

cardano

Sustainability Investment Policy

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Preface

About Cardano

Founded in 2000, we are a specialist solutions provider supporting pension schemes and long-term savings organisations in delivering on their promises and contributing to more resilient and sustainable long-term outcomes for savers, employers, and society.

We are dedicated to contributing to a fairer society and a healthier planet. The transition to a sustainable society brings both risks and opportunities. We support clients in navigating these transitions, with a focus on managing risks, maintaining long-term portfolio resilience and financial sustainability, and contributing to positive outcomes for society and the environment.

Our professionals deliver solutions to clients across three pillars of expertise: investment management, advisory, and Defined Contribution (DC) pensions.

Our sustainability specialists have expertise in environmental, social and governance (ESG) data, research, stewardship, impact investing, and key thematic sustainability issues such as climate change and biodiversity. By combining diverse perspectives and skills, we help identify risks and opportunities, reduce blind spots and deliver tailored solutions for our clients.

Cardano became part of Mercer, a business of Marsh McLennan (NYSE: MMC), at the end of 2024. As of January 2026, Cardano Risk Management Limited – a regulated legal entity in the United Kingdom – operates under the Mercer name. While the ‘Cardano’ brand is no longer used in the United Kingdom, this Sustainability Investment Policy remains applicable to that entity and therefore covers only the activities of Cardano Asset Management N.V. and Cardano Risk Management B.V. (two Dutch regulated legal entities) as well as Mercer Risk Management Limited (the UK entity continuing the activities of Cardano Risk Management Limited).

About our Sustainability Investment Policy

This Sustainability Investment Policy outlines the key principles and guidelines that inform our investment decision-making for directly managed assets and describes our approach to indirectly managed investments.

We are committed to investing in the transition towards a sustainable society. While we recognise that multiple valid approaches to sustainability investing exist, we apply the principles in this policy broadly across our investment solutions. However, implementation may vary depending on client preferences and the relevance to specific asset classes.

This policy is supported by the following documents:

1. Sustainability Classification Framework (Appendix A), outlines our proprietary investment assessment framework.
2. Impact Investing Policy (Appendix B).
3. Approach to Stewardship (Engagement Policy and Voting Policy – Appendices C and D).
4. Priority Sustainability Strategies (thematic strategy documents on climate change, biodiversity and water – Appendices E1 to E3).
5. Asset Class-Specific Policies and proprietary measurement methodologies (Appendices F and G).

1.

Introduction



Social foundations and planetary boundaries

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. 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. However, we already overshoot most of the planetary boundaries,¹ creating not only direct risks for many businesses but also increasing longer-term systemic risk.

A sustainable society must be underpinned by strong social foundations,² which include the right to a living wage for all, a safe place to live, and access to health care and clean drinking water. Beyond this, they also endorse social equality, diversity and dignity and respect for all individuals and communities. These social foundations and planetary boundaries are highly interrelated. For example, areas most impacted by climate change could become uninhabitable. Deforestation and environmental degradation would be exacerbated as natural forest land is cleared for subsistence agriculture, eventually causing mass migration, societal collapse and poverty.

Investing in the transition towards 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. Governments and NGOs are encouraging businesses to reduce their greenhouse gas emissions and take steps to deal with water scarcity and environmental pollution. Consumers are gradually switching to more sustainable products and businesses are becoming more transparent about their consideration of environmental, social and human rights issues in supply chains. Government policies and consumer demand are starting the shift towards a low-carbon and water-neutral society.

But more must be done to speed up a global economic transition towards a sustainable society to prevent irreversible impacts on the planet, people, and businesses. Businesses that anticipate this transition can reap the benefits of new market opportunities – but those that fail to act could be subject to increasing financial risk.

Our Sustainability Investment Policy explains how we believe investors can contribute to the transition towards a sustainable society. In this context, the policy includes a focus not only on companies that are already sustainable, but also on those with the willingness and capacity to transition – as this group may meaningfully contribute to a more sustainable society. It also explains how risks and opportunities related to the transition can be considered in investment decisions. The policy considers the material relevance of the transition for investee companies and sovereigns ('entities'), as well as for clients and their portfolios.

We encourage entities to prepare for the new challenges and contribute to solutions, working towards a sustainable society while adding value for our clients. Through this policy, we aim to contribute towards real-world impact beyond investments and advice, and to create environmental and social returns. Our double materiality approach, through which we integrate financial and real-world risks and impacts related to the sustainability transition, aims to make portfolios more resilient to future uncertainty.

1 See e.g., Potsdam Institute for Climate Impact Research (2025). Planetary Health Check 2025: A Scientific Assessment of the State of the Planet. Potsdam Institute for Climate Impact Research (PIK). <https://doi.org/10.48485/pik.2025.017>.

2 See for example challenges as formulated by the Global Risks Report 2025 from the World Economic Forum (<https://www.weforum.org/publications/global-risks-report-2025/>) The World Economic Forum's Strategic Intelligence platform (intelligence.weforum.org) UN Environment's 6th Global Environment Outlook (GEO-6) (www.unep.org/geo/) The research initiative 'The World in 2050' (TWI2050) (www.twi2050.org)

The foundations of a sustainable society

Sustainability is defined by the UN as meeting the needs of the present, without compromising the ability of future generations to meet their own needs.

A sustainable society operates within planetary boundaries introduced by Johan Rockström of the Stockholm Resilience Centre. He suggests there are nine planetary boundaries, reflecting the earth’s carrying capacity to maintain the planetary life support systems essential for human survival and to maintain resilient production and livelihoods. Crossing these boundaries increases the risk of irreversible environmental changes, impacting people, economies and society. By 2025, through human behaviour, seven of the nine boundaries have already been crossed, endangering future growth and prosperity – see figure 1.

We define a sustainable society as one that operates within planetary boundaries with strong social foundations, through which every person can meet basic needs, people and communities are treated fairly, and businesses and governments are managed in such a way that they maintain their social licence to operate. These social foundations are

also included in the Sustainable Development Goals, adopted by all UN member states in 2015.

To make the transition towards a sustainable society, we need to address multiple challenges to reduce the overshoot of the planetary boundaries and to build strong social foundations. Financial institutions can influence this transition through stewardship and responsible capital allocation to create long-term value, leading to sustainable benefits for the economy, the environment and society.

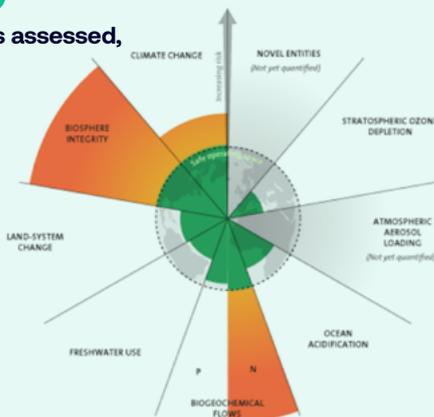
Financial materiality of sustainability

Academic literature both supports and refutes sustainability or ESG factors. We’re reassured by growing academic evidence suggesting that sustainability is both relevant and material to companies. However, we’re cautious in claiming that a sustainability investment approach leads to portfolio outperformance, such as over shorter timeframes when certain factors may be in or out of favour with the markets. Instead, we believe that a sustainability approach is essential to good and prudent risk management, and that investing sustainably contributes to better risk-adjusted returns in the long term.

