integration between the engagement activities of our investment team and the

CSG where we believe we can generate greater synergies and even more impact. We will also be enhancing the engagement activities around our positive impact equity strategy.

2) For our indirect investments via third party managers, we seek to update our process each year.

Improvements

- Our ESG rating process utilises Milestones. These are Management Research Team (MRT)-identified areas of improvement for the Manager, where we intend to focus our engagement efforts to induce improvement. In 2023, Milestones were only set for High Focus Funds (those where the manager invests directly in single name equities or bonds or other asset classes, for the long-term, allowing them to exert a higher degree of engagement or influence on ESG matters). In 2024, we are expanding this to all Funds that are recommended for investment by our clients. This is approximately a 30% increase in Milestone setting and will increase the number of engagements we have to around 150 funds.

- We have introduced technology into our ESG process to make engagements with Managers more streamlined and data collection more efficient. This has been done in several ways:

  - The integration of Diligence Vault, which is utilised for questionnaires, voting templates and ad-hoc ESG related queries with Managers.

  - The use of systems such as MSCI which highlights Managers who are investing in at-risk ESG investments. By getting this portfolio-level granularity, it will allow us to be more targeted in our engagements with Managers, providing better challenge to their investment decisions from an ESG standpoint.

  - We have also made improvements to our internal ESG dashboard, which shows how Managers are progressing over time. This will act as another key data point that will aide future discussions/ engagements with Managers.

- Lastly, in our annual ESG letter to Managers we highlighted key themes (Climate Crisis, Environmental Impacts and Human Rights) that are of high importance to our clients. This was a new introduction that was designed to make their reporting more targeted to these themes and their disclosures surrounding these topics better.

Planned improvements

- Related to Milestones above, in 2024 we will be tracking how Managers are progressing against our Milestones. This progress data will then be reported to clients through our improved internal ESG dashboard.

- Given the introduction of new technology partners into our process in 2023, we believe engagements with Managers will become more targeted, efficient and data-rich. This will allow us to be more effective in how we follow up with Managers, post-engagement.

Principle 9:

Signatories engage with issuers to maintain or enhance the value of assets.

We undertake stewardship across our investment activities, engaging the companies we own (both through bonds and equities), in our equity investments voting at shareholder AGMs, and engaging our third-party managers, counterparties, regulators and policymakers. We do so as we believe it helps protect the long term value of assets.

Engagement for our direct investments

Under Principles 1 and 2, we have detailed our approach to stewardship and engagement. It describes in detail why and how we approach stewardship to maintain or enhance the value of assets The below summarise our approach, focusing on our engagement activities.

Our stewardship activities are rooted in the conviction that engagement and voting are powerful tools to drive companies toward embracing and acting on the sustainability transitions currently underway. We do engagement to:

- Manage systemic risk: under Principle 4, we gave examples of how and why we do this.
- Maintain investments while pushing for improvements: we believe in using engagement to encourage investee companies to transition and therefore using divestment as a last resort.
- Contribute to positive real world sustainability outcomes.
- Improve long-term risk adjusted return by using engagements to reduce sustainability risks.

Our starting point for prioritising engagements is our sustainable investment framework. We focus our engagement efforts on entities that are actively managing their transition pathways and have the capacity to contribute positively to a sustainable future. We align our engagement priorities with the Environmental and Social targets we have set, related to the transitions, as described in our Sustainable Investment Policy. The companies that are considered as 'Adapting' still have significant improvements to make to their business models to decrease their negative impacts and increase positive impacts. We prioritise engagements with the adapting companies because based on our assessments they demonstrate a willingness and capacity to transition. When deciding to play a lead role in an engagement either within a collaboration or individually, we consider a number of factors, including: the company's performance and progress on the relevant and related topics, whether it is already engaged via other initiatives and to what extent, and the size of the company.

To conduct our engagements, we have adopted the below principles:

- **Collaboration** – engagement is more efficient and impactful when managers collaborate, not just for the investors, but for the companies too (who will field fewer, but higher conviction, engagements from their investors); we collaborate with other investors and market organisations that drive sustainable investment practices.
- **Quality over quantity** – we are interested in meaningful engagements, seeking tangible results with strong reporting.
- **Long-term** – we encourage long-term relationships with companies. Successful stewardship can take many months, maybe even years.
- **Real-world impact** – we are interested in engagement on topics that contribute to positive real-world sustainability impact and address systemic issues (such as, reduction in absolute carbon emissions).
- **Innovation** – we encourage innovation, for example, our satellite-based engagement towards zero deforestation.
- **Integrated** – stewardship contributes to investment decisions.
- **Goal-oriented** – we set objectives and work towards those; if progress is not meaningful, we will consider escalation including voting against board members or changes in capital allocation.
- **Transparency** – some engagements, perhaps even many, will be unsuccessful.

Our engagement activities are held at issuer level and cover both equities and bond holdings. In terms of geography, our dialogues tend to be concentrated in Europe and in North-America, where the concept and process for companies having engagement dialogues with investors is more developed. We review our engagement activities on a continuous basis and have made efforts to increase our engagements in other regions. For example, in 2023, we joined a collective engagement coalition led by the Swedish Council on Ethics on the topic of Technology and Human Rights where two Chinese companies have been selected for engagement. We expect all companies to work towards achieving the same ultimate sustainability goals that are relevant to their business strategies (including net zero, net zero deforestation, and strong human rights due diligence, among others). However, we acknowledge that companies in emerging markets may be at an earlier stage of their sustainability journeys and have less dedicated resources.

This means that our engagement efforts here focus on more foundational practices, such as creating policies, creating internal structures, and developing board and management level oversight of sustainability issues.

We make public an overview of our engagement activities here and have described under Principle 6 how we report on our engagement activities to our clients. Below are case studies to illustrate the way we conduct engagements:

Case Study: Engaging the Textile and Apparel sector and the Construction and Engineering sector on Modern Slavery

Introduction
Cardano participated in the thematic engagement programme led by Sustainalytics over the past three years, engaging companies in the Textile and Apparel sector and the Construction and Engineering sector to ensure modern slavery risks are robustly addressed, two sectors where forced labour is disproportionately represented.

Why
Modern slavery represents material risks for companies, who are increasingly being held accountable for failures to address human rights risks in their operations and supply chain. By addressing modern slavery and implementing strong human rights due diligence, companies can mitigate the associated legal and reputational risks, as well as build more resilient supply chains. It also helps address long term system risks associated with increased inequalities, which affect productivity, social stability, and overall economic resilience.

Objectives
The goals of the engagements focused on six key areas of performance, comprising: governance and disclosure; responsible purchasing practices; living wages; stakeholder collaboration; worker empowerment; and rigorous auditing and grievance mechanisms.

Engagement Activity
Sixteen companies participated in the programme over three years: 123 meetings were held, comprising 80 substantial exchanges, 22 introductory calls and 21 other interactions (such as attendance at a roundtable or a company stakeholder forum).

Outcomes
- All companies need to do more to ensure greater resiliency in managing exposure to modern slavery risks and many are working on plans to drive progress in multiple areas.
- The engagement goals were demanding and consequently scores have improved mostly marginally in each biannual period. Cardano therefore closed the engagements with a neutral outcome in the database.
- Some intangible outcomes of the engagement cannot be measured so the picture is not entirely negative.
- In 2023, Sustainalytics made recommendations to all companies which reflected areas where it considered more focus should be placed and gaps addressed. Following these, many companies explained plans to achieve greater progress. It is therefore anticipated that due diligence efforts of several companies will be strengthened.

