



cardano

Drop The Jargon:
Impact Risk is Financial Risk

Sustainable Investing Quarterly Report | Q3 2025

Introduction

Double Materiality & Real-World Impact: A Clearer Compass for Investors



Dennis van der Putten
Chief Sustainability Officer

It is becoming increasingly evident in everyday practice: financial risks and societal risks are deeply intertwined. For institutional investors, it is no longer sufficient to merely calculate how ESG developments might affect cash flows or balance sheets. The introduction of the concept of double materiality requires a reversed perspective as well – to assess how capital (and its related activities) impacts nature, communities, and the real economy.

The second dimension – impact materiality – is no longer a luxury but is increasingly manifesting as a responsibility. Capital that flows without a clear vision reinforces the status quo, potentially causes external harm, and amplifies systemic fragility.

Physical risks, in particular, are often seen as events that will unfold over decades. While it is true that potential damage will increase over time, many of these risks are already materializing today. For instance, the ECB warns that under an extreme but plausible drought scenario, up to 15% of the euro area's gross economic output could be at risk – solely due to surface water scarcity. At the same time, European banks have over €1.3 trillion in loans to sectors that are sensitive to water scarcity – representing more than 34% of their total loan exposure. Water scarcity is the nature-related risk that the ECB identifies as the most acute threat to the economy and financial stability.

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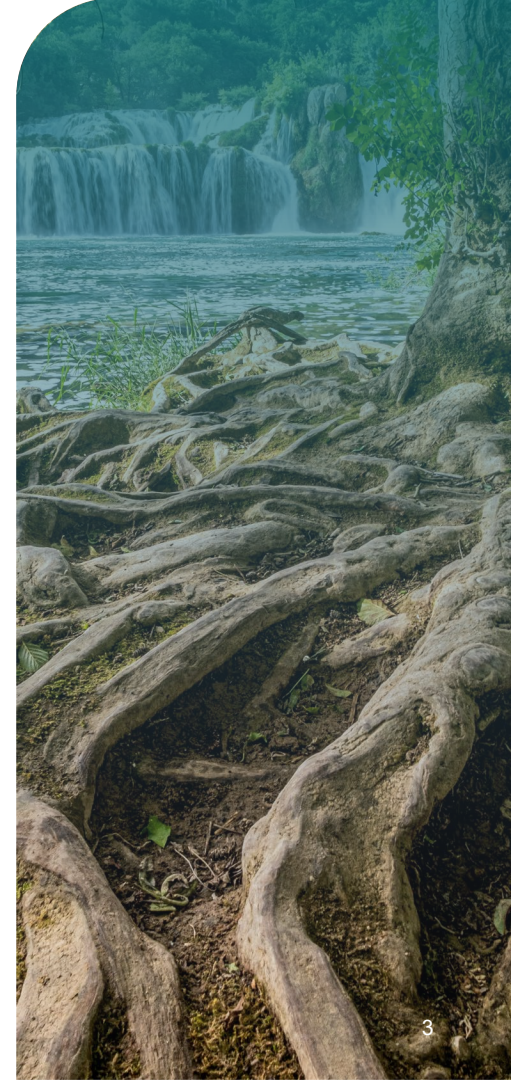
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Introduction

Double Materiality & Real-World Impact: A Clearer Compass for Investors

To quantify such risks, the ECB, together with the University of Oxford, has introduced the concept of Nature Value at Risk (NVaR). This methodology links local ecosystem indicators, sectoral dependencies, and financial chain relationships to vulnerability scores, making potential losses from environmental degradation – such as declining water reserves, pollution, or land degradation – visible in monetary terms.

For investors, this means that future decisions must be evaluated along both dimensions — and periodically disclosed, especially in light of CSRD requirements. Those who systematically integrate double materiality into strategy, scenario analysis, engagement, and reporting not only build a resilient investment policy but also dare to create value where it truly matters. This is the true north of the compass. The only step that remains is achieving consensus on the concrete path to reach the destination.



News and Trends

Developments in the third quarter

In this chapter, we discuss news and developments in the field of sustainable investing.

