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Net Zero Investment Consultants Initiative

Progress Report 2024

This report covers progress made by Cardano Risk Management Limited.

Introduction

Cardano Risk Management Limited is a founding signatory of the Net Zero Investment Consultants Initiative. Signatories commit to nine principles on Net Zero, including reporting on the progress towards these commitments. This report acts as a high-level summary of progress specific to our Net Zero Investment Consultants Initiative commitments for the period to 31 December 2023. For further details, see our 2023 Group Sustainability Report, our 2023 Taskforce on Climate-Related Financial Disclosures (TCFD) report for Cardano Risk Management Limited and our 2023 Stewardship report.

In this report, all client and AUM numbers refer to Cardano Risk Management Limited, a UK subsidiary of the Cardano Group. Our various policies, engagement activities, carbon emissions and other reporting refer to efforts by the Cardano Group and operate under our group-wide Sustainability Policy.

Our progress with respect to the principles

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

For fiduciary clients, Cardano is committed to Net Zero greenhouse gas (GHG) emissions by 2050, with an interim target of 50% reduction in GHG emissions by 2030. For in-house portfolios where we manage the assets directly ourselves, our Net Zero target was approved by the Science Based Target initiative in 2022. For advisory clients, our default advice is to commit to our targets. We believe this is a suitable approach for the majority of pension schemes. However, the trustees are responsible for making their commitments, and we adapt our advice, where appropriate, to their circumstances.

Our emissions targets are in line with limiting global warming to 1.5 degrees. Warming of 1.5 degrees is not our most likely climate scenario, we believe a 2 degree scenario is most likely, given the slow progress on international commitments to reducing emissions. As such, we seek to help our clients build portfolios that are robust and can withstand a range of scenario outcomes beyond warming of 1.5 degrees.

Our sustainability commitments are overseen by our Sustainability Policy Committee, which meets monthly with representatives from the Cardano Group Board, Sustainability Group, Investment teams and commercial business. This helps us keep up with the evolving landscape in this field.

Internally, we run regular training sessions on various sustainability-related topics throughout the year including Net Zero (covering topics including sustainability frameworks, approaches to target setting and our views on best practice investment processes).

Case Study: Improving awareness of the drawbacks of quantitative scenario analysis

When supporting clients with climate-related scenario analyses, we typically use Climate Value at Risk (CVaR) or the estimated financial loss of warming scenarios at 1.5, 2 and 3 degrees. In 2023, we spent more time helping clients to understand the drawbacks of relying on quantitative data for climate decision making.

A major limitation of the CVaR methodology is its inability to model physical risks beyond around 15 years. Our industry widely accepts the view that these models fail to capture the full range of potential climate risks, and we believe the physical risks identified underestimate the financial loss to a portfolio of higher warming scenarios, particularly over the long-term. At 2 or 3 degrees, it is still necessary to reach net zero, just over a longer period of time. As such, the transition will happen alongside more extreme physical risks. There are also limitations in the reporting on all asset types (e.g. government bonds).

Therefore in 2023, we began an extensive exercise to better support clients in adopting qualitative scenario analysis for 2024 reporting onwards. We find this brings the key issues to the fore, encourages active discussion with Trustees and provides a more comprehensive assessment of the potential climate-related risks to which a portfolio is exposed. We are encouraging clients to adopt this approach and become less reliant on previous quantitative analysis.

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

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

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

We have integrated climate risk assessment into the Statement of Investment Principles for all our fiduciary and advisory pension clients[1].

For the period ending 31 December 2023, we directly supported two-thirds of our advisory clients plus eight fiduciary clients to prepare their TCFD reporting, as well as providing metrics and scenarios for their regulatory disclosures. As part of this process, our clients received advice on our latest thinking around aligning to Net Zero, and we are now assisting many of them in assessing their transition path towards Net Zero and the implications for their investment strategies.

Key Performance Indicators as of December 2023 for our advisory-only clients:

1. c.80% of clients (over 95% by AUM):
    a. Received meaningful education on Net Zero alignment during the year.
    b. Now incorporate a Net Zero ambition for 2050 or sooner into their policy.
    c. Have set a Net Zero target for 2050 or sooner, with the intention to be Paris-aligned.
2. c.70% of clients (over 90% by AUM) had access to baseline carbon emissions data on their portfolio.
3. One advisory client has agreed a formal goal to explicitly increase exposure to 'climate solutions.' Most of our advisory clients have some exposure, but no formal objectives. Advising clients to allocate to such strategies depends on a range of factors, such as the strategies being suitable for their wider investment strategy. We continue to have discussions with clients on this topic at a mandate level.