Case Study: Engaging the banking sector on its climate transition

Introduction
Cardano participates in the Banking Climate program coordinated by ShareAction, engaging systematically important banks in Europe to ensure these banks adopt and implement 1.5C aligned climate transition plans.

Why
Banks play a key role in the global economy and therefore are of critical importance to the transition to a low carbon economy. Most banks have high exposure to fossil fuel assets exposing them to stranded asset risk representing a financial risk to the banks and their investors. Redirecting this financial capital to green technologies can significantly contribute to reaching the Paris Agreement goals, mitigate systemic climate risk and position banks to take advantage of evolving markets and innovations. Investments in green technology can diversify banks lending portfolios and hedge against climate related risks, offering long-term business resiliency.

Objectives
The three main goals of the engagement are (1) Oil & Gas: ensuring banks to develop policies to restrict non-Paris aligned such as new oil and gas and phase out their financing of oil and gas on pathways aligned with 1.5C warming, as per the Paris Agreement (2) Climate target setting & disclosure: Ensuring banks have robust climate targets and disclosures in place, and that those reflect the emissions and finance they help facilitate through capital markets and (3) Green finance: Ensuring banks rapidly scale up financing of green activities to facilitate the low-carbon transition and publish robust and transparent green finance targets and disclosures

Engagement Activity
Five banks were targeted in 2023. We sent letters to all five banks. Four investor preparatory calls were held with the investor group and ShareAction. The investor group, including Cardano:

- Had a dialogue with Société Générale
- Escalated the Barclays engagement by co-filing a shareholder resolution which resulted in a constructive dialogue. Given the progress made by Barclays updating its energy policy in February 2024, the investor group withdrew the resolution which was co-filed at the end of 2023.
- Made efforts to organise a dialogue with HSBC in 2023.

Outcomes
- Société Générale updated its climate strategy in September. In the new climate strategy, the bank announced that it will stop financing new oil and gas fields and will no longer finance pure-play companies in the exploration and production of oil and gas (With the exception of companies that are mainly state-owned).
- Barclays showed little progress over 2023, but the escalation process resulted in a constructive engagement dialogue. The bank committed to fully implement one of the three key asks of the resolution and made progress on the other two.
- Efforts to have a call with HSBC were unsuccessful in 2023 but will take place in 2024.
- All banks still need to do more in implementing a 1.5C aligned climate transition plan.

Further examples of additional engagements undertaken in 2023:

Case-studies:

Investee companies or Coalition
PepsiCo

Theme
Deforestation

Summary of engagement
Cardano engaged PepsiCo by discussing deforestation mitigation in its supply chain. PepsiCo had been non-responsive for some time and as a result the engagement had been stalled. Consequently, Cardano escalated the engagement and voted against the relevant board member re-elections, prompting a response from the company to continue the engagement. The EU Regulation on Deforestation Free Products will apply as of December 2024 and presents an operational risk to companies if not properly managed.

Investee companies or Coalition
Procter & Gamble

Theme
Deforestation

Summary of engagement
Cardano engaged Procter & Gamble by discussing deforestation mitigation in its supply chain. We recognised that Proctor & Gamble's deforestation policies and processes were insufficient due to a lack of firm commitments and sourcing timber from old growth forests and escalated engagement via voting against board members. The EU Regulation on Deforestation Free Products will apply from December 2024 and presents an operational risk to companies if not properly managed.

Investee companies or Coalition
Nestle S.A

Theme
Deforestation

Summary of engagement
Cardano engaged Nestle on supply chain deforestation mitigation. The engagement has been successful in that Nestle has made progress on a more sustainable supply chain.

Investee companies or Coalition
Platform for Living Wages Financials (PLWF)

Theme
Living Wage in the Supply Chain

Summary of engagement
Cardano is part of the Platform for Living Wage Financials (PLWF), a group of financial institutions engaging companies to address the non-payment of living wages and incomes in their global supply chains. This collaboration ranks companies using an assessment methodology, which is based on the UN Guiding Principles on Business and Human Rights. In 2023, the below updates can be highlighted:

- The overall findings are summarised in the annual report, which Cardano contributed to.
- Cardano is the lead investor for two companies in the

garment and footwear sector: Fast Retailing and Gildan. The companies were assessed, and an engagement call held. Since last year, both companies showed progress and improved their scoring.

- Cardano joined a pilot to engage further down the supply chain and supported a letter to a Chinese based supplier to encourage better disclosure and understand how they work with brands on the topic of living wage. An engagement call was also held in Q4 2023. The company scores poorly in the latest Corporate Human Rights Benchmark, and we are continuing the dialogue to encourage progress.
- Finally, the PLWF signed a letter to the International Labour Organisation calling for acceleration of its work on living wage and living income. Coordinated by IDH (the Sustainable Trade Initiative), the letter asks the ILO to help with harmonising a globally accepted living wage and living income definition and benchmark.

Reflection
As the above examples show, we use engagements across themes and use different tools to achieve results, including filing shareholder resolutions, using our votes for communicate certain views, sending letters to the board, or making public statements. We recognise that progress can sometimes be slow with engagement dialogues. We therefore consider how using collaborative action and the use of different tools at the appropriate moments can help to accelerate progress.

One area we have discussed is the variation in our ability to engage across geographies. For example, we find our ability to engage with Chinese companies quite limited. We are exploring how we can be more effective in these engagements in part by reaching out to other peer investors in the region to assess where their approaches have been successful.

Engagement with third-party investment managers
Where we invest indirectly, engagement with underlying issuers is undertaken by the fund managers that we select for our clients. We have described in detail how those activities are conducted in Principle 7 and 8. The below case study illustrates such engagement:

Case Study:
Engaging a Systematic Manager on carbon footprint and ESG integration

What
We identified that one of our systematic managers was not providing a carbon footprint report or transparency to clients on how ESG was integrated into their process. While we deem this type of strategy as “Low Focus” (meaning E, S or G factors are unlikely to meaningfully impact financial returns), we look to push all our managers to improve on ESG process and integration.

How
Through regular interactions with the investment and support functions of the manager, we raised these topics

- pushing for more granularity around transparency in their process and reporting.

Outcome
The outcome was partially successful.

- The manager now produces a carbon footprint report for our Clients on a semi-annual basis
- Whilst there have been some improvements on policy (for example, the manager now shares their proxy voting policy), we continue to engage and seek improvement with the manager on this topic.

Additional examples of other manager engagements

Case-studies:

Engagement Area
Resourcing

Description of engagement
Discussed the manager’s Stewardship team changes, including the departure of two heads of Stewardship in two years.

Conclusions and outcome of engagement
The shift to a Head of Stewardship with a track record in operating, organising, and managing teams rather than sustainability was symbolic of the challenges faced by the team as they continued to grow. The appointment is a divergence from the past two heads, and the manager was evaluating different methods to fill the gap in sustainability expertise in leadership to ensure continued contentment of the team.

Engagement Area
Voting activity

Description of engagement
Discussed the manager's voting record, collaborative engagement, escalation avenues, prioritisation and voting performance, with a focus on anti-ESG resolutions.