AFM Highlights Areas for Improvement in Sustainability Risk Integration and Transparency

On 10 July 2025, the Dutch Authority for the Financial Markets (AFM) published a news release identifying key areas for improvement in the financial sector regarding the integration of sustainability risks and transparency in sustainability-related disclosures¹.

This announcement follows the release of the European Securities and Markets Authority's (ESMA) final report on its Common Supervisory Action (CSA), published on 30 June 2025². The CSA assessed how fund managers integrate sustainability risks and communicate about sustainability in line with the Sustainable Finance Disclosure Regulation (SFDR) and the AFM conducted a similar assessment among Dutch fund managers.

While most fund managers meet the basic SFDR requirements, both ESMA and the AFM found that further improvements are necessary. The main areas for enhancement include:

- Strengthening internal governance related to sustainability risk integration
- Improving transparency and consistency in SFDR disclosures
- Clarifying and substantiating the level of sustainability of financial products

The AFM urges all fund managers to take action based on these recommendations. As a supervisory authority, the AFM will continue to prioritize sustainability risk integration and transparency in its oversight activities in the coming years.

New SBTi Standard for Financial Institutions

In July 2025, the Science Based Target Initiative (SBTi) launched a new standard, [Financial Institutions Net-Zero Standard](#). The standard provides rigorous science-based guidance for banks, asset owners and managers, private equity and other financial institutions to align



Maureen Luijk
Senior Responsible
Investment Officer



Mihaela Cialianu
Sustainability
Reporting Specialist

their lending, investment, insurance underwriting and capital market activities with a 1.5 C compatible pathway. The standard was created in consultation with a broad range of stakeholders and pilot tested with 33 financial institutions.

Key provisions include immediate restrictions on financing or insuring new coal projects, phasing out support for oil and gas expansion, and requiring institutions to assess and publish deforestation exposure (no later than 2030) with engagement plans where exposure is significant.

Recognizing the persistent challenges in scope 3 data availability, the standard allows for a phased approach: institutions can begin with the best available data while progressively enhancing coverage and quality over time. The SBTi emphasizes that institutions must not only engage portfolio companies to decarbonize but also increase the share of climate-aligned financial flows and progressively exit high-carbon exposures. By doing so, the framework seeks to mobilize the financial sector's uniquely powerful influence toward real-world emissions reductions, while also managing climate transition risk and building credibility with stakeholders.

With the first bank already implementing the SBTi Financial Institutions Net-Zero Standard, momentum is building across the sector. As more institutions follow, clients can expect greater transparency around how investment and lending decisions support the transition to a 1.5°C economy. This new standard ultimately gives investors and asset owners increased confidence that their capital is being managed responsibly and in line with science-based climate pathways.

¹ AFM (in Dutch): [Integratie duurzaamheidsrisico's en transparantie omtrent duurzaamheid kan beter](#)

² ESMA: [ESMA finds improvements needed in supervision of sustainability risks and disclosures](#)

News and Trends

Developments in the third quarter

Repurposing of Financial Net Zero Alliances

After several months of political pressure and the departure of multiple high-profile organizations from UN-backed Financial Alliances for Net Zero, the Net-Zero Banking Alliance (NZBA), an initiative aimed at achieving carbon-neutral investment portfolios across the banking sector, announced that it would cease operations in its original form. The alliance stated that it “no longer has the membership to support our transition,” prompting discussions on whether its structure could be transformed into an advisory platform that provides guidance for banks on transition planning and target setting. Such a shift could allow institutions that were previously unable to meet the alliance’s commitments to still benefit from its frameworks, expertise, and resources, incorporating these elements into their own transition strategies, regardless of their current stage in the decarbonization journey.

Similarly, the Net Zero Asset Managers (NZAM) initiative has launched a consultation process to revise its commitment statement and activities to ensure that it remains relevant in the evolving sustainability landscape. Originally, NZAM members pledged to align their investments with the goal of achieving net-zero emissions by 2050 and to set interim targets reviewed every five years. The challenge now lies in balancing shifting ESG sentiment — particularly amid the polarized political climate in the United States — with the need to maintain credible commitments, without diluting ambition or alienating potential new participants in the transition.