Please see section 7 of our Cardano Group Annual Sustainability Report 2023 under UK investment advisory and fiduciary management clients for more details on our work together with Trustees.

Case Study: Reviewing the case for a fossil fuel exclusion within an investment mandate

Two of our larger advisory clients (with stated Net Zero targets) had allocations to a particular Fund Manager strategy. Neither had set explicit climate solutions targets but had intimated to us their appetite to carefully consider opportunities on a case-by case basis.

In discussions with the Fund Manager and following the required due diligence, we secured an opportunity to switch into a version of the same fund that excluded fossil fuels, at no cost. We reviewed the opportunity, and one client opted to switch exposure at the start of 2023.

> **"We are now assisting our clients in assessing their transition path towards Net Zero and the implications for their investment strategies.**

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

Principle 3: Support efforts to decarbonise the global economy by helping our clients prioritise real economy emissions reductions, reflecting the target of 50% global emissions reduction by 2030 or sooner using existing decarbonisation methodologies.

Our Sustainability Policy sets out our commitments to climate change, as well as the importance of stewardship and policy engagement as tools to meet our climate change targets. We believe that all investments have both financial characteristics and real-world impact. Therefore, considering the impact of emissions reduction is a key part of our investment assessment processes. We are a member, supporter (including Co-chair) and participant in industry groups including: Principles for Responsible Investment (PRI); Institutional Investors Group on Climate Change (IIGCC); Pensions for Purpose; and Climate Action 100+ and encourage their engagement with policymakers on decarbonising the real economy.

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

Examples include:

- We believe incorporating a Net Zero commitment is the best longer-term risk/reward approach to investing passively in equities. When advising clients on passive equity exposures, our preferred options are two low-cost index managers that incorporate Net Zero commitments, sustainability and stewardship approaches.

- We identified that one of our private equity managers was not providing a carbon footprint report or TCFD reporting. Through regular interactions with the investment and using our member status on the fund's Limited Partner Advisory Committee, we raised these topics – pushing for more transparency in their reporting. The private equity manager has now engaged an external consultant to undertake initial carbon footprint analysis.

- We work with our clients to help them shape their engagement policies and encourage them to monitor the outcomes of more significant engagements. Our clients typically select climate crisis as a key stewardship priority, with a focus on Net Zero greenhouse gas emissions for manager engagement.

For our delegated clients, our Group is a lead investor in Climate Action 100+ and other climate initiatives that are driving reductions in real economy emissions. See section 5 of our Cardano Group Annual Sustainability Report 2023 or our 2023 Stewardship Report for examples of how we engage with companies, including escalation actions.

Case Study:
Adding a new metric to TCFD reports to better track portfolio alignment progress

A client initially adopted implied temperature rise as a metric in TCFD reports. Given the layers of assumptions that fed into this metric and the unreliability of model projections, Cardano believed it was difficult to draw meaningful conclusions on progress.

We advised the client to add a new alignment metric (% of companies signed up to the Science Based Targets Initiative (SBTi)) to enable a clearer understanding of the extent to which underlying portfolio companies were working towards Net Zero (in an accountable way).

The client found the level of alignment low, especially when compared to the implied temperature rise figures, but agreed it was a helpful way to understand the extent of tangible progress and that more work needed to be done at portfolio company level to ensure they could meet their targets over time.

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

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

- All external managers are assessed annually against our proprietary Environmental, Social and Governance (ESG) Framework, which includes a range of questions on climate risks. Within the assessment, we score external managers across four areas: people and policies; integration; engagement; and reporting.

- We rate our external managers as “high focus” or “low focus” depending on the asset class and investment strategy. We believe high-focus strategies are capable of influencing the outcomes of their investment through engagement and stewardship. Low-focus strategies have less influence. We expect high-focus strategies to make progress on climate change issues.

- We engage with managers on a range of ESG issues, with the objective to raise sustainability standards. Managers are assigned specific improvement milestones.

Over the reporting period we have undertaken the following activities:

- Performed our annual ESG assessment for all external managers. This includes an evaluation of each manager’s approach to Net Zero alignment and climate risks.