Figure 1: The evolution of the planetary boundaries framework.

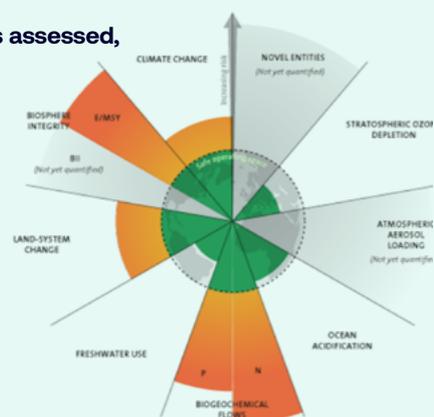
2009

**7 boundaries assessed,
3 crossed**



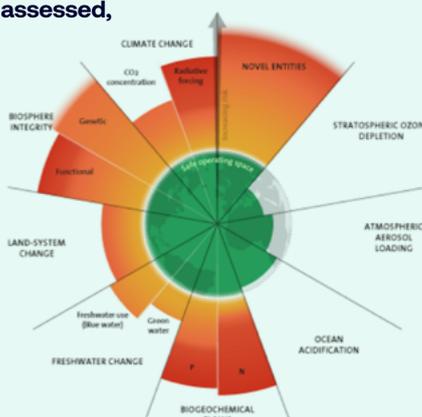
2015

**7 boundaries assessed,
4 crossed**



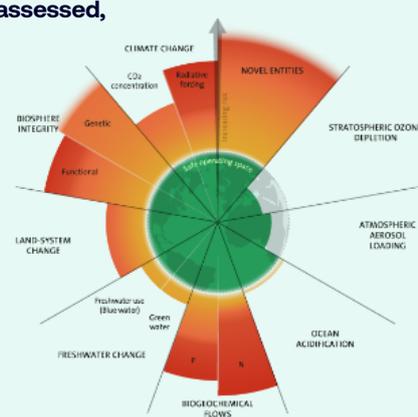
2023

**9 boundaries assessed,
6 crossed**



2025

**9 boundaries assessed,
7 crossed**



Source: <https://www.stockholmresilience.org/research/planetary-boundaries.html>

2.

Our vision of sustainability investing



2.1 Transitioning towards a sustainable society

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. Geopolitical developments, stricter regulations, changing market conditions, and changing consumer preferences will impact all companies and financial institutions.

Major challenges to be addressed for the transition towards a sustainable society

We identify the following priority themes, which, if tackled in combination, we expect to contribute to a successful transition to a sustainable society. Note these themes might vary over time as new themes and insights evolve.

Fighting **climate change** requires a shift away from fossil fuels and fewer greenhouse gas emissions from land use and deforestation. We are already seeing a transition towards alternative energy sources for transport and electricity, and in industrial processes, such as steel and cement. Solutions are emerging, such as new technologies for renewable energy generation, nature restoration, carbon capture, energy storage, and new lower-emitting industrial processes. (For further details, see our climate change strategy in Appendix E1).

Halting **biodiversity loss** requires halting conversion of natural land to agricultural, livestock and human occupation; no deforestation; preventing the spread of invasive species; and reducing impacts of fertilizers, pesticides and chemical pollution. We see new solutions emerging in sustainable agriculture, reforestation, drought-resistant crops, and plant-based proteins. (For further details, see our biodiversity strategy in Appendix E2).

Using **water** sustainably implies reducing the use of freshwater for human, agricultural and industrial processes in water-scarce areas, and preventing water pollution and the degradation of oceans through overfishing and pollution. This requires solutions such as water-saving technologies, flood adaptation, wastewater treatment, sustainable fishing, sustainable shipping and mangrove restoration. (For further details, see our water strategy in Appendix E3).

To bring the use of materials and management of waste in line with planetary boundaries, a **transition towards a circular economy** is crucial. Current industrial processes and the use of natural resources lead to overexploitation and inefficient use of scarce resources, and the pollution of air, soil and

As the world transitions towards a sustainable society, we can expect major reforms that will change the way we affect the environment and our attitudes towards social foundations. To operate within planetary boundaries, there will be major adjustments to how markets and governments deal with climate change, biodiversity loss, water, and material use. There is increasing awareness that access to basic needs, fairer treatment for all, and strong governance are important for a stable society, as unmet or eroded social foundations lead to inequalities that may create longer-term political, economic, and financial turmoil.

water. Solutions in line with the circular economy principles to reduce, reuse and recycle materials are essential. Examples include biodegradable plastics, improved waste management, and enhanced production methods that allow the circulation of materials within the economy but with less waste and fewer emissions.

The basis of a stable society is the fulfilment of a set of social foundations with **basic needs**, such as clean water, nutritious food, healthcare, housing, energy, and financial services, that are accessible and affordable. A transition to a **fairer society** addresses inequality through access to education and training, income and work, improved diversity, and gender equality in the workplace. This in turn protects health, wealth and wellbeing, and recognises the benefits of networks, connections and community support. **Strong governance** is vital for businesses to maintain their social licence to operate and for governments to maintain their legitimacy. It requires transitioning from negative behaviours and actions of companies and governments to advocating respect for minimum social standards, preventing harm, the right to unionise, positive impacts on individuals, communities, and society, accountability and stakeholder capitalism.³

The shifts required to transition towards a sustainable society are highly connected, and we emphasise the importance of a 'just transition'. Using the International Labour Organization (ILO) definition, a just transition towards a sustainable society is done in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind.⁴ To give an example, local communities which are highly dependent on fossil fuel industries could suffer from negative impacts in terms of work and income if these industries may become stranded in the process of climate change mitigation. These impacts should be addressed as much as possible by investing in education and retraining. A just transition is especially urgent in emerging countries as the transition needed to counter climate change, water scarcity and biodiversity loss will have a disproportionate impact on the basic needs of communities in these markets.

³ Note that our choice of emphasis in these topics may change over time, depending on the emergence of scientific developments and new challenges.

⁴ See ILO (2015). Guidelines for a just transition towards environmentally sustainable economies and societies for all. https://www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_ent/documents/publication/wcms_432859.pdf

2.2. Our investment beliefs and our role in the transition

The transition towards a sustainable society creates both risks and opportunities for investors. Through its investments, the financial sector negatively impacts environmental and social challenges – but it can also be an important catalyst to accelerate the transition towards a sustainable society.

As professionals in sustainability investing, we aim to set best practices that can be adopted widely by other investors and financial industry advisors.

Double materiality

We consider both the impact of sustainability risks on our investments and the impact of our investments on the real world and on the systemic risks to the economy – in other words, to follow a ‘double materiality’ approach to our direct investments, our stewardship activities and the advice we give.