Launched in 2020, these alliances reflected the early momentum of the financial sector toward a 1.5°C pathway. As the industry matures and the feasibility of this pathway becomes increasingly uncertain, it has led to the reconsideration and repurposing of these initiatives. Doing so may be essential to ensure that they remain effective, inclusive, and capable of delivering real-world impact in the future.



Valeria Lobatón
Verdúzco
Sustianability Analyst



Theme in focus

Drop the Jargon: Impact Risk is Financial Risk

At a recent sustainability conference, the prevailing argument was that investors need to “refocus on Financial Materiality”. Dropping the idea of Double Materiality – a principle now enshrined in EU law and increasingly shaping how financial institutions assess sustainability risks – would mean overlooking a critical dimension of long-term value creation.

The concept of Double Materiality distinguishes between Financial Materiality (risks to the company) and Impact Materiality (risks from the company’s activities on the environment and society). It provides a broader lens for understanding how business and sustainability are interlinked, not as competing priorities but as two sides of the same coin.

It is time to cut through the sustainability jargon. The underlying concept is simple but powerful: the harm a company inflicts on the world eventually comes back to harm our investment portfolio outcomes. For long-term, diversified investors, this insight is not just philosophical, it is financial. Impact Materiality becomes Financial Materiality over time, because the accumulation of environmental and social damage translates into systemic risk across the entire economy.

A company’s negative real-world impacts - such as contributing to climate change, water scarcity, or biodiversity loss - do not simply vanish without consequence. They build up over time, feeding into broader systemic challenges that ultimately affect all sectors and asset classes. The consequences of inaction translate into macroeconomic damage uninsured assets after climate disasters, declining productivity, inflationary pressures from

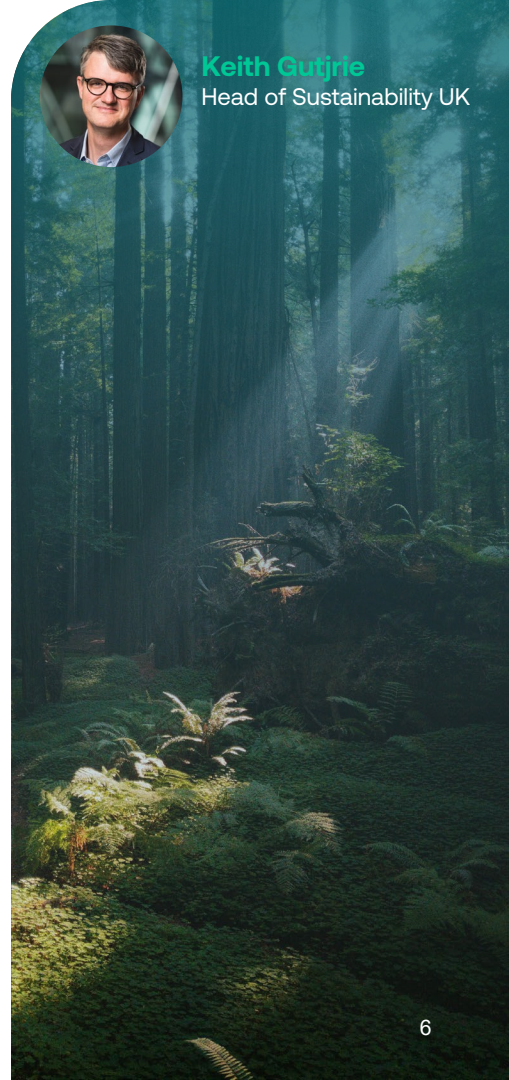
disrupted supply chains, and “stranded assets” that lose value as the world transitions to a low-carbon economy. Together, these effects undermine long-term economic growth, stability, and therefore, portfolio performance.

For investors, this has profound implications. No matter how well-diversified or selective a portfolio is, these systemic risks cannot be diversified away. They are economy-wide by nature, embedded in what in finance is called Market Beta - the factor that determines roughly ninety percent of portfolio outcomes. Yet most investment frameworks still devote disproportionate attention to short-term, company specific risks.