- Written to all external managers sharing our views on stewardship and climate-related topics where we expect managers to engage, e.g. climate change governance, corporate disclosure, net zero targets and decarbonisation pathways.

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

- In our ESG questionnaire, we asked all external managers the following climate-related questions:

  - Does your organisation publicly support the Task Force on Climate-Related Financial Disclosures (TCFD)?

  - During the reporting year, did your organisation publicly disclose climate–related information in line with the TCFD recommendations?

  - Has your organisation identified climate-related risks and opportunities affecting your investments?

  - What industry initiatives have you signed up to? (This question has one response that is “Net Zero Asset Managers Initiative”)

  - Does this fund monitor/consider absolute emissions, emissions intensity and alignment metrics? If so, what are they for this fund?

  - Have you set a decarbonisation target for this fund? If yes, please provide details of your decarbonisation target including target, date and starting point. If not, please explain why not.

  - Does your organisation use scenario analysis to assess climate-related investment risks and opportunities? If yes, please explain.

  - Are you able to provide reporting on the look through carbon footprint of the portfolio in accordance with TCFD? If yes, please provide examples of this reporting.

  - Do you track the number of portfolio companies that have science-based targets in place?

  - Do you encourage your portfolio investments to disclose against the Science-Based Targets Initiative (or equivalent)?

For more information on our approach to assessing managers please see our website page Selecting managers based on sustainability.

In 2023, we assessed more than 150 funds, public and private strategies across US, Europe and the rest of the world, on their climate change and Net Zero commitments. We saw a material improvement in our ratings across managers versus previous years, with notable improvements made around climate:

- 62% of fund managers publicly support TCFD
- 57% of fund managers track their portfolio's carbon footprint
- 54% of fund managers encourage portfolio companies to disclose against Science-Based Targets

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

- Private markets: we have seen slower progress in this asset class, particularly in the US where managers lag their European counterparts. For an asset class with significant ability to drive positive change, we expect ESG policies, practices, and targets to keep pace with or surpass public market peers.

- Stewardship goals: we encourage managers to provide clarity around their climate orientated stewardship goals and objectives.

For more information, see our 2024 letter to managers, which also provides Cardano's latest thinking on stewardship.

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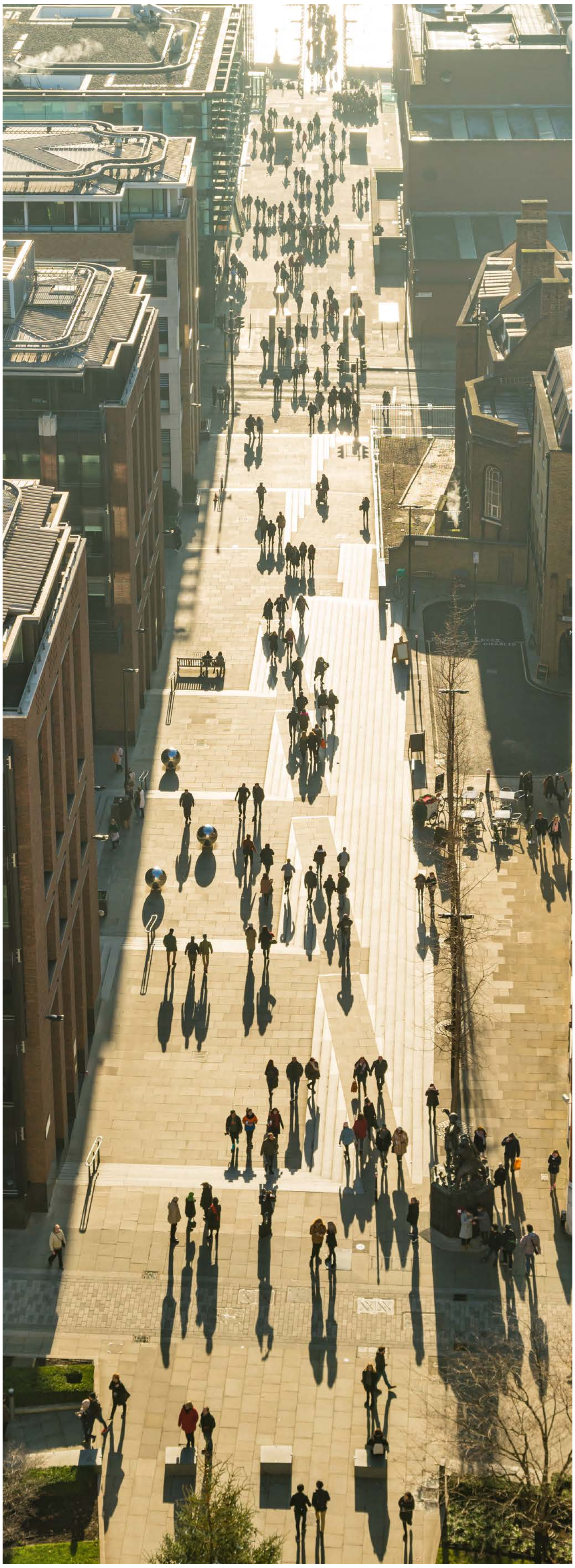