Conclusions and outcome of engagement
The third-party manager collaborated with their proxy advisor and the Corporate Governance Forum to understand how they and the industry can better identify anti-ESG proposals. We remained comfortable that the third-party manager's approach to collaborative engagement is that of a leader. They were provided with a live example of the third-party manager's escalation avenues.

Engagement Area
Index construction

Description of engagement
Reviewed the impact of updates to the ESG scoring framework and the Future World index constraints, and discussed what actions the third-party manager is taking to ensure that they stay leaders in the segment.

Conclusions and outcome of engagement
We are comfortable with the changes and the third-party manager's positioning. The manager implemented new factors when there was sufficient data coverage for material sectors and made constraint changes to address known issues around meeting decarbonisation targets in carbon intensive indices. The changes appeared to be well thought through and in line with actions to continue to be leaders in the segment.

Engagement Area
Policy

Description of engagement
Cardano raised the importance of continuing to participate in sustainable initiatives, raising clients' voting priorities, challenging the manager's belief that they are an ESG leader, and requesting they become more prepared to stand behind more definitive views on the adequacy of forward-looking corporate transition plans, capex plans and holding management teams to account (voting against management; voting for shareholder proposals) on their commitments e.g. on the Trustee's priority sustainability themes.

Conclusions and outcome of engagement
After discussions with the CCO, Cardano expected that the third-party manager would shift focus from ESG to transition activities, a trend they've started to observe. The move is a response to the increasing politicisation of ESG topics, particularly in the US, where the third-party manager has acknowledged the challenges of being an ESG leader. The Investment Manager disagreed with the third-party manager's view of their current stance being that of a leader and have accordingly downgraded their ESG rating for them to 'Standard' from 'Good'. This new rating more accurately reflects the third-party manager's position relative to its peers and any discrepancies between the company's ESG policies and its actual activities.

Engagement Area
Voting activity

Description of engagement
Discussed how anti-ESG views of some of the manager's client base could alter their approach to Stewardship, tested their sustainability priorities and prior commitments, and discussed future ambitions and expectations for companies.

Conclusions and outcome of engagement
The third-party manager's approach to corporate engagement is built upon their principle of long-term value creation and the Investment Manager believes it would be unfair to characterise that their interpretation does not consider ESG factors. However, Cardano believes that the third-party manager continues to have a level of consideration that falls short of expectations, evidenced by an observed decrease in voting support for Environmental and Social proposals. The Investment Manager continues to scrutinise the third-party manager's voting record and expects a decline in engagement activity.

Engagement Area
Resourcing

Description of engagement
Discussed an appointment to their board of directors, and how this appointment fits with their sustainability commitments.

Conclusions and outcome of engagement
We are satisfied with the third-party manager's response provided on reasons for appointment. However, the Investment Manager decided to continue to pay high attention to the third-party manager's sustainability priorities, especially related to Net Zero Commitments and the additional conflicts of interest that arise from the new board member's industry. The Investment Manager does believe that the appointment upholds a commitment to a diverse board comprised of current and former CEOs, representing a breadth of regions and industries. Engagement with the third-party manager is still a work in progress.

We provided under Principle 5 examples of managers engaging with underlying issuers.

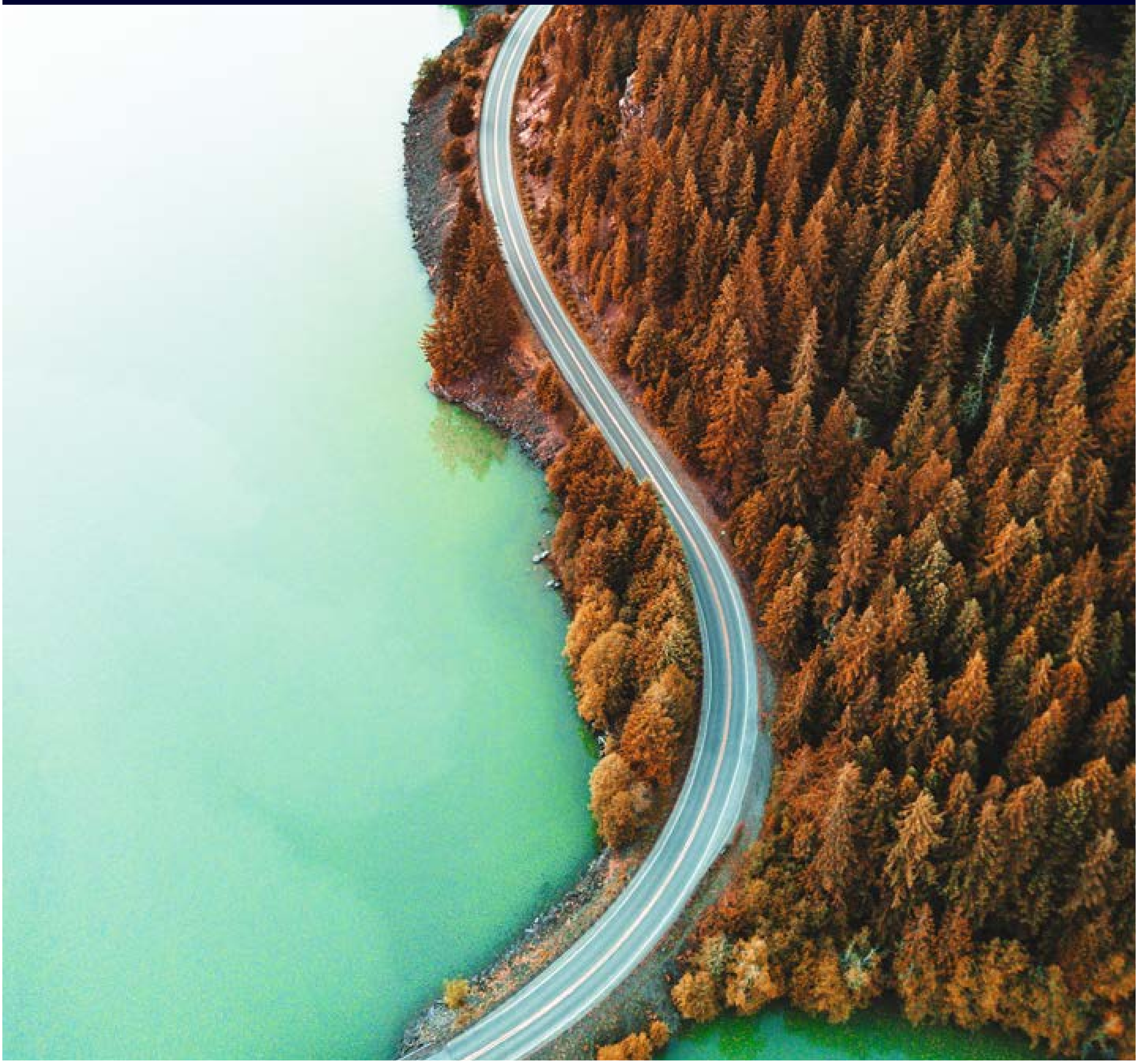
Reflection

- We reflect on the process to take away lessons which can be used to improve future engagement activity. As described under Principle 4, we are looking at how we apply our principle “Quality Over Quantity” when it comes to our direct engagements with issuers. While we have been active in numerous engagements, we aim to deepen our impact by prioritizing quality over quantity. This involves selecting engagements that have the potential to create substantial change and allocating appropriate resources to manage these engagements more intensively.