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Keith Gutjrie
Head of Sustainability UK



Theme in focus

Drop the Jargon: Impact Risk is Financial Risk

This is why Stewardship – active ownership through engagement and advocacy – must be at the heart of a forward-looking investment strategy. By engaging companies to strengthen transition plans, improve disclosure, and set science-based targets, investors can play a role in reducing negative real-world impacts. Similarly, through constructive engagement with policymakers, investors can help shape the enabling environment that accelerates systemic change. Each of these actions contributes to mitigating the risks that threaten the collective long-term financial outcomes.

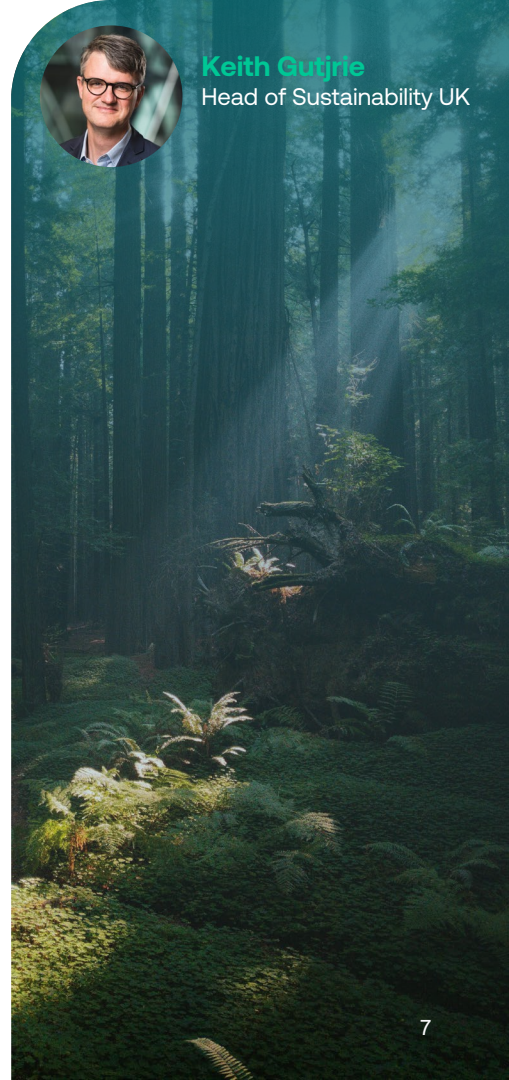
However, investors need to be realistic about their ability to influence outcomes. Financial markets cannot, on their own, correct for systemic risks of this scale. Governments and regulators play a decisive role by establishing the frameworks, incentives, and enforcement mechanisms that can steer the economy toward sustainability.

These institutions must prioritize the long-term transition, even when it entails short-term challenges. Still, in both investing and politics, the short-term often seems to win out over the long-term.

In the meantime, we can make progress by keeping the conversation accessible and grounded. Let's drop the jargon and focus on clarity. When we speak plainly about how impact risk is financial risk, we bridge the gap between sustainability and finance as an integrated approach to preserving long-term value.



Keith Gutjrie
Head of Sustainability UK



Stewardship in Practice

Advancing Decent Work: Living Wage Engagements through the Good Work Coalition

The theme of poverty and living wage is key for Cardano's active ownership activities. Advocating for the payment of a living wage is not only a social imperative but also a material issue. Low pay can undermine workforce stability, productivity, and long-term value creation, while companies that invest in fair compensation are better positioned to attract talent, enhance reputation, and mitigate social risks. Importantly, the persistent underpayment of workers represents a long-term systemic risk, contributing to inequality, social unrest, and economic fragility, which are factors that can affect portfolio resilience.

Cardano is active in several coalitions that address the topic, including the ShareAction Good Work Coalition, which focuses on improving labour standards in the UK retail sector. The sector is characterised by large workforces and a high proportion of low-paid roles. The main objective of these engagements is to drive companies towards accreditation with the Real Living Wage Foundation, guaranteeing Real Living Wage rates to direct employees and third-party contractors ³.

Recent Activities

At the beginning of the year, the coalition co-filed shareholder resolutions at **Marks & Spencer (M&S)**, **Next**, and **JD Sports**, calling for greater transparency around workforce pay. Cardano co-filed the resolutions at Next and JD Sports, and voted in favour of the resolution at M&S.