We focus on financially material transitions for companies (over the shorter-term and medium-term) in terms of risks and impacts. Many adaptations are already underway, for instance to mitigate climate change: changing consumer behaviour, government regulation, innovation and investment.

We believe a sustainability investment approach is a crucial part of good financial risk management, and it is essential to integrate an assessment of these risks and impacts into investment strategies. Lack of action will increase longer-term systemic risks that will negatively impact financial markets in the long term. We intend to contribute to more resilient financial markets.

Contributing to the transition in the real world is complex. We aim to do it by encouraging and enabling underlying businesses to transform their real-world impact. A substantial contribution to positive real-world impact is to be delivered by a broad range of sectors, companies and governments that may not yet be fully sustainable today. We carefully seek exposure to this range of contributors to the transition needed.

Short versus long-term risks

There is ample scientific evidence that the costs of inaction outweigh, by far, the costs of transitioning. Yet, as a society, we face a *Tragedy of the Commons* situation.⁵ We believe that a focus on short-term profits may limit our ability to make the decisions needed to support a successful longer-term transition.

In most cases, financial and real-world materiality are connected. If a sustainability theme is financially material, it usually has a substantial real-world impact, while entities with substantial negative impacts on a sustainability theme usually involve higher financial risks due to their impact. Operating outside planetary boundaries and failing to respect social foundations erodes the resilience of our economies and society. It will likely lead to tipping points, both in environmental impact and societal constructs, such as politics, regulation and government policy. We can prevent the long-term financial risks if investees support the transition to a sustainable society.

Channels of influence

We believe that focusing on transition in investment choices, leads to better risk-adjusted financial outcomes and more resilient portfolios. We balance the financial aspects of an investment against the influence and impact we can have on that investment. Our ‘model of influence’ guides these decisions so we are contributing as much as possible to the required transition. We shape investment strategies and influence investments through two channels: capital allocation and stewardship.

In terms of capital allocation, for our in-house sustainability framework investment management solutions (see Chapter 3), we seek, in principle, to avoid investing in companies that do not demonstrate commitment, capability or willingness to transition, as they are likely to fail as the sustainability transition progresses. Instead, we aim to invest primarily in companies that are already sustainable or contributing positively, as well as in those that may currently have a negative impact but there is sufficient evidence that they are transitioning in a reasonable timeframe.

Through our stewardship approach, we aim to drive both the financial performance and the real-world impact of our investments.

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We shape strategies and influence investments through capital allocation and stewardship.

⁵ The “Tragedy of the Commons” is a concept in economics and environmental science that describes a situation where individual users, acting independently according to their own self-interest, deplete shared resources, leading to the detriment of the entire community.

2.3. Sustainability ambitions

The transition towards a sustainable society requires addressing interconnected environmental, social, and governance challenges. Our sustainability ambitions apply only to our in-house sustainability framework investment management solutions, which are designed to reflect our sustainability vision.

Climate change

We support the Paris Climate Agreement of limiting global warming to “well below 2°C versus pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C”. For our in-house framework solutions, we are committed to net zero greenhouse gas (GHG) emissions by 2050, known as ‘net zero’, with intermediate reductions of 50% by 2030 and 75% by 2040, with the baseline set at 31 December 2019. This implies an average 7% reduction in GHG emissions every year. Our climate target was approved by the Science Based Target initiative (SBTi) in 2023.

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), and the latter may have net-zero timelines after 2050.

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. Our in-house framework solutions aim to reach net zero deforestation by 2030, with any deforestation replaced with reforestation of similar or higher quality.

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Our climate target was approved by the Science Based Target initiative (SBTi) in 2023.

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.⁶ Our in-house framework solutions 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. Our in-house framework solutions 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 capital, human capital and governance related standards

A sustainable society relies on three core social foundations – provision of basic needs, a fairer society and strong governance. Our in-house framework solutions require entities to respect international standards, including but not limited to, the UN Global Compact principles, UN Guiding Principles on Business and Human Rights (UNGP), OECD Guidelines for Multinational Enterprises, and relevant treaties.

By focusing on companies, sectors, and sovereigns that are sustainable or actively transitioning, our in-house framework solutions aim to generate positive real-world impact, manage financial risks, and support long-term portfolio resilience, while reflecting the full vision of our sustainability ambitions.

6 Global Commission on the Economics of Water (2023), Turning the Tide: a call to collective action. OECD Environment Directorate. <https://watercommission.org/wp-content/uploads/2023/03/Turning-the-Tide-Report-Web.pdf>

3.

Sustainability investment solutions



We work with clients in different ways:

1. As an asset manager, we invest directly in entities on behalf of our clients (for example bonds or equities) (direct investments)
2. As a fiduciary manager, next to our direct investments, we also invest indirectly via third-party managers (indirect investments)
3. As an investment advisor, we support clients on pensions, risk management, sustainability and corporate covenants (advisory services)

3.1. Direct investments

We select direct investments for both investment funds and segregated mandates. These investments include a wide range of equities, fixed income instruments, Exchange Traded Funds (ETFs), and derivatives.

Each investment solution is governed by detailed, solution-specific documentation that outlines the relevant sustainability policies and criteria. This documentation describes, among others, the environmental or social characteristics or objectives of the solution, the minimum percentage of sustainable investment, applicable exclusion criteria, the use of sustainable benchmarks, and any applicable regulatory requirements under sustainable finance legislation. (See below box for more information). For sustainability-related information on individual solutions, we refer to the respective documentation. Prospectuses for investment funds are publicly available.

For direct investments, we distinguish between in-house sustainability framework investment management solutions and client-led investment management solutions. This distinction provides clarity on which products actively pursue our sustainability ambitions and which reflect client-driven objectives, while maintaining – in principle – adherence to our minimum fundamental principles (defined below) across all directly managed assets.

3.1.1. In-house sustainability framework investment management solutions

Within our range of in-house sustainability framework investment management solutions, we offer a suite of strategies that are fully aligned with our sustainability philosophy. Each investment fund and segregated mandate has dual objectives – delivering financial returns as well as aiming to contribute to the transition towards a sustainable society.

These solutions adopt our sustainability ambitions, along with policy exclusions and restrictions. They range from broad strategies that support the overall transition towards a sustainable society to specialised strategies aimed at generating positive impact. The investible universe of each solution is linked to specific categories within our Sustainability Classification Framework.

The Sustainability Classification Framework, including any amendments, applies by default to all in-house solutions. However, stricter criteria may be applied on a solution-by-solution basis.

All in-house solutions follow our stewardship approach, which involves active engagement with investee companies to influence their behaviour in support of the sustainability transition.

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Within our range of in-house sustainability framework investment management solutions, we offer a suite of strategies that are fully aligned with our sustainability philosophy.

3.1.2. Client-led sustainability investment management solutions

We also manage assets through client-specific investment funds and segregated mandates. While we advocate alignment with our sustainability philosophy, the sustainability profile of these solutions is predominantly determined by the client and may reflect different approaches to sustainability. Nevertheless, all client-led solutions must - in principle - comply with our baseline of fundamental principles, which means they exclude investments classified as 'International Standards' under our Sustainability Classification Framework. Senior management may approve deviations from this principle. Additional exclusions or criteria may be applied to reflect the client's specific sustainability objectives, preferences, or asset-class characteristics.