- For our indirect investments, as explained under Principle 8, we made improvements to our milestones in 2023 and are increasing coverage in 2024, as well as using new technology to enable more targeted, efficient, and data-rich engagement with our third-party managers.

Principle 10:

Signatories, where necessary, participate in collaborative engagement to influence issuers.



Collaboration

We strongly believe in collaboration. Collaboration is efficient and effective. It allows us to benefit from external expertise, and we actively contribute our knowledge and experience where appropriate to do so.

We see collaboration as part of the way we can contribute to achieving a more sustainable financial system. By coalescing around common themes and methodologies, we send clear messages to the companies we own – and to regulators. Collaboration is a powerful tool that allows for a faster, smoother transition.

In 2023, we participated in a number of industry initiatives. We have listed these under Principle 4. Relating to collaborative engagements, the below are relevant for this Principle:

- Access to Nutrition – Supporting investor
- Access to Medicine – Supporting investor
- Climate Action 100+ – We co-lead the engagement with one of the largest global agricultural commodity suppliers
- Dutch Climate Coalition – We lead the engagement with two Oil & Gas companies
- FAIRR – We participate in dialogues within the Animal Pharma Anti-Microbial Resistance, Biodiversity – Waste & Pollution, and Protein Diversification initiatives.
- Investor Alliance for Human Rights, part of the Interfaith Center on Corporate Responsibility (ICCR) – We contribute to the Human Rights programme area and lead an engagement with a Tech company on human rights due diligence for product use.
- Investor Initiative on Hazardous Chemicals – We are active in an engagement with a Chemicals company.
- Platform for Living Wage Financials – Cardano is an active member of the Garment workgroup, leading on two company engagement trajectories.
- Satellite-based engagement towards zero deforestation – We launched and continue to lead this innovative, award-winning collaborative engagement programme which focuses on ending deforestation in companies' commodity supply chains.
- ShareAction – Cardano actively participates in Chemicals Decarbonisation, Good Work Coalition and Healthy Markets Initiative. We participate in regular engagement dialogues, co-filing resolutions and investor letters.
- Valuing Water Finance Initiative – We are a contributing member of the Task Force and co-lead engager with two companies in the food / restaurant sector and active in an engagement with one company in the beverage sector.
- VBDO Plastics Initiative – We co-lead the engagement with two Food & Beverage sector companies.
- WBA Collective Impact Coalition engaging companies on Responsible AI. Cardano leads on two companies.
- Technology and Human Rights Coalition: led by the Swedish Council on human rights, this coalition aim to see tech companies better mitigate, manage and report on the human rights impacts of their platforms and business models. Cardano leads on two companies and is part of the investor group on another two.

The below case studies provide examples of how we use collaborative engagement to influence issuers and achieve engagement objectives:

Case study:
Chemical sector decarbonisation initiative

In 2023, Cardano joined a collaborative engagement initiative to decarbonise the chemical sector. This sector is responsible for about six percent of total global greenhouse gas emissions. Decarbonising the sector can therefore significantly contribute to achieving Net Zero by 2050.

The Share Action coordinated engagement initiative encourages chemical companies to establish a credible decarbonisation plan aligned with 1.5°C. Key objectives include fully electrifying the chemical production process, switching to renewables as an energy source by 2050 and replacing petrochemical feedstocks with emission-neutral feedstock by 2050.

Together with various other investors, we participated in dialogues with eleven European chemical companies. Not all targeted chemical companies are equally advanced on their climate transition planning. For example, frontrunners such as LlyondellBasel and Solvay have already announced scope 3 reduction targets while other companies are more reluctant to set targets because there is no Science-Based Targets Initiative (SBTi) guideline for the chemical sector yet. Part of these dialogues is therefore about identifying best practices and encouraging reluctant companies to also set a scope 3 target. In the second half of 2023, Cardano joined five follow-up meetings with companies that are lagging in setting these. The engagement group also escalated two engagements by writing a letter to the CEOs requesting the companies to commit to setting 1.5°C aligned scope 3 targets.

Most engagements have been constructive thus far and show that many companies are on the right track in developing detailed and credible transition plans. The dialogues have been efficient, effective and high quality due to the successful collaboration between ShareAction and the investor group. For each dialogue, Share Action provided in-depth background research and coordinated the meetings. Cardano and other investors reviewed the research, and asked questions encouraging the companies to implement the group's key asks. The engagement group continues this successful collaboration in 2024 to achieve further progress.

Case study:
Tech and Human Rights

At the beginning of 2023, Cardano joined a new collaboration to engage big companies in the tech sector on human rights. With around 26 participants and led by the Swedish Council on Ethics, its aim is to see technology companies better mitigate, manage and report on the human rights impacts of their platforms and business models. Given the size of the companies in the sector, acting collectively is even more important.

We see the goal of this initiative as essential in a sustainable society where social foundations are protected. There are many human rights risks linked to technology companies' business models, such as risks linked to collection of data and privacy, freedom of expression, development of AI solutions or the societal impacts of social media platforms and their role in content moderation. This represents the following risks for our portfolio:

- Legal risks, such as those linked to the application of GDPR or the upcoming EU AI act, including fines.
- Reputational risks, such as the Facebook-Cambridge Analytica scandal
- Systemic risks, such as those linked to the societal impacts of hate speech and polarisation of society for example

Cardano is taking an active role in this new initiative, co-leading the engagements with Microsoft and Amazon. The progress of the engagements is being tracked using a KPI framework based on the UNGPs (United Nations Guiding Principles on Business and Human Rights) Protect, Respect and Remedy Framework and the Ranking Digital Rights scorecards, both highly recognised standards.

In 2023, the companies were assessed, and engagement priorities identified. For Microsoft, we are focusing our engagement efforts on their Human Rights Due Diligence processes, how their human rights policies apply to all products and services as well as on their access to remedy and policies on freedom of expression. Concerning Amazon, the priority areas identified for the engagement are their identification of salient human rights risks, company culture and integration of human rights into the business and grievance mechanisms. The engagement letters were sent to each company in the summer of 2023. We initially struggled to get a response and initiate dialogues despite chasing for responses. With the group of investors, we persisted. At the beginning of 2024, we received an answer from Microsoft and are hoping that the engagement can therefore start. Amazon also offered an in-person meeting in June 2023. We therefore are aiming for more dialogue and progress in 2024.

Policy Engagement

This year, we have responded to several public policy applications in the UK, EU and US, covering a range of sustainability topics including social risks and opportunities, climate change and stewardship.

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 general, we welcome the direction of policy makers on sustainability topics. Highlights include:

Submission
Department for Work & Pensions' (DWP) Social Factors Taskforce

About
DWP Social Factors Taskforce, established by the UK's Department for Work and Pensions, aims to guide pension schemes on incorporating social factors, such as workforce conditions, community engagement, and consumer protection, into their investment decisions and stewardship policies.

Explanation
Cardano responded on behalf of NOW: Pensions, as well as separately as an Asset Manager to the recommendations for asset owners, asset manager and investment consultants. The aim was to help facilitate effective practice of stewardship on social factors across the industry and promote the well-functioning of markets. Cardano welcomed the draft guidance which supports NOW: Pensions priority themes of living wage and gender equality and Cardano's approach to social factors.