These companies have base rates below the ones set by the Living Wage Foundation (see overview table) and engagement with these companies has been stalling, with limited responsiveness to investor outreach. The resolutions were a necessary escalation to prompt dialogue and improve transparency.



Marie Payne
Responsible Investment Officer

The resolutions asked for detailed disclosures on how pay is set for direct and contracted staff, how many workers earn below the real Living Wage, and the potential cost of aligning pay with Living Wage Foundation benchmarks. This information is essential for understanding companies' exposure to low pay risks. After the resolutions were filed, we met with JD Sports and their Chief People Officer and Group Procurement and Sustainability Officer and with Next CEO as well as Company Secretary. Despite open conversations on the topic of labour rights, the companies did not commit to any additional disclosures, so the resolutions went ahead to ballot.

| Company | Minimum rates for direct employees at the Real Living Wage Rates | Minimum rates for contractors (security and cleaning services mainly) at the Real Living Wage Rates | Shareholder Resolution Results |
|-----------|--|---|--|
| Next Plc | No | No | 26,9% in favour |
| JD Sports | No | No | 13.7% in favour (34.4% of independent votes ⁴) |
| M&S | Yes | No | 31% in favour |

³ The Real Living Wage rate is independently calculated by the [Living Wage Foundation](#) based on the actual cost of living in the UK. It is higher than the legally binding National Minimum Wage and National Living Wage, which are set by the UK government.

⁴ The Pentland Group is a majority controlling shareholder with 49% of shares.

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Stewardship in Practice

Advancing Decent Work: Living Wage Engagements through the Good Work Coalition

Regional Disclosure Trends and Next Steps

Although the resolutions did not pass, they received meaningful support, signalling investor concern around low pay and strengthening our mandate for continued engagement. At M&S and Next Plc, as the level of support exceeded 20%, in line with the UK Corporate Governance Code, companies should publish an update within six months outlining how they have responded to the concerns raised.

The Good Work Coalition is continuing the dialogues with the companies to explore pathways for improvement. Cardano will remain actively involved in these discussions, advocating for concrete commitments, enhanced disclosures, and progress toward Living Wage Foundation accreditation.



Marie Payne
Responsible Investment Officer

Stewardship in Practice

Advancing Nutrition through ATNi Engagements

Cardano views health as a cornerstone of a sustainable society, aligned with the third UN Sustainable Development Goal (SDG 3): good health and well-being. Nutrition is a material sustainability issue for food manufacturers, whose products impact public health. Poor diets are linked to rising rates of non-communicable diseases, which reduce productivity and strain economies. Cardano supports the Access to Nutrition initiative (ATNi), a coalition that conducts research and investor engagements to improve access to healthy and affordable food.

At the end of 2024, ATNi published the fifth edition of its Global Access to Nutrition Index, assessing 30 of the world's largest food and beverage manufacturers, representing 23% of the global market. The revised methodology places greater emphasis on the healthiness of product portfolios and evaluates companies across eight categories, including product profile, responsible marketing and affordable and responsible labelling⁵. Key findings include progress since the 2021 iteration of the index, such as a broader use of government endorsed nutrient profile models (NPMs) to assess portfolio healthiness, more responsible marketing practices to children, and companies starting to address affordable nutrition. However, further progress can be made, especially on healthier offerings, as the Index found that only 34% of combined sales from the top 30 companies are derived from healthier products, with the least healthy products disproportionately sold in low- and middle-income countries (LMICs).

Recent Activities

Following the release of the index, ATNi initiated a new round of company engagements. Cardano is actively participating, focusing on leading the engagements with Keurig Dr Pepper (KDP) and Mondelez International, and supporting the engagement efforts with ConAgra, Danone and Ajinomoto Group, among others.