3.1.3. Derivatives and ETFs

Some direct investment strategies use derivative instruments or investments in market indices such as ETFs. Derivatives are executed with counterparties, which can include investment banks. Counterparties are screened for material ESG risks, with oversight by the Dealer Committee. Counterparties scoring below a threshold may be excluded from new business or have existing exposures reviewed.

For ETFs or derivatives tracking standard market indices, we cannot exclude specific companies, and we do no 'look-through' to the underlying index constituents. For custom derivative baskets, we will apply our Sustainability Classification Framework.

Sustainability Risks and Adverse Impact | Sustainable Finance Disclosure Regulation (SFDR)

As explained throughout this Sustainability Investment Policy, all Cardano's directly managed strategies integrate sustainability risks in their investment decision-making process (SFDR Article 3).

3.2. Indirect investments

In addition to our direct investments, we help our clients invest in many external investment managers across most major markets, asset classes (public and private), and geographies.

Our ESG assessment framework for external investment managers assesses managers across ESG integration in the investment process and their approach to stewardship and engagement.

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 (unless they are invested via a managed account in which case certain exclusions from our framework may apply).

Instead, we expect external investment managers to:

1. Be aware of financially material ESG issues associated with an investment
2. Take ESG issues into account where they are appropriate for the strategy and have the potential to materially affect the financial risk and/or return
3. Have a clear approach to stewardship of the assets including,
4. Exercise their voting rights where possible
5. Weigh substance over form – we look for the genuine integration of ESG issues
6. Provide case studies and practical examples of their approach and performance.

Our indirect investment arrangements consist of segregated mandates with third-party investment managers and investments in third-party pooled vehicles. In most cases, these arrangements are combined into fund solutions which may themselves be grouped into broader portfolios. The application of this policy may vary depending on the degree of discretion within the arrangement - typically greater in segregated mandates than in pooled vehicles - and on the relevance of the asset class to the policy objectives.

We refer to Cardano Asset Management N.V.'s SFDR Principal Adverse Impact Statement, published on the Cardano website (SFDR Article 4).

3.3. Sustainability advisory services

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

3.3.1. Sustainability investment services

We advise asset owners such as pension funds, insurance companies and banks on socially responsible investment, supporting them to realise their sustainability ambitions, translating these into their policies with concrete and measurable objectives and unburdening them in the field of their sustainability obligations.

Institutional investors are required by law to have more detailed sustainability policies. We support them on all sustainability investment activities: sustainability policy development, sustainability investment policy choices, legislation and regulations, reporting, monitoring and other sustainability-related activities.

Our teams, alongside sustainability data and reporting infrastructure, support clients to better integrate sustainability into their policies and mitigate sustainability-related risks and impacts in their investments.

We support many clients in preparing their TCFD reports. We also use forward-looking climate change scenario analysis to assess the risks and impacts of a client's investments at the portfolio level.

3.3.2. Corporate sustainability advisory

Our Sustainability Advisory team provides advice and support to trustees, corporate clients and asset owners on the interplay between corporate financial strength, sustainability, and strategic planning. Our advice helps clients understand sustainability risks, mitigate them and maximise their opportunities.

Our Sustainability Advisory team has 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).

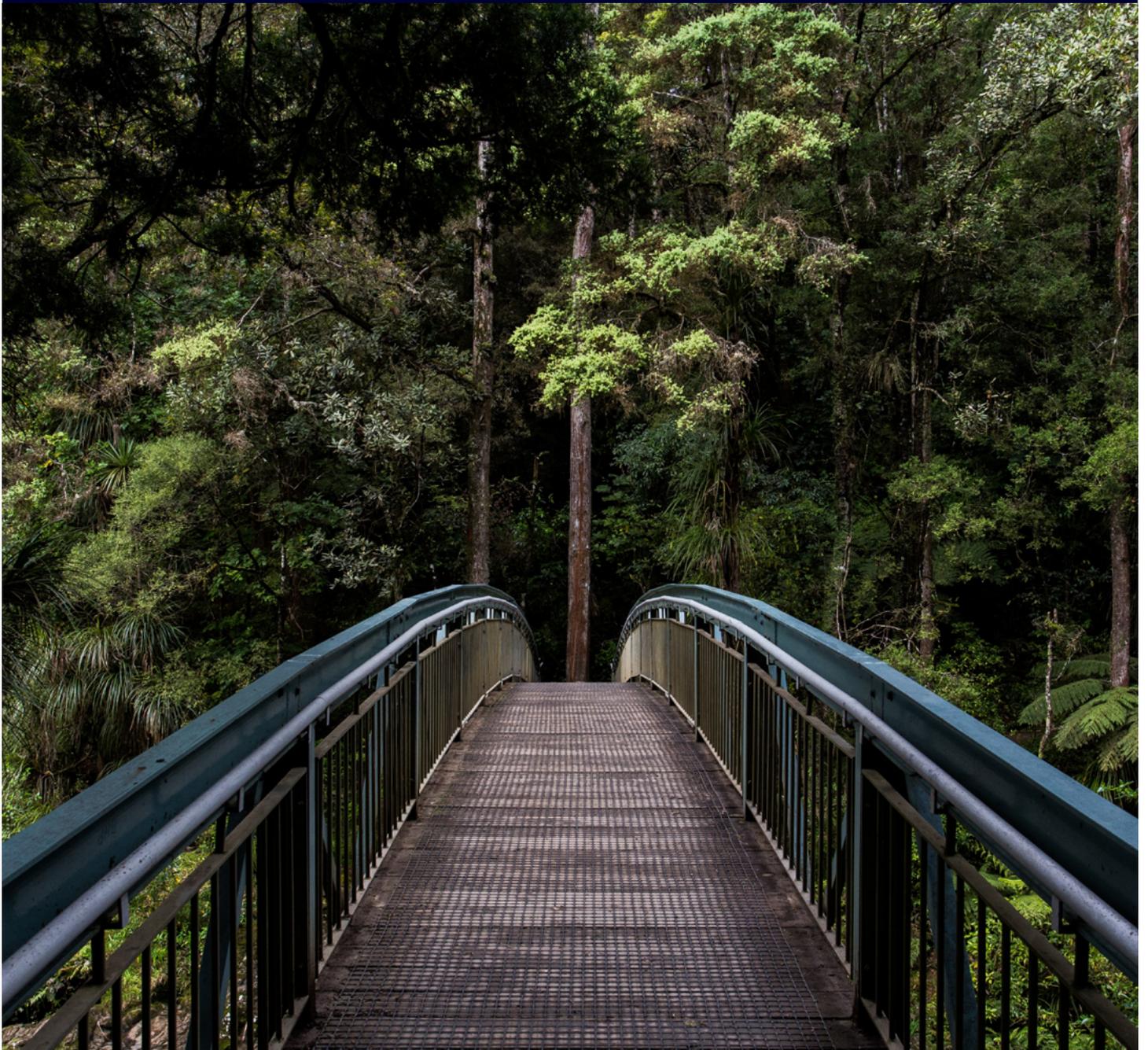
Our company-specific data analysis works alongside broader market inputs to underpin our work providing corporate risk analysis, client sustainability policy development, advice around stakeholder engagement and support for clients' regulatory reporting needs. We help clients to consider how to mitigate and adapt to transition risks, and we support them in aligning towards science-based transition plans so they can operate within planetary boundaries and respect social foundations.