Principle 5: Align with the Net Zero Asset Manager Initiative as soon as practically possible and within two years of making this commitment.

We became signatories of the Net Zero Asset Manager Initiative in Q1 2021 and have reported our GHG emissions metrics via CDP (in 2022) and PRI (in 2023 and 2024). In 2024, we produced our first Task Force on Climate-Related Financial Disclosures (TCFD) report for Cardano Risk Management Limited.

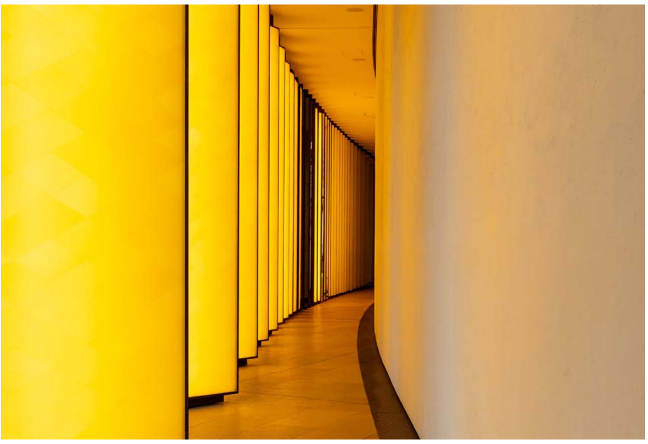
We recognise that the most comprehensive transition objectives encompass the environment more broadly than just climate change – spanning water usage, biodiversity, and chemical and waste management.

Over 2023, we actively gathered data and formed strategies to facilitate more effective measurement of these broader environmental factors over time.

Climate change remains our most advanced long-term objective, with extensive and improving data on current impacts and on forward-looking plans to reduce GHG intensity across a range of companies. More detail on our ambitions and progress across Cardano Group is in section 2 of our Annual Sustainability Report.

Key Performance Indicators:

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



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

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

Where we are unable to reduce emissions further, we purchase voluntary carbon offsets targeting 10% in excess of our emissions. Please see Section 3 of our latest TCFD report for more details on the actions we are taking to reduce emissions: Task Force on Climate-Related Financial Disclosures (TCFD).

Key Performance Indicator:

We report on our emissions a year in arrears after we are able to complete the assessment of our carbon foot printing, so the 2023 Task Force on Climate-Related Financial Disclosures (TCFD) Report contains details of the 2022 emissions. In 2023, we emitted 942.8 t CO_2e (vs 1319.7 t in 2022) through our operations: a 29% year-on-year reduction. This covers Scope 1, 2 and 3 emissions for Cardano Group over our three locations. As in 2022, in 2023 we offset these +10% through the purchase of voluntary carbon credits.

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

We take part in a wide range of industry initiatives to develop and enhance methodologies across asset classes.

Examples include:

- **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 also participate in the Investor Strategies Programme Advisory Group.
- **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.
- **Investment Consultants Sustainability Working Group (ICSWG):** we've participated in the Steering Committee for a number of years, and from 2024, the Influence workstream.

Over 2023, we expanded our involvement in broader environmental initiatives. We believe factors including biodiversity, water and waste management are inextricably linked with climate change management.

For more detail, see our Cardano Stewardship Report 2023, in the section on Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

"Over 2023, we expanded our involvement in broader environmental initiatives.