Ivana Sabbatini

Stewardship Reporting Specialist

- KDP:** A meeting was held to discuss its performance in the index, where it ranked 23rd out of the 30 companies assessed, and to explore opportunities for improvement. The focus of the meeting was on food and health strategy, as well as responsible marketing. KDP hopes to release a new 'Health and Wellbeing' strategy in Mexico in 2026, as well as a new Canadian strategy by 2030, with the goal of having 75% of their portfolio within the sugar requirements. In the US, KDP reported meeting their internal nutrition criteria targets of providing 'positive hydration' in 60% of products by 2025 and is looking into tying targets to an internationally recognised NPM or regulation. KDP discussed their responsible marketing practices and gave an example of a case where they refused an opportunity to market to children, in line with their commitments. Their 2024 Impact Report highlights this progress, as well as goals that are being re-looked or renewed, paving the way for continued investor dialogue.
- Mondelēz:** Mondelēz ranks 20th in the Index with a score of 2.8 out of 10. The proportion of global sales derived from its 'healthy' products (11%) is well below the Index average of 34%. Outreach has been initiated, with the aim of scheduling a meeting to discuss its ranking and encourage greater transparency and ambition in its nutrition strategy, as well as the governance of its nutrition-related KPIs. Mondelēz was among the companies identified as needing improvement in previous coalition efforts, particularly regarding disclosure using government-endorsed NPMs.

⁵ The full ATNi methodology, as well as detailed findings, including ranking of assessed companies, can be found [here](#).

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Stewardship in Practice

Advancing Nutrition through ATNi Engagements

Outcome and Outlook

- Following the meeting with **KDP**, the engagement progressed onto the second milestone (Understanding), as the company acknowledged investors' expectations and demonstrated an openness and willingness to engage. A second meeting will be scheduled shortly.
- Cardano will reach out to **Mondelēz** again following its initial outreach in July 2025.

The engagements mark the beginning of a new cycle of investor dialogue aimed at driving progress on the eight pillars of the ATNi index and Cardano will continue to support these efforts.



Ivana Sabbatini
Stewardship Reporting Specialist

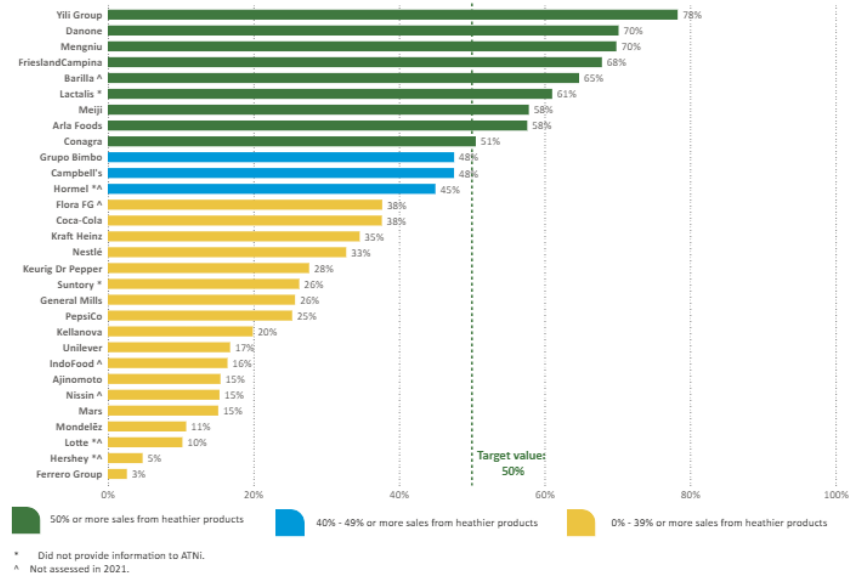


Figure 1 - Product Profile Ranking from the 2024 ATNi Index - Source ATNi

Stewardship in Practice

Eco-acoustics Study: Biodiversity Monitoring

Cardano prioritizes the management of systemic risks of its portfolio, and for that, a deeper understanding of issues affecting the portfolio is essential. The need for effective methods to measure progress towards biodiversity goals is growing. A key challenge is obtaining reliable data to evaluate the success of biodiversity management strategies. In 2023 along with a group of three investor organizations, we started sponsoring eco-acoustics work, led by Green Praxis, a nature-based solutions provider. At the end of 2024, we received the results of the second Green Praxis ecoacoustics study, after securing a palm oil producer to participate. We are now publishing a summary of the findings.