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Our advice helps clients understand sustainability risks, mitigate them and maximise their opportunities.

4.

Our Sustainability Classification Framework



To effectively guide investments across our various solutions, we aim to understand which investments hinder and support the transition towards a sustainable society. Which investments seize opportunities by contributing positively to this transition? Which pose risks due to their inability to adapt to a changing market environment? Which activities are essential and require improvement, and which are non-essential or potentially obsolete?

Our Sustainability Classification Framework assesses and classifies each investment into one of seven defined categories. An investment’s position within this framework is determined by its sustainability-related risks and opportunities, as well as its real-world impact.

Classification of each investment in the framework is based on a two-step procedure (figure 2).

- **Behaviour and activities.** We assess if the investments violate international standards and norms, or is involved in severe environmental controversies, or in activities that are considered too harmful for society. If an investment does not pass this step, it is classified ‘International Standards’ or ‘Harmful’.
- **Adaptive capacity.** We assess an investment’s level of ability and likelihood to adapt and contribute, either through reducing negatives or accelerating positives, to the transition towards a sustainable society - what we refer to as ‘adaptive capacity’. Depending on the outcomes, the investment is classified as ‘Non-adapting’, ‘At Risk’, ‘Adapting’, ‘Sustainable’ or ‘Positive Impact’.

The assigned classification determines in which investment solution the investment may fit, depending on a solution’s investment strategy.

Assessments are conducted using indicators and data from external data provider(s) and other sources. A classification based on quantitative thresholds can be overruled if a fundamental analysis shows sufficient proof that the data does not sufficiently well reflect a company’s actual behaviour, sustainability-related risks or impacts. The classifications are evaluated regularly.

Our classification principles will be introduced in the following paragraphs, refer to Appendix A for more details.

Figure 2: Cardano’s Sustainability Classification Framework



4.1. Step 1: Behaviour and activities

Irrespective of financial returns, we judge whether investments violate international standards and norms or have too much negative real-world impact. This is particularly true for issues such as lack of respect for human rights, severe environmental damage, or damage to human physical or mental health.

We believe structural violation of these principles makes these investments untenable as they are responsible for substantial harm to the environment, individuals or societies. The societal damages of these activities are too high and widespread to countenance such an investment and are likely to have negative economic consequences that need to be borne by broader society, if not by the investment itself. Principles for companies and institutions differ from those for sovereigns.

Companies

For companies, we have formulated two sets of ethical, social and environmental principles – see table 1. Each company undergoes an evaluation against these principles. Companies that do not pass the pre-defined criteria within the specified screening topics will be classified either as ‘International Standards’ or ‘Harmful’.

Table 1: Principles for companies

International Standards	Harmful
<p>Fundamental Business Principles</p> <ul style="list-style-type: none"> ● Subject to international sanctions ● Violation of basic human and labour rights ● Systematic involvement in fraud, corruption and tax evasion ● Environmental damage <p>Military weapons involvement</p> <ul style="list-style-type: none"> ● Involvement in controversial weapons ● Distribution of military equipment to military regimes 	<ul style="list-style-type: none"> ● Production and distribution of civilian firearms ● Products or businesses with significant risk of harm to physical or mental health (tobacco, gambling and adult entertainment) ● Activities with significant risk of harmful impacts to animal welfare

The ‘International Standards’ category includes an assessment whether investee companies follow good governance practices. These practices include alignment with the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the ILO Declaration on Fundamental Principles and Rights at Work, and no involvement in very severe governance controversies.

Sovereigns

We consider compliance with fundamental rights, environmental standards, and global governance norms essential for (sub)-sovereign investments. Countries that systematically fail to meet these standards are classified as ‘International Standards’ in our Sustainability Classification Framework.⁷ Table 2 outlines the principles used.

Table 2: Principles for sovereigns

Governance	Social	Environment
<p>Exhibit good governance, including compliance with political rights & civil liberties, no involvement in structural corruption, care for institutional strength.</p> <p>Compliance with international sanctions and no involvement in controversial arms trade.</p>	<p>Provision of decent circumstances to uphold and protect human and social capital, including compliance with fundamental human, social and labour rights.</p>	<p>Incorporation of the impacts of climate change, resource scarcity and other environmental and nature risks into governmental decision making. That is, sovereigns are expected to take the risks, opportunities and impacts of climate change and resource scarcity into account in policy programs.</p>

For more detail on these principles for companies and sovereigns, see Appendix A.

⁷ Sovereigns meeting all standards are classified as ‘Adapting’. Green, social or sustainable sovereign bonds that comply with the Cardano Bond assessment criteria are generally classified as ‘Positive Impact’. We currently do not use the ‘Sustainable’ or ‘At Risk’ categories for sovereigns in our Sustainability Classification Framework.

Figure 3: Adaptive capacity



For each investment, we seek to understand:

Assessment	How do we do the assessment?
The company’s financial risk exposure to the changes brought about by the transition	We focus on what ESG-related changes brought about by the transition are material because of a company’s business model, industry, sector and geographic areas of operation. We develop specific screens and indicators on a sector and company level, which show risks and opportunities related to these changes, such as use of fossil fuels, dependency on water or potential involvement in labour rights violations.
The company’s real-world impact exposure	We focus on the positive and negative impacts to the planetary boundaries and social foundations to which the company contributes. We adopt indicators that highlight for instance GHG emissions, use of certified materials and payment of living wages.
The company’s adaptive capacity	We assess whether companies govern their risks and impacts to maintain their social licence to operate: Operations: Does the company manage the risks and execute on opportunities available in its sector/industry/geography (including risks and opportunities arising in its supply chain)? Products and services: Does the company produce products or services that contribute positively or negatively to the transitions? Governance: Does the company have the capacity and policies in place to manage these risks and impacts?

8 Note that this second step only applies to companies. Sovereigns that pass step 1, i.e., they are considered not to violate international standards, are classified as ‘Adapting’. Green, social or sustainable sovereign bonds that comply with the Cardano Bond assessment criteria will be classified as ‘Positive Impact’. So far, investments in sovereigns are not classified as ‘Sustainable’ or ‘At Risk’ in the Sustainability Classification Framework.