Submission
Transition Plan Taskforce Disclosure

About
The Transition Plan Taskforce Disclosure Framework is a set of guidelines for companies to develop credible and robust climate transition plans, with the aim of reaching net-zero emissions and supporting the UK's goal for a net-zero economy by 2050.

Explanation
Cardano, as the investment manager of NOW: Pensions responded to the Transition Plan Taskforce consultation to maximise its usability for pension funds and ensure its applicability to the UK's decarbonisation objectives. We welcomed the taskforce recommendations that recognised the interconnections of climate with other environmental issues like biodiversity and social factors.

Submission
Open Letter to Governments on the Water Crisis

About
This statement, coordinated by CDP was signed by investors with over US$3 trillion in assets.

Explanation
The letter calls on policymakers to deliver robust water action by for example:

- Strengthening their National Sustainable Development Strategies for 2030
- Commit to ambitious, domestic short-term water targets
- Implement domestic policies to deliver these targets
- Commit to implementing mandatory water disclosure requirements

We supported this statement because it will help us achieve the goal of water neutrality by 2030. If governments deliver on these actions it would provide the necessary market conditions for our investee companies to successfully implement and scale their own water efficiency programs throughout their value chains.

Submission
Investor Statement for the introduction of comprehensive human rights and environmental due diligence legislation in Switzerland.

About
The statement signed by 21 global institutional investors with CHF 459 billion in assets under management calls on the Swiss legislator to adopt comprehensive human rights and environmental due diligence legislation.

Explanation
Compulsory human right and environmental due diligence legislation is growing worldwide and helps investors analyse how an investee company deals with material human rights and environmental challenges, leading to better informed investment decisions.

Principle 11:

Signatories, where necessary, escalate stewardship activities to influence issuers.

Escalations for our direct investments

We see the use of different tools as the best way to achieve our goals. Setbacks are inevitable when engaging with companies. By having a clear escalation strategy, we can address these situations and try and move forward even when conversations stall.

In our Stewardship Policy, we describe the multiple tools that we leverage and how we use them in combination with each other to maximise our effectiveness.

In our view, effective stewardship is done by using this broad range of tools shown below.

The order of our application may vary, depending on the specific circumstances of each case. For example, engagement might precede a voting decision to allow for constructive discussions, or co-filing may follow unfruitful engagement attempts to escalate the dialogue or urgency. We consider the interconnectedness of these tools, recognising that their collective impact can lead to advances in companies' progress on making their business models more sustainable. We evaluate how companies respond to our engagement efforts and how they progress on the related topics.

If a company consistently fails to address concerns despite our (and other investors) efforts, our assessment of the company, including the classification of it according to our framework, may change. As shown in the image in the next section, this may result in a change in capital allocation (exclusion from our funds). We continue to seek innovative ways to enhance our stewardship impact. This includes novel approaches like satellite-based monitoring for zero-deforestation initiatives, demonstrating our commitment to using advanced tools and technologies to support our stewardship objectives.

Shareholder resolutions filed and key vote examples in 2023

The below examples represent escalations across all our funds. Voting and filing shareholder resolutions are applied across all geographies and equity assets where we have voting rights. Although we expect companies to work towards achieving the same goals – for example, decarbonising value chains, preventing deforestation, protecting worker's rights and health, and implementing robust governance, we understand that companies in emerging markets may often not be as far along their transition pathways. There may be differences in sustainability maturity, regulatory environment, and resource allocation, which we need to consider.

Amazon

Meeting
AGM 2023

Topic
Fairer Society - Human Capital Management

Escalation
Co-filing shareholder resolution and votes against relevant board members

Fairer Society is one of the seven main topics as noted under Principle 2, that we prioritise our engagements with entities on. Part of this topic relates to labour and union rights, employee health & safety and labour practices, impacting on educational opportunities and on income and gender inequality.

Cardano has been following the practices at Amazon as it is involved in several human capital related controversies relating to health and safety issues at its warehouses as well as interference with worker's rights to freedom of association and collective bargaining. There have been numerous allegations from employees in several countries of poor working conditions and inadequate safety measures. There are reports of unfair dismissals, use of captive audience meetings to deter employees from unionising, and according to public disclosure Amazon has spent USD 4.3 million in anti-union consultants.

Cardano has been engaging Amazon on the topic and escalated its views in 2022 as well as 2023, given the ongoing controversies, and to encourage a more structural response by the company. In 2023, given the lack of progress we escalated our engagement further using a broader range of tools, including co-filing of a shareholder resolution. We joined SHARE and other investors and signed a letter to the board on our concerns relating to Amazon's practices around Freedom of Association. We co-filed alongside SHARE and other investors, a shareholder resolution asking for Amazon to commission an independent report to assess how the company's practices fit with its commitments to protect Freedom of Association and collective bargaining as guaranteed by the ILO Declaration on Fundamental Principles and Rights at Work and the UN Universal Declaration of Human Rights. The resolution received 34.6% overall shareholder support (41.8% without counting the insider shares). Given the high level of support we contacted Amazon with the group of investors to discuss the intention to continue the dialogue. We also escalated by voting against the re-election of the members of the Nomination and Corporate Governance Committee for lack of board oversight and responsiveness on human capital management matters.

We believe Amazon should improve its practices relating to human capital management and this will continue to be a topic of engagement between Cardano and Amazon.

Pepsi

Meeting
AGM 2023

Topic
Biodiversity - Forest loss in the supply chain

Escalation
Vote against all three director reelections of the Sustainability Diversity and Public Policy Committee

As a consumer brand company, Pepsi sources agricultural commodities from over 60 countries for its food and snack products. With approximately 80% of global deforestation resulting from agricultural production, food companies play a pivotal role in solving this critical issue.

Within the Cardano-led Satellite-based engagement towards zero deforestation programme we have been attempting to engage with Pepsi since early 2022. We held an initial call in 2022 but since then there had been a long period with a lack of response to our repeated attempts for a second dialogue.

Through its disclosures and our initial call, we observed that Pepsi lagged its peers in implementing deforestation monitoring practices. It did not have a proactive monitoring system and at the time of our first call and no concrete plans to establish one. In contrast, many of its peers had embraced such systems, making it an industry standard among consumer brand companies. Rather than taking on its share of responsibility in managing this issue, Pepsi distanced itself, emphasising that it should be an industry-wide effort. While we acknowledge the complexity surrounding deforestation, we believe that companies must exercise strong oversight of their supplier practices and recognise their role in promoting and incentivising sustainable land use practices among them.

Given the lack of progress and response from Pepsi, we escalated our view by voting against the re-election of the board members of the Sustainability Diversity and Public Policy Committee. We also communicated this vote decision to the company. Shortly following that, we received a response from the company acknowledging the vote and proposing that we schedule a time for a call. Although it took some time, we managed to hold a second call with Pepsi towards the end of 2023 and were glad to see that the company had made progress on their deforestation prevention and forest positive strategy efforts. We will continue to engage with Pepsi on these topics.

Equinor

Meeting
AGM 2023

Topic
Climate

Escalation
In the absence of board member reelections and a management proposed 'Say on Climate', we voted against the most relevant alternative; the Annual Report & Accounts. We supported three shareholder proposals encouraging a focus on the low-carbon transition.