Objective

The study was conducted to assess biodiversity in palm oil production, conservation, and pristine forest areas in Malaysia using ecoacoustics methods. The palm oil production and conservation plots were owned by a public integrated palm oil plantation company who agreed to participate. Picking up on the first study conducted in Indonesia, the goal for the second study was to improve the method to conduct non-invasive and scalable biodiversity assessments using audio recordings, combined with automated analysis to evaluate biodiversity restoration efforts.

Improvements in the method since the first study

- Data Collection:** A larger data set was collected compared to the first study, with three weeks of recordings made across production, conservation, and pristine forest plots. Affordable AudioMoth devices were used alongside high-end equipment, to determine whether they could provide quicker scalability.



Greta Fearman
Head of Stewardship

- Analysis:** Machine learning was integrated to help automate the classification of habitat types and biodiversity scoring, and proved useful in accurately differentiating between production, conservation and pristine forest plots.
- Access to a Pristine plot:** A limitation during the first study was the absence of a pristine forest (as a control), as true pristine forests are no longer common. For this study, Green Praxis was able to conduct recordings in the Ulu Kinta Forest Reserve, which is one of the oldest tropical rainforests globally. It served as a control to the conservation plot and production plot recordings.

Key findings

- Biodiversity patterns:** There were clear differences recorded in soundscapes between production, conservation and pristine areas. Conservation plots demonstrated biodiversity levels which were halfway between those observed in pristine and production plots. The relatively short period (under 10 years) that the conservation plots were designated suggests that there was success. Pristine plots had unique biodiversity features not shared with production areas.
- Scalability:** A key consideration was to understand the scalability of eco-acoustic technology. The more affordable AudioMoth recorders proved that they were as reliable as the more expensive devices, which will support more widespread use.
- Technical advances:** The success thus far in adding machine learning components allows for more rapid scalability.

Stewardship in Practice

Eco-acoustics Study: Biodiversity Monitoring

Our takeaways

- **Practical applications:** We were excited with the results and that the study demonstrates the feasibility of cost-efficient, scalable biodiversity assessments using ecoacoustics.
- **Conservation outcomes:** Conservation efforts by the palm oil company show promising biodiversity recovery. This can be used to provide a signal to other investee companies that conservation efforts are useful for improving biodiversity in a relatively short period. There does remain a gap between restored and pristine ecosystems.
- **Future potential:** The approach supports large-scale, inexpensive biodiversity monitoring, with the ability to adapt to new geographies. This could be valuable as investors seek increased transparency from portfolio companies about biodiversity impact. It also provides a tool for quantitatively measuring progress towards achieving their nature goals.



Greta Fearman
Head of Stewardship

Recordings in the Field



Source: Green Praxis

Investment Universe

New Inclusions and Exclusions

All investments are examined for environmental, social, and governance (ESG) issues. The assessment criteria for these topics are laid down in the investment policy and are based on principles related to human rights, fundamental labour rights, corruption, environmental pollution, weapons, animal welfare, and integrity, among others. These principles are derived from international treaties, agreements, and best practices. It also assesses whether companies have the capacity to adapt to ongoing transitions toward a more sustainable society. Companies that lack this capacity create financial risks for the investment portfolio and can be excluded from investments.

Countries

This quarter, it was decided by the Sustainability Categorisation Committee to exclude the following countries as a result of deteriorated country performance:

Kuwait: The country was reclassified as “Not Free” by Freedom House in 2025, reflecting the dissolution of parliament and concentration of power in the Emir’s appointed government. Political rights and institutional checks are severely weakened, civil liberties are constrained, and freedom of expression is tightly controlled. Mass revocation of citizenship has disrupted access to services and social cohesion, further undermining human and political rights.

Tanzania: The country was reclassified as “Not Free” by Freedom House in 2025 due to escalating political repression, suppression of opposition, and violent crackdowns on protests. Parliamentary independence and judicial oversight remain weak, while media freedom has declined, with journalists being harassed or detained. Civil liberties, including Indigenous rights, are under severe threat, and systemic corruption and governance failures persist.