Based on an assessment for the different ‘Levers of Change’ and other pre-defined criteria, we classify every potential investment (public or private, large, or small) into one of the following five categories⁹:

- **Positive Impact:** Investments that accelerate the transition towards a sustainable society through intentional contributions to environmental or social objectives. They do no significant harm to other environmental or social objectives. Their operations are within the planetary boundaries and social foundations or are transitioning at or ahead of sector pathways. They have the management capabilities to mitigate the risks they are exposed to. (See the [Cardano Impact Investing Policy](#) for more details.)
- **Sustainable:** Investments that contribute to the transition towards a sustainable society. They do no significant harm to environmental or social objectives. Their operations are within the planetary boundaries and social foundations or are transitioning at or ahead of sector pathways. They have the management capabilities to mitigate the risks they are exposed to.
- **Adapting:** Investments that are transitioning towards a sustainable society by reducing their negative impacts. They may do significant harm to environmental or social objectives. There is sufficient evidence that they are transitioning towards operating within the planetary boundaries and social foundations in a reasonable timeframe. They have the management capabilities to mitigate the risks they are exposed to.
- **At Risk:** Investments with negative impacts that are not yet aligned with the transition to a sustainable society. They may do significant harm to environmental or social objectives. They do not yet demonstrate sufficient commitment to transitioning their activities to operate within the planetary boundaries and social foundations. They may lack sufficient management capability or willingness to transition towards a sector pathway in a reasonable timeframe, creating long term sustainability and/or financial risks.

- **Non-adapting:** Investments with negative impacts that are not aligned with the transition to a sustainable society. They may do significant harm to environmental or social objectives. They do not demonstrate commitment, capability or willingness to transition their activities to operate within the planetary boundaries and social foundations. They are not managing significant sustainability and financial risks, that in the long term may lead to them becoming stranded assets.
- We assign each investment to the lowest applicable category based on its overall impact across both social and environmental transitions. For example, an entity that contributes positively to a social transition but negatively to an environmental transition – yet presents a credible plan for improvement – would be classified to the ‘Adapting’ category.

For an overview of our proprietary Sustainability Classification Framework and its key criteria, see Appendix A.

Green, social, sustainability, and sustainability-linked bonds, collectively referred to as ‘Sustainable Bonds’, are assessed against our internal bond assessment criteria. The proceeds of these bonds must be used for green, social, or broader sustainability objectives, such as renewable energy projects or social housing. In the case of sustainability-linked bonds, the structure must be tied to predefined sustainability indicators. Each Sustainable Bond, whether issued by a corporate or sovereign entity, is classified as ‘Positive Impact’ if it meets our criteria. If it does not, it is classified in accordance with the sustainability profile of the underlying issuer. (For further details, refer to our Impact Policy in Appendix B and the Sustainable Bonds Methodology in Appendix F.)

⁹ Investments that classify as ‘Sustainable’ or ‘Positive Impact’ are considered a ‘sustainable investment’ within the meaning of the SFDR.

5.

Stewardship



Stewardship is central to our investment approach. On behalf of our clients, we aim to use our influence to support the transition towards a sustainable society and to contribute to long-term portfolio value. We define stewardship broadly to include, where appropriate, company engagement, proxy voting, involvement in collaborative investor initiatives, and engagement with policy makers and regulators.

Our stewardship activities are intended to:

- Support sustainable value creation and positive long-term outcomes.
- Address company-level and systemic sustainability risks, such as climate change, biodiversity loss, water stress, and social inequality, that may have implications for both portfolios and society.
- Contribute to well-functioning markets through policy and sector-wide engagement efforts.

5.1. Company engagement, voting and escalation

We aim to engage with portfolio companies where we believe doing so can help reduce risks, capture opportunities, and improve resilience. Engagements are guided by defined objectives on topics material to the company or relevant to systemic risks that may affect the broader portfolio. Our approach is tailored to the context of each company and may take different forms, including direct dialogue, involvement in collaborative initiatives with other investors and stakeholders, and the use of escalation tools when progress is insufficient. These escalation measures may include voting against directors, supporting or filing shareholder resolutions, or issuing public statements. In cases where engagement does not lead to sufficient progress, this may inform a change in the company's classification under Cardano's Sustainability Classification Framework, and could result in divestment from certain investment solutions.

Voting is an important shareholder tool that enables us to represent client interests. Where appropriate, we use votes to reflect support for or concerns about a company's approach to managing sustainability risks, to promote board accountability, and to signal expectations on governance, strategy, and the development of sustainable business models.

Our engagement approach and voting guidelines are described in more detail in Appendices C and D.

5.2. Policy engagement

We recognise that many sustainability risks are systemic in nature and may require solutions beyond company-level actions. Where relevant, we engage with policymakers, regulators, standard-setters and industry bodies to support the development of effective sustainability frameworks, market incentives and policy.

We are active participants in several Industry Organizations and Investor Collaborations, which provide us the opportunity for collective influence, sharing of knowledge and expertise. We are members of, and contribute to, a range of Industry Organizations, including:

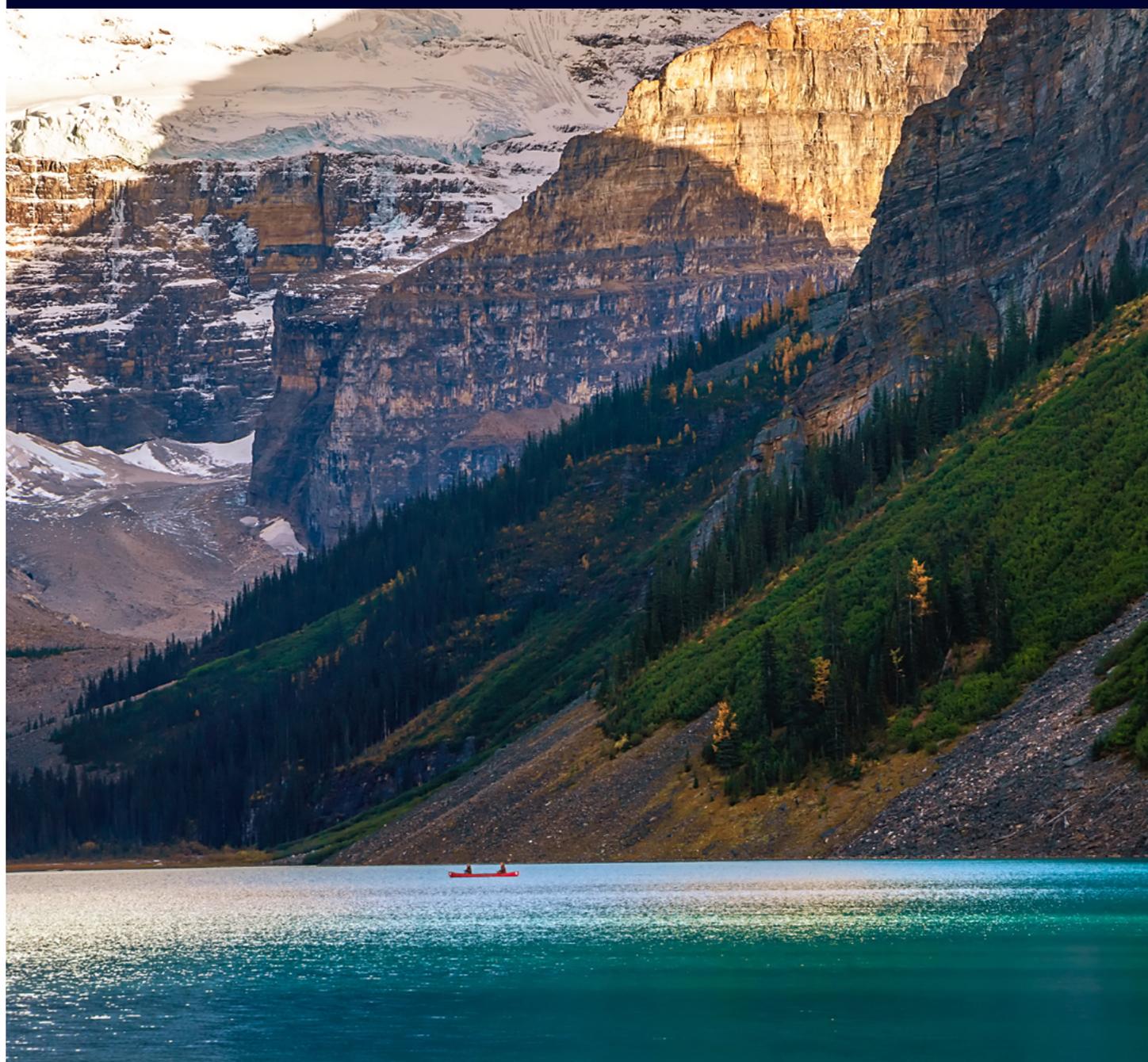
- Finance for Biodiversity Pledge
- ICMA – International Capital Market Association
- ICSWG – Investment Consultants Sustainability Working Group
- IIGCC – The Institutional Investors Group on Climate Change
- NZAMI – Net Zero Asset Managers Initiative
- PBAF – Partnership for Biodiversity Accounting Financials
- PCAF – Partnership for Carbon Accounting Financials
- PRI – UN Principles for Responsible Investment