Cardano invests in only select companies in the Oil & Gas sector which demonstrate the adaptive capacity to successfully transition. We use stewardship activities to encourage accelerated progress. Equinor is one of the few oil majors that we hold in our portfolio since it has published a detailed energy transition strategy and was one of the first oil companies with significant investments in renewables. It has set scope 1, 2 and 3 intensity emissions reduction targets for the short, medium and long-term. Despite these ambitions, the strategy is still falling short of a 1.5°C pathway. Key issues with Equinor's energy transition plan are that it's planning to invest in new oil and gas reserves and that it intends to maintain its production at current levels.

As such, we have been leading an engagement with Equinor pressing the company to adopt a Paris-aligned strategy. We expect it to set an absolute scope 3 reduction target, commit to stopping investments in new oil fields, and increase its ambitions on renewable energy production. Although the dialogues have been open and constructive, we are not seeing sufficient progress on our objectives. Equinor is continuing oil exploration and production without a clear phase-out plan, which makes it a risk for us as a medium to long term investor and our collective goal of real economy decarbonisation.

We escalated our views with our votes at Equinor's AGM. In the absence of board member re-elections and a management proposed 'Say on Climate' we voted against the most relevant alternative, the annual report & accounts.

We also supported three shareholder proposals encouraging a focus on the low-carbon transition and alignment with investors' long-term expectations, including one by WWF and Greenpeace requesting Equinor to set targets and implement measures to reduce greenhouse gas emissions over a short- and long-term period in line with the target to limit global warming to 1.5 °C. Our aim is to motivate Equinor to embrace a trajectory and strategy that aligns with a sustainable energy future and long-term business resilience.

Escalations for our indirect investments

As stated in Principle 7, we recognise there are many valid sustainable and responsible investing approaches and we do not apply our in-house sustainability framework or stewardship policies to external managers. Instead, we expect external investment managers to:

- Be aware of financially material ESG issues associated with an investment
- Take ESG issues into account where they have the potential to materially affect the financial risk and/or return
- Engage strategically on ESG issues, where possible within the portfolio and externally
- Exercise their voting rights where possible
- Weigh substance over form – we look for the genuine integration of ESG issues
- Provide case studies and practical examples of their approach and performance

Our ESG assessment framework for external investment managers is deliberately detailed and assesses external managers across people and policies, investment integration, stewardship and engagement, and reporting.

Having assessed the manager's approach to stewardship in the initial selection process and as part of the ongoing monitoring process we will then monitor their approach to escalation. We will usually let each manager decide how best to steward investee companies in line with their investment strategy, stewardship policy, nature of any issue, upcoming opportunities to escalate and their sustainable investment policies.

We will encourage active engagement and escalation by managers directly with investee companies but will not ordinarily intervene on a decision by a manager as to the extent to which they will make their concerns about a company public.

Our stewardship discussions with managers focus on the size of underlying holdings, the manager's conviction in a company, opportunities to exercise stewardship and specific opportunities to challenge companies, including on ESG issues. We expect managers to be open about their stewardship activity and inform us about issues with particular holdings.

Where necessary, we are willing to open discussions about us potentially redeeming assets from a manager in order to force them to engage with us and in active stewardship of a particular company. We expect to see managers engaging with companies to escalate concerns (where relevant), and also proactively looking for opportunities to consult with other shareholders to establish the strength of concern.

As explained in our response to Principle 7, 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.

Case studies on how we engage with managers are given in this report. These are repeated here:

Case studies:

Engagement Example 1:
Credit Manager

Focus Level
High

What
We engaged with one of our Credit managers as we believed they could report more information on how issuer engagements were progressing as well as outcomes.

How
We communicated our expectations to the manager regularly, specifically targeting calls with the manager's Head of ESG, together with written follow-ups.

Outcome
- Successful
- The Credit Manager added to their reporting to include data on the % of portfolio companies that are making (a) Carbon Emissions Disclosures, (b) SBTi targets or commitments, and (c) net zero commitments. This is now provided to us on a quarterly basis through reporting.

Engagement Example 2:
Private Equity Manager

Focus Level
High

What
We identified a number of areas where the manager could improve around ESG. Specifically: Policy was not as comprehensive as peers, there was in-sufficient carbon footprint analysis & TCFD reporting, Diversity & Inclusion initiatives were not in place and the manager was not a UN PRI signatory.

How
We consistently discussed these topics with the investment and IR teams of the manager, through regular monitoring discussions but we also actively (and consistently) raised these topics as a representative on the Limited Partner Advisory Committee.

Outcome
- Partially successful, strong improvement
- UN PRI Signatory status has been obtained.
- External consultants engaged to undertake initial carbon footprint analysis, within portfolio.
- ESG policy has been revised, to include Diversity & Inclusion and is generally more robust.
- Various Diversity & Inclusion hiring practices have been undertaken.

Engagement Example 3:
Equity Manager

Focus Level
High

What
We set a minimum standard for High Focus managers. Part of this is we expect managers to exclude persistent United Nations Global Compact (or equivalent principles) violators. One of our Equity managers did not have this screen in their process.

How
We engaged through regular interactions on calls with our contacts at the Manager.

Outcome
- Successful
- The Equity Manager implemented a screen on the portfolio for violators against two sets of ESG minimum standards: the United Nations Global Compact Principles and the OECD Guidelines. To do this, the manager uses data from S&P Capital IQ. Following the introduction of this screen, we receive the exclusions confirmation report via the Monthly reporting we receive from the Manager.

Engagement Example 4:
Systematic Manager

Focus Level
Low

What
We identified that one of our systematic managers was not providing carbon footprint report or transparency to clients on how ESG was integrated into their process. While we deem this type of strategy as "Low Focus" (meaning E, S or G factors are unlikely to meaningfully impact financial returns), we look to push all our managers to improve on ESG process and integration.

How

Through regular interactions with the investment and support functions of the manager, we raised these topics – pushing for more granularity around transparency in their process and reporting.

Outcome

- Partially successful
- The manager now produces a carbon footprint report for our Clients on a semi-annual basis
- Whilst there has been some improvements on policy (for example, the manager now shares their Proxy voting policy), we continue to engage and seek improvement with the manager on this topic.

Principle 12:

Signatories actively exercise their rights and responsibilities.

Exercise of voting rights for our direct investments

We see the exercise of voting rights as essential to our stewardship activities. We vote at shareholder meetings to communicate our sustainability views to companies. We have a standalone voting policy which provides clear guidelines on how we use our voting rights that are connected to our holdings and clients' capital. It details how we will vote to promote better oversight of sustainability issues. The views in our policy are based on international best practice guidelines for sustainability and corporate governance and they are also shaped by our sustainability framework and how we want to communicate our views and expectations to investees. If needed, we initiate or support shareholder resolutions on actions necessary for a company's transition.

Our default is to vote at all shareholder meetings. To increase the number of markets where we vote, we put a Power of Attorney (PoA) in place in all jurisdictions where they are required. We make an exception if we hold only a minimal number of positions in a market where one is needed.

Cardano voting policy

Overview of the policy

Following feedback from the FRC after our last submission, we have included here a summary of our current voting policy, Our voting policy was created over 20 years ago and has evolved over time as corporate governance rules and market requirements have evolved. It is currently split into two documents, both publicly available. The main policy document describes the overarching principles of how Cardano votes at shareholder meetings. The second document lists the market requirements that are applied when voting on specific types of resolutions at the local level.

All our voting rights are exercised for the benefit of our fund participants or clients.