The following country was included this quarter by the Sustainability Categorisation Committee based on periodic screening:

Zambia: The country has shown significant social progress, improving human capital development, education, and infrastructure access. Key gains include higher education attainment, youth literacy, health outcomes, and access to basic services, reflecting effective government policies and social programs. While challenges remain, Zambia’s upward trajectory in social metrics and HDI demonstrates ongoing reforms, inclusive development, and stronger human capital resilience.

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Betina Vaz Boni
Responsible Investment
Officer

Investment Universe

New Inclusions and Exclusions

Companies

The case studies presented here highlight some of the discussions this quarter by the Sustainability Categorisation Committee based on Cardano's periodic screening. Cardano's full exclusion list can be accessed through the [website](#) under the sustainability reports section. For fund-specific benchmark and restrictions, we refer to the relevant prospectus.

Deutsche Bank: Germany-based financial services company. The bank has faced major compliance and conduct controversies in the past, but has since made significant progress in strengthening its governance and risk management systems. Since 2019, Deutsche Bank has reorganised its anti-financial crime (AFC) structure, expanded its compliance workforce, and fully implemented a five-year AFC plan, followed by a new two-year strategy to enhance global standards and regulatory cooperation further. The bank has upgraded monitoring systems, expanded employee training, and rolled out whistleblowing mechanisms while aligning with international AML benchmarks. Supporting this view, the bank has reported no new controversies and currently holds above-average scores across ESG indicators. Cardano has therefore upgraded Deutsche Bank to 'Adapting' status, reflecting both the structural improvements made and its commitment to sustaining progress in compliance and risk management.

Uber: USA-based technology platform. Despite encountering challenges related to labour management – particularly concerning the classification of drivers as independent contractors- the company continues to operate in accordance with Cardano's Sustainable Investment Policy and applicable legal frameworks. The company has made meaningful improvements across several areas, including data privacy, cybersecurity, product safety, and environmental initiatives. Uber has introduced industry-recognised data privacy programs, enhanced safety measures for riders and drivers, and launched a Green Future program with SBTi-aligned targets aiming for zero-emission rides and sustainable packaging. Given the resolution of prior concerns, alongside the implementation of updated policies and practices that align broadly with peer companies, Cardano has accordingly upgraded Uber's status to 'Adapting', with ongoing engagement recommended to support further progress.



Betina Vaz Boni
Responsible Investment
Officer

Investment Universe

New Inclusions and Exclusions

BASF: Germany-based diversified chemical company. The company faces substantial environmental and social risks inherent to its operations, particularly related to toxic emissions and chemical safety, which have the potential to significantly impact human health and biodiversity. Recognising these ESG risks, BASF demonstrates robust sustainability management through proactive initiatives such as systematic portfolio reviews under its TripleS framework, substantial R&D investments in safer and more sustainable product lines, and strategic divestments in high-risk regions. The company has also addressed labour-related concerns, including divestment from Xinjiang ventures. Cardano recognises BASF's ongoing commitment to transition to a more sustainable economy, even as some risks, including the fipronil exports outside the EU/UK, remain. While the company's exposure to risk is considerable, its comprehensive policy implementation, observable real-world action, and stakeholder engagement support continued progress. Cardano has therefore maintained BASF at 'Adapting' status. Simultaneously, we will continue to engage with the company through the Pesticides Working Group by ShareAction to monitor performance and encourage further improvements in managing environmental and social impacts.

Johnson & Johnson: USA-based healthcare and pharmaceutical company. J&J has resolved or mitigated several legacy controversies, including lawsuits related to talc products and opioids. However, in 2025, significant new product safety concerns have emerged, particularly around Impella heart pumps, alongside ongoing legal actions. Although J&J has made progress in addressing past controversies, recurring safety and litigation issues suggest systemic weaknesses in product oversight. Demonstrating sustained progress without new recalls or controversies will be critical to maintain credibility. Cardano has therefore maintained the company as 'At-Risk'. To be considered for an upgrade to 'Adapting', J&J must demonstrate meaningful improvements in its product quality systems and consistently avoid further controversies.



Betina Vaz Boni
Responsible Investment
Officer



cardano

Cardano | Weena 690, 21st floor, PO Box 19293, 3001 BG Rotterdam The Netherlands
T: +31 (0)10 206 1300 | E: info@cardano.com | W: cardano.nl

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