An updated list of Cardano's Investor Collaborations can be found under the "Our collaborative engagement initiatives" part of the webpage: <https://www.cardano.nl/en/stewardship/>.

We review our memberships of sustainability organisations regularly, assessing where we can contribute most effectively and whether additional organisations are appropriate as our sustainable investment activities continue to evolve.

6.

Governance and accountability



6.1. Sustainability oversight and governance

Sustainability is embedded throughout Cardano. 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, as evidenced in the committee representation.

The Sustainability Investment Solutions Centre (SISC), comprised of approximately 25 colleagues, builds vision, intelligence and propositions for our internal sustainability strategies and external sustainability servicing. SISC prepares our sustainability policies and strategic choices for individual sustainability themes. It performs research on the basis of which investments are categorised. The team organises and manages collaborative and individual engagements, implements our voting policies, and prepares shareholder resolutions. The team also supports sustainability-related advisory services to clients.

The Head of Sustainability reports to the CEOs of Mercer Risk Management Limited and Cardano Asset Management N.V..

Our sustainability efforts are coordinated by various oversight committees:

- The **Sustainability Policy Committee (SPC)** is responsible for setting overall sustainability strategy and approves the Sustainability Investment Policy - including the Sustainability Classification Framework and its criteria and thresholds - from an organisational perspective. It meets regularly with representatives from the Cardano Group Board, SISC, Investment teams and commercial business. SPC decisions are then reviewed and, if approved, adopted by the relevant legal entities' Boards from a corporate perspective.
- The **Sustainability Categorisation Committee (SCC)** is responsible for determining the (re)classification of investments in line with the Sustainability Classification Framework. The SISC conducts a quantitative screening of the investment universe based on a defined framework and set thresholds. Using a prioritisation methodology and incorporating input from the various teams, it identifies investments eligible for further qualitative assessment. The outcome of this (re)classification determines eligibility for certain strategies or investment solutions. The committee includes representatives from SISC, Investment teams, Risk Management, Product Management and Client servicing teams, and meets regularly.

- The **Sustainability Methodology Committee (SMC)** is responsible for developing and taking decisions on the methodologies that relate to the implementation of sustainability policies and underlying screening processes. It covers both data-driven and qualitative methodologies. It includes representatives from SISC, the Investment teams, ESG Services, and ABS Sustainability, and meets regularly.
- The **Investment Committee Sustainability (ICS)**, a part of the Direct Investment Committee, is responsible for implementation of the sustainability policies and frameworks into investment strategies and decision-making in line with our Sustainability Investment Policy. It includes representatives from SISC and the Investment teams, and meets regularly.

Kerrin Rosenberg, CEO, Cardano Investment, is the Cardano Group Management Board member with overall responsibility for sustainability.

6.2. Reporting and monitoring

6.2.1. Transparency and reporting

We have developed an ESG dashboard that presents insight into both financial returns and environmental and social impact. The ESG dashboard offers integrated portfolio information on concentration risk and financial returns, water and carbon footprint, SDG allocation, and sustainability risks resulting from different future scenarios. Our portfolio managers use the ESG dashboard for their entity and sector analysis and for learning about entity sustainability risks. Clients may also use our ESG dashboard to gain a better understanding of the allocation and impact of their investments.

Our investment funds' annual reports contain information about realised financial and sustainability results, voting and engagement results. In addition, the SISC team publishes a quarterly sustainability report to provide insight into engagement and voting results and to provide explanations of new exclusions. It also examines developments in sustainable investing and innovations initiated by the SISC team and provides thought leadership on sustainable finance-related topics.

6.2.2. Data use, availability and reliability

We continually search for and develop sustainability-related and real-impact data to help us make better-informed investment decisions, provide transparency on the risks, opportunities and impacts of our investments, to measure progress on targets, and classify investments according to our Sustainability Classification Framework. Detailed sustainability and impact data optimises asset allocation so we can select investment opportunities with the more significant positive social, environmental and financial impacts.

All sustainability-related data are managed in our proprietary ESG database. It is the backbone of our due diligence, categorisation of investments, formulation of engagement objectives, and reporting. It allows us to provide real-time and historical overviews of the sustainability performance of directly managed assets. These data are also part of the portfolio management systems, enabling ESG integration and allowing for pre- and post-trade monitoring.

If data are not available, we may enter into strategic partnerships, such as Satelligence for new data about an investment's contributions to deforestation. We participate in expert working groups to develop new methodologies and integrate new innovative data sources into our Sustainability Classification Framework.

We utilise data from third-party providers and other external sources to deliver our services and in our investment decision-making. By using this data, we rely on the accuracy, completeness, and quality of the information provided by these providers and sources. Recognising that sustainability data is still in development and while we take reasonable steps to ensure the reliability of the data we use, we cannot guarantee its accuracy or timeliness. If proprietary research leads to additional information that may contradict or supplement the data from third-party providers, this may be discussed with the third-party provider and action may be taken to consider the available information in our decision-making.

6.2.3. Regulatory reporting

We publish several disclosures that relate to regulatory requirements applicable to the relevant legal entity:

- **Sustainable Finance Disclosure Regulation (SFDR)** and **Taxonomy Regulation (TR)**: We fulfil 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, website and

periodic disclosures for our Article 8 and 9 financial products, and report entity-level information about principal adverse indicators.