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

This year, we have responded to several public policy consultations across the Cardano Group, 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 and believe that well-designed and implemented sustainable investment policy reform will offer clear benefits to Cardano and our clients.

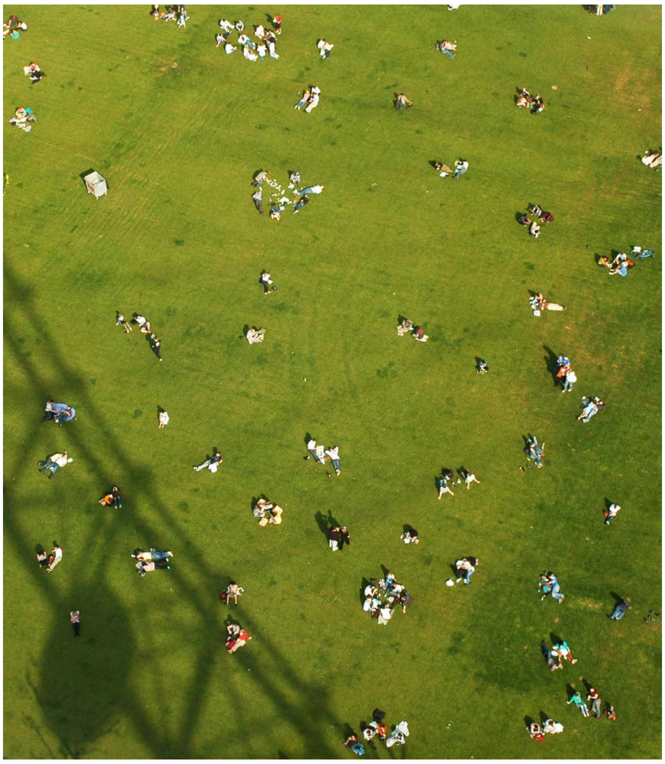
Case Study:
Transition Plan Taskforce Disclosure Framework Consultation

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.

Cardano 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 welcome the taskforce recommendations that recognise the interconnections of climate with other environmental issues, such as biodiversity and social factors.

Further examples are in our Cardano Stewardship Report 2023 under Principle 4: responding to market-wide and systemic risks to promote a well-functioning financial system, and Principle 10: participating in collaborative engagement to influence issuers.

> **"We believe that well-designed and implemented sustainable investment policy reform will offer clear benefits to Cardano and our clients.**



Appendix - Summary of Key Performance Indicators

	Meaningful education	Baseline carbon emissions data	Net Zero ambition	Net Zero target/ intention to be Paris-aligned	Climate solutions	Discretionary clients - Net Zero ambition	Discretionary clients - Net Zero targets	Level of emissions from our own operations
2023 Reporting year	c.80% of advisory only clients (over 95% of advisory AUM)	c.70% of advisory only clients (over 90% of advisory AUM)	Over 80% of advisory only clients meet the KPIs (over 95% of advisory AUM)		One of our advisory and one of our discretionary clients has set an explicit target	All fiduciary discretionary clients meet the KPIs		Scope 1, 2 and 3 = 942.8 t CO2e
2022 Reporting year	Over 60% of clients	1/3rd of clients (over 60% of AUM)	Over 60% of clients meet the KPIs		No clients have formally set the goal	All fiduciary discretionary clients meet the KPIs		Scope 1, 2 and 3 = 1319.7 t CO2e
Notes	Most of our advisory clients received this during the year, often linked to their annual TCFD reporting preparation and/ or review cycle	Overall numbers increased year-on-year, reflecting a larger number of schemes who monitor the data as part of TCFD reporting requirements	Most of our advisory clients have this as a formal target - those that don't represent a small % of AUM		Although most advisory clients have included some assets with an explicit climate-related aspect, the majority of them prefer to consider climate (alongside broader sustainability characteristics) on a case by case basis	KPI already met, but over 2023 we worked on improving reporting on the progress of our discretionary equity portfolios against a range of sustainability goals, include climate related		29% reduction year on year

cardano

Cardano UK
9th Floor
6 Bevis Marks
London
EC3A 7BA
United Kingdom

T: +44 (0)20 3170 5910
E: info@cardano.com
W: cardano.com

Cardano NL
Weena 690
21st floor
3012 CN
Rotterdam
The Netherlands

T: +31 10 206 1300
E: info@cardano.com
W: cardano.com