We have adopted the International Corporate Governance Network's (ICGN) Global Stewardship Principles and Global Governance Principles as our overarching guidelines on governance best practice. Where possible, we also link our sustainable investment framework into the voting policy. We encourage reading our full voting policy but in summary, we apply the below principles:

- Elections of directors: The board should be balanced, with a mix of executive and non-executive directors. Diversity in skills, experience, gender, ethnicity, and backgrounds is encouraged to enhance decision-making and governance.
- Remuneration of directors: remuneration structures should be transparent, appropriate and be linked to meaningful and rigorous incentives. Material ESG factors should be explicitly taken into consideration into these structures.
- Audit-related resolutions: the auditor, accounts and audit procedures should be reliable and the amount of non-audit fees paid should not raise concerns.
- Capital-related resolutions are analysed with a long-term value creation and responsible stewardship lens.
- Cardano votes on a case-by-case basis on third-party transactions assessing the company's governance, the risk involved, any benefit to the company and the transaction's size and significance.
- Shareholder proposals: Using insights from our Sustainable Investment Policy, we favour shareholder proposals that encourage companies to effectively manage their social and environmental impacts and risks that will have a positive impact on social, environmental, and ethical performance. Cardano will normally vote in favour of shareholder proposals aimed at improving the company's governance and encouraging it to implement policies and measures that align with Cardano's principles. We will vote against shareholder proposals that are anticipated to lead to the opposite.

Annual update of the policy

The annual update to this policy is critical in ensuring our votes are cast in a way that encourages an ambitious pace of progress on sustainability topics by our investees.

We annually review the guidelines taking into account evolving developments and in some cases to consider how we can reflect a stricter application of votes. This year we made the following updates:

- Refining some of the wording to be more precise in our expectations. For example, we mention a few times in the policy that companies we invest in should have "clear climate goals". This was updated to mention that the goals should be Paris-aligned and that we use the TCFD framework to assess these.
- Cyber Risk Oversight: given the financial, legal and reputational risk associated with cyber-attacks, we added a paragraph to the policy to address cases where a company has suffered a security breach with material impacts and the response from the company, including board oversight is considered insufficient. In those cases, a vote against relevant directors will be considered.

Annual vote audit

As described under Principle 5 and 6, we have an annual process to audit our proxy voting provider. This process is part of our key controls on voting, which are assessed by our external auditor (as part of our ISAE 3402 report). As part of this control, we control the good application of our custom policy by the voting provider as well as the good execution of votes.

Disclosure of our votes to the market, investee companies and clients

Disclosure of our votes is an important part of exercising our rights and voting history is available on our vote disclosure website. This website was updated in 2023 with the change of voting provider. It allows for more timely data (meetings appear from the day after the meeting day as a rolling basis), historical data to stay and a vote rationale is available for most votes against management.

We also use the below tools to disclose our votes to the market

- Pre-meeting vote disclosure: we use the PRI platform to pre-disclose some key votes on shareholder resolutions in advance of the meeting.
- We include bi-annual voting statistics and case studies to our clients in our Q1 and Q3 quarterly reports. These can also be found on our website. These are currently provided in Dutch, given our current client base. Although we had intended to provide these reports in English as of 2023, this disclosure in English will start in Q1 2024. Our voting activities are also included in our annual reports sent to clients.
- Communicating with companies: on a few key votes, we send a letter ahead of the meeting to the company explaining our vote decision. In 2023, we did this for example at Pepsi. This case study is detailed under Principle 11 describing our use of escalation.

Voting Statistics

In 2023, we voted at 2,463 meetings. The below regions were represented:

Meetings per region
- 1% Africa
- 48% Asia Oceania
- 21% Europe
- 6% Central and South America
- 24% North America

We voted against 12% of management resolutions in the below categories:

Categories of votes against management
- 11% Audit
- 36% Board
- 14% Capital
- 10% Miscellaneous Other
- 29% Remuneration

In 2023, we supported 67% of shareholder resolutions in the below categories:

Categories of shareholder resolutions supported
- 27% Other ESG
- 21% Board
- 17% Human rights and labour rights
- 14% Climate and energy
- 6% Management compensation
- 6% Political activity
- 5% Diversity
- 4% Health

Voting Case Studies:

Europe

Executive remuneration concerns were a key driver for votes against management resolutions. With concerns linked to increased inequalities and the cost-of-living crisis, the 2023 voting policy updates included stricter criteria on pay for performance, ESG metrics, CEO to general workforce pay ratio and remuneration plans at companies with a history of low shareholder support on remuneration proposals. For example, votes against executive remuneration were cast:

- At German company **Fresenius Medical Care AG**, we identified issues in the remuneration package granted to the outgoing CEO, Carla Kriwet who remained in the role for only two months while earning a total of approximately EUR 5.7 million. We consider this level of grants particularly contentious and expect the company to put in place safeguards to ensure that appropriate termination packages are stipulated going forward.

- At French company **Publicis Groupe SA**, Cardano voted against the approval of the Supervisory Board Chair's remuneration due to concerns over the level of pay. The chair's total pay significantly exceeds that of peer companies, representing around four times the average of the French CAC 40 index.

- At the annual general meeting of Dutch company **Universal Music Group N.V.** a vote against the remuneration plan was cast due to significant concerns over the company's executive remuneration arrangements. The main concerns were around poor disclosure, a lack of ESG metrics, weak performance metrics under the annual incentive plan, the granting of discretionary awards to the CEO and Deputy CEO, very high total compensation for the CEO, and a lack of sufficient response to large shareholder dissent last year. Because of the severity of the concerns, a vote against was cast against the remuneration plan as well as against the re-election of the Chair of the Remuneration Committee, who did not get re-elected due to a majority of shareholders not supporting her re-election.

- A lack of ESG metrics in executive incentive plans was one of the reasons why we voted against companies' remuneration arrangements at **Carl Zeiss Meditec AG, Shurgard Self Storage Limited**, and **Catena AB**.

North America
Despite a general market trend of lower shareholder support for shareholder resolutions, Cardano continued to use proxy voting as a means of enhancing long-term shareholder value, with 67% of shareholder resolutions supported in 2023.

- Climate was again a key theme for shareholder resolutions in 2023 and Cardano supported for example such resolutions at **United Parcel Service (UPS)** (one resolution asking the company to adopt independently verified science-based greenhouse gas emissions reduction targets and one asking the company to prepare a report on climate transition planning)

- At **JPMorgan Chase & Co**: we supported three climate related resolutions, one on fossil fuel phase out, one on a report on climate transition planning and one asking for absolute GHG reduction goals.

- **Diversity and Inclusion**: At **Nike's** September shareholder meeting, we supported a resolution requesting the company to report on median pay gaps across race and gender. Although Nike has some equity related policies and procedures in place, we believed that the additional level of reporting requested by the proponent would strengthen Nike's existing diversity and inclusion efforts, mitigating therefore its potential reputational, regulatory, litigation and operational risks linked to the topic.

- The topic of antimicrobial resistance (AMR) also made it to a shareholder resolution. At **Hormel Foods Corp**. a shareholder proposal requested the company implement a policy to comply with World Health Organization Guidelines on the use of medically important antimicrobials in food-producing animals throughout the company's supply chains. Although the company has made commitments to reduce its use of antibiotics, these only cover its own farms. Given the importance of antimicrobial resistance as a global health and development threat, extending this commitment to the whole supply chain is essential and therefore Cardano supported the resolution.