- **Taskforce on Climate-related Financial Disclosures (TCFD)**: We fulfil disclosure obligations under the TCFD, at legal entity level.
- **UK Stewardship Code**: We are signatories to the UK Stewardship Code, disclosing against the principles annually.

As signatories to various initiatives, we also publish:

- **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 (NZAM)**: As signatories to the NZAMI, we report on our decarbonisation targets, our metrics, and our progress towards meeting our targets.
- **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.

6.2.4. Monitoring

We regularly monitor whether investments meet the Sustainability Investment Policy. Due to changes in the behaviour of, and/or an evolving understanding of, investments, it is possible that an investment no longer meets the requirements. If investments are definitively reclassified into one of the excluded categories for a relevant product by the SCC, the investment will, in principle, be disposed of within a reasonable timeframe, considering market conditions and the clients' best interest before the sale is executed. Where applicable, specific disposal periods may be specified in solution-specific documentation.

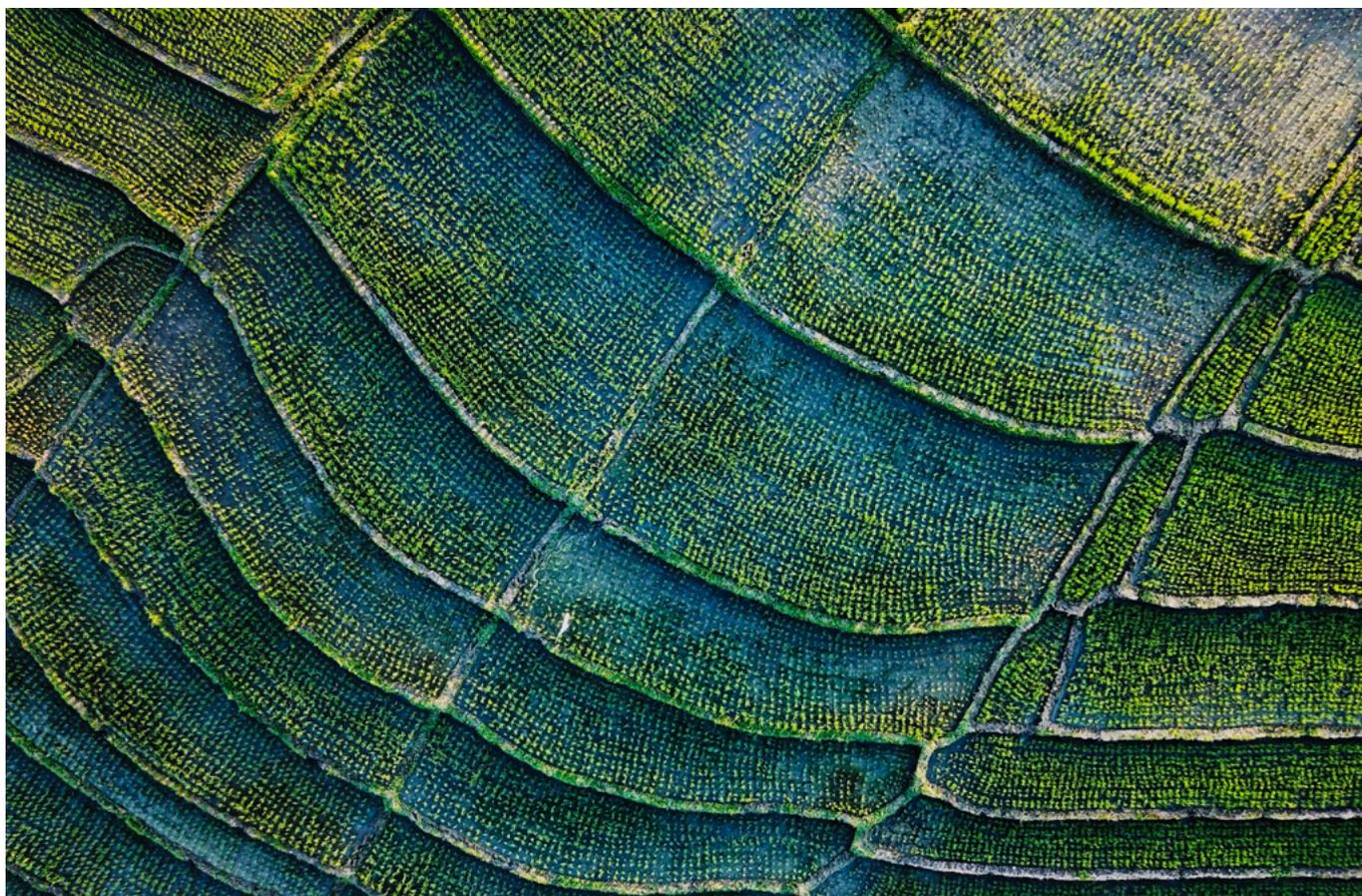
Overviews of investments excluded under the Sustainability Investment Policy are published and made available on Cardano's website.

6.3. Grievance and remedy

We recognise our responsibility under the OECD Guidelines for Multinational Enterprises and UN Guiding Principles to identify, prevent and mitigate actual and potential impacts linked to our investments. Through our due diligence process, led by the SISC team, we periodically assesses whether investments align with the sustainability expectations described in the Sustainability Classification Framework. This includes evaluating how entities manage adverse impacts related to human rights, labour rights, the environment, and governance and how they provide access to remedy for stakeholders. The results of the due diligence process, which are concluded by the SCC, determine whether the investee company is considered eligible for our direct investments.

We may also use our leverage to encourage companies to strengthen their due diligence grievance processes, and to implement remedy actions for adverse impacts. Engagement is our primary tool, and this is complemented with using escalation through voting or other actions, which may ultimately lead to exclusion. We also collaborate with peers to promote improved standards and share learnings on responsible business conduct and effective remediation.

We also maintain channels for stakeholders to raise concerns about adverse impacts linked to our investments. New evidence or credible concerns will be evaluated and may lead to engagement or other actions as appropriate. Stakeholders may also contact the Dutch National Contact Point for the OECD-Guidelines for Multinational Enterprises, which can assist the involved parties to facilitate a dialogue and resolution in line with the OECD framework¹⁰.



10 See www.oesorichtlijnen.nl/ncp for a description of the NCP procedures.

Appendices:

- A. Cardano Sustainability Classification Framework**
- B. Impact Investing Policy**
- C. Engagement Policy**
- D. Voting Policy**
- E. Thematic strategies**
 - 1. Climate Strategy
 - 2. Biodiversity Strategy
 - 3. Water Strategy
- F. Sustainable Bond Methodology**
- G. ESG Scoring Methodology**

**Cardano Asset
Management N.V.
Cardano Risk
Management B.V.**

Weena 690
21st floor
3012 CN Rotterdam
The Netherlands
T: +31 10 206 1300
E: info@cardano.com
W: cardano.com

**Mercer Risk
Management Limited**

1 Tower Place West
London
EC3R 5BU
United Kingdom
T: +44 (0)20 7626 6000
W: www.mercer.com

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