- Relating to worker's rights, shareholder resolutions tried to address concerns linked to freedom of association. As well as co-filing such a resolution at **Amazon** (see more details under Principle 11), Cardano voted in favour of a similar resolution at **CVS Health Corporation**.

While supporting many shareholder resolutions, Cardano critically assessed all ballot items and voted against the rising number of resolutions put forth by anti-ESG proponents. These proponents file resolutions which on the surface address ESG topics, but their actual purpose is to argue that integrating ESG is detrimental to the company. Such resolutions were identified and not supported at Apple for example. The quality of the proponent and the purpose of the resolution were also reasons to vote against three out of the nine shareholder resolutions on the agenda at Microsoft and against two shareholder resolutions at the meeting of Procter & Gamble.

Asia-Pacific
Concerns regarding executive incentive plans triggered several votes against remuneration related proposals. This was the case for example at Singapore based property development and hotel company **UOL Group Limited**, where we identified serious concerns regarding the structure of the incentive plans. These concerns included the lack of performance targets under the company's 2022 share option scheme, a vesting period below 2 years, and the provisions for accelerated vesting of awards upon a change of control. Similar concerns led to votes against remuneration proposals at **Budweiser Brewing Company** where the grant of equity awards had a vesting period of one year only. The lack of ESG metrics attached to the plan was also a concern.

Board related proposals were also one of the main categories of votes against. Board composition, structure and oversight of ESG issues were factors which Cardano looked at:

- **At Budweiser Brewing Company**, the board chair and CEO positions are combined, and the company does not have a lead independent director. Cardano therefore voted against the election of the chair of the nomination committee.
- At **Sharp Corporation**, the absence of female directors as well as of an ESG committee responsible for board oversight on ESG matters, triggered a vote against the members of the nomination committee.
- A lack of independence led to votes against directors at Hong Kong headquartered companies **Sino Land** and **Sun Hung Kai Properties**, Japanese company **GMO Payment Gateway**, and Australian company **Reece Limited**.
- At **Hakuhodo DY Holdings Inc**, a marketing and communications services company incorporated in Japan, a vote against three directors was cast because of cross-shareholding concerns (the company held approximately JPY 82,516 million shares of other public companies representing 21.29% of the company's net assets as of 31 March 2022), as well as ongoing controversies, which raise questions about the effectiveness of the group's internal control and risk management.

Finally, in Australia, climate and the financing of fossil fuel was on the agenda at **Westpac Banking** and **National Australia Bank**. Cardano voted in favour of Westpac's Climate Change Position Statement and Action Plan (management proposal) as the company provided satisfactory disclosure on its climate transition plan, including absolute Scope 3 emission reduction targets for its lending activities linked to oil, gas and thermal coal mining. We also voted in favour of the shareholder resolution requesting Westpac to further disclose on whether all fossil fuel companies - beyond upstream oil and gas companies i.e. metallurgical coal and power generation companies - will be required to have in place credible climate action plans, in order for Westpac to continue with lending and bond facilitation activities. A vote for was also cast at a similar shareholder resolution at **National Australia Bank**, where the proponent requested that the company disclose additional information concerning the requirement that oil and gas customers have a transition plan in place to receive new lending and renewals from 1 October 2025.

Emerging Markets
Here are a few highlights of votes against in 2023 for the region:

At the 2023 AGM of **Cheil Worldwide**, a Korean marketing solutions company, Cardano voted against a bundled proposal to allocate profits and approve financial statements considering that the company did not provide information on whether the reports had been reviewed by an independent auditor. We also voted against agenda items relating to remuneration, as we find that relative to its peers, the company paid excessive fees to directors and auditor without a clear rationale.

At renewable energy company **Terna Energy S.A**, we voted against the remuneration report. During the analysis of the framework, we noted that approximately 31% of minority shareholders voted against management compensation at the 2022 AGM and we believed that the company did not provide reasons behind the significant dissent or how they intend to address it. There were also serious concerns regarding the increase in salary of the Executive Chair, without rationale. In addition, there was a lack of disclosure on the exact size of the equity award to the CEO, a major shareholder of the company.

Regarding board elections, lack of overall independence or committee composition concerns triggered to vote against directors at for example Chinese companies **Ningbo Deye Technology** and **Zhejiang Jiuzhou Pharmaceutical**.

Outcomes of the votes:

We do not track the outcomes of all resolutions we vote on. We do however follow key votes. In 2023, we followed for example the votes at:

Universal Music Group (UMG): As part of the Eumedion Investment Committee, we look with other members at key votes for the Dutch market and the vote at Universal Music Group was one which received a Eumedion alert on three resolutions, including the re-appointment of the Chair of the Remuneration Committee, who was not reappointed. UMG's remuneration practices remains of concern in relation to the guidelines of the Dutch Corporate Governance Code and will continue to be scrutinised in 2024 by Cardano Shareholder resolutions that we co-file. We look at the percentage of support of these resolutions closely and this determines follow-up actions. For example, at Amazon the shareholder resolution relating to Freedom of Association gathered 34.6% overall shareholder support (41.8% without counting the insider shares). The case study is detailed under

Principle 11 relating to escalation. This level of support allowed us as a group of shareholders to consider co-filing again in 2024 and to gather support from more investors. Engagement on voting activities with fund managers for our indirect investments

Principle 9 describes our full engagement with external fund managers. Regarding voting:

We require the external managers to engage on ESG issues and about real-world sustainability impact on our clients' behalf. As part of this engagement, we expect all our managers to be using their right to vote. We monitor (amongst other things):

- how each manager has voted (to the extent they have voting rights associated with the strategy)
- the voting process: 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.

Case studies relating to voting activities of third-party managers:

Case Studies:

Description of engagement
Discussed the manager's voting record, collaborative engagement, escalation avenues, prioritisation and voting performance, with a focus on anti-ESG resolutions.

Conclusions and outcome of engagement
The third-party manager collaborated with their proxy advisor and the Corporate Governance Forum to understand how they and the industry can better identify anti-ESG proposals. Cardano remained comfortable that the third-party manager's approach to collaborative engagement is that of a leader. A live example of the third-party manager's escalation avenues was provided.

Description of engagement
Discussed how anti-ESG views of some of the manager's client base could alter their approach to Stewardship, tested their sustainability priorities and prior commitments, and discussed future ambitions and expectations for companies.

Conclusions and outcome of engagement
The third-party manager's approach to corporate engagement is built upon their principle of long-term value creation and Cardano believes it would be unfair to characterise that their interpretation does not consider ESG factors. However, Cardano believes that the third-party manager continues to have a level of consideration that falls short of expectations, evidenced by an observed decrease in voting support for environmental and social proposals. Cardano continues to scrutinise the third-party manager's voting record and expects a decline in engagement activity.

This unsuccessful outcome contributed to the decision of one Trustee to exit the manager and reallocated capital as part of their investment strategy review.

Description of engagement
Discussed the shareholder climate resolutions at Shell Plc and BP Plc

Conclusions and outcome of engagement
At the 2023 Shell Plc and BP Plc AGM, one of our Trustee clients expected the third-party managers to vote in favour of a climate resolution, in line with their climate action priority sustainability theme. The proponent of these resolutions was non-profit organisation Follow This.

Although some third-party managers supported the resolution, it was not the case for all. Cardano followed up with those who did not support the resolution to understand the third-party manager's decision-making.

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