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**Geopolitics Returns:** How Gulf Tensions Highlight the Economic and Security Imperatives of the Energy Transition

Sustainable Investing Quarterly Report | Q1 2026

# Introduction



## Ivo Kuiper

### Head of Sustainability

In this quarterly report, we discuss four key topics currently shaping the composition of your portfolio: the recalibration of net zero targets, increasing pressure on fossil fuel markets, the role of active stewardship, and an update on our periodic sustainability screening.

It is now clear that climate risks are financially material. Transition and physical factors play a central role in shaping investment portfolios. The path to Net Zero requires true, broad emission reductions across the economy. Investors are advised to periodically recalibrate their targets and develop a concrete implementation plan, including the role of stewardship in driving positive change.

Geopolitical tensions, particularly in the Gulf region, have brought supply security and energy price risks back into focus. Short-term shocks and policy responses ripple through inflation, growth expectations, and market volatility. This underscores the value of resilient, diversified, and sustainable energy systems. Such shocks also increase living costs for company employees, highlighting the importance of a living wage as part of social stability. Cardano actively engages in dialogue on this topic, including through the Platform for Living Wage Financials. In this month's contribution, we share results from this initiative alongside a selection of other stewardship activities.

Our periodic sustainability screening has led to status updates within the investment universe, with varied outcomes related to human rights, transition planning, and operational risks. Through several examples, we demonstrate how our ESG framework concretely influences portfolios.

Together, these themes illustrate the need for a thoughtful and flexible approach to keep portfolios on track during challenging times.

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# News and Trends

## Evolving Net Zero

**Risks posed by climate change, primarily transition and physical risks, are systemic and financially material. Managing these climate risks is increasingly recognized as a critical component of long-term investment strategy, grounded firmly in scientific evidence and aligned with the goals of the Paris Agreement. Climate scenario analyses consistently demonstrate that a successful transition to a low-carbon economy is not only necessary to limit global warming but also for protecting the financial health of investment portfolios over time. For long-term investors, this means that managing climate-related risks, both transition risks associated with the shift to a low-carbon economy and physical risks from climate impacts, is a strategic imperative.**

However, five years after the launch of the Glasgow Financial Alliance for Net Zero (GFANZ) at COP26, when many investors committed to net zero targets, investors now face a stark and challenging reality. The ability to achieve these portfolio net zero commitments is inextricably linked to real, economy-wide emissions reductions, which are currently falling short of the pace required. This widening gap places investors at a critical crossroads, driving them to carefully navigate how to manage climate risks and mitigate transition risks amid a landscape where global emissions continue to rise and climate policies vary significantly across regions, adding layers of uncertainty.

There is no universal solution to managing climate risk in investment portfolios. Investors have a spectrum of approaches available, including focusing on climate transition opportunities, leveraging their influence through active stewardship, and setting climate related targets. Net zero targets serve as a strategic risk alignment tool. They can help investors align their portfolios with long-term climate and decarbonization goals and provide a measurable framework to track progress toward a low-carbon economy. However, setting net zero targets relies on assumptions (about technology, policy, growth, behaviour, etc.), and these assumptions may differ by portfolio, asset class, sector, and region.

This News and Trends article is part of the “Sustainable Investment: 2026 Trends and Opportunities” report, available at: [Research - MercerInsight® Community](#).

Portfolios with structural biases to different markets or sectors may reasonably assume different decarbonization paths, so ensuring these assumptions are transparent, tailored, and are regularly reviewed and updated is critical. Ultimately, the decision to set net zero targets and implement these targets depends on an investor’s specific objectives, time horizon, risk tolerance, and appetite to undertake collaborative stewardship and engagement in order to influence real-world emissions outcomes.

### What can investors do?

- Clarify objectives: Define clear climate goals and priorities aligned with overall investment objectives, risk appetite, and constraints, and understand how climate risks/opportunities affect different asset classes, sectors, and time horizons.
- Build an implementation roadmap: Integrate climate into risk management and portfolio construction, including any interim targets, climate-focused engagement with companies/asset managers, and scenario analysis to stress-test portfolios.
- Strengthen governance: Establish clear roles, monitoring, reporting, and decision processes so climate strategies and net zero commitments, and underlying assumptions are regularly reviewed and updated as science, policy, data, and markets evolve.
- Adopt a dynamic approach: Balance ambition with pragmatism; by proactively managing climate risks and focusing on real-economy impact, investors can build more resilient portfolios while meeting their fiduciary duties under regulatory uncertainty.

# Theme in focus

## Iran: Geopolitics Returns to the Energy Markets

For much of the past decade, energy markets have been shaped primarily by economics: supply growth from the US shale, OPEC production decisions, and the gradual shift towards low-carbon energy. Renewed conflict involving Iran and rising tensions in the Gulf area are a stark reminder that geopolitics can return to energy markets abruptly, reshaping prices, policy, and the investment case for the energy transition.

The Strait of Hormuz remains one of the world's most critical energy chokepoints, carrying roughly a quarter of the global oil trade<sup>1</sup>. When tensions escalate in the region, energy markets tend to react swiftly. Historically, the mere perception of supply risk has been enough to trigger price spikes as traders reassess risk premiums and price in worst-case scenarios.

The implications of energy shocks extend well beyond the crude markets, with higher energy prices rippling through the global economy and influencing inflation dynamics, cost pressures, and monetary policy expectations. At a time when interest rates remain elevated and global growth is fragile, renewed energy volatility creates an additional external pressure for policymakers and markets alike.

This pattern is not new. The energy crises of the 1970s and Russia's invasion of Ukraine in 2022 demonstrated how geopolitical shocks can reshape energy markets, trigger government intervention, and accelerate structural change. Today's tensions around Iran are different in context but similar in structure.

They highlight how concentrated the global energy system remains around a small number of strategically sensitive regions, leaving markets vulnerable to sudden shifts in political stability.

This concentration has important implications for national energy strategies, as energy security increasingly shapes how the transition is financed and prioritised across economies. Countries that invested heavily in domestic low-carbon capacity, whether nuclear or renewables, are structurally better insulated from fossil fuel shocks. France's large nuclear fleet and renewable capacity, which provides roughly half of the country's electricity<sup>2</sup>, reduces its exposure to imported fossil fuels for power generation. Similarly, countries that have rapidly expanded renewable energy capacity are less sensitive to fossil fuel price spikes. Spain's rapid expansion of wind and solar in recent years has lowered the role of natural gas in electricity pricing<sup>3</sup> and helped cushion consumers from the impact of global energy price shocks. While these countries are not immune to volatility in global oil markets, their power systems provide a degree of resilience that fossil fuel-dependent systems lack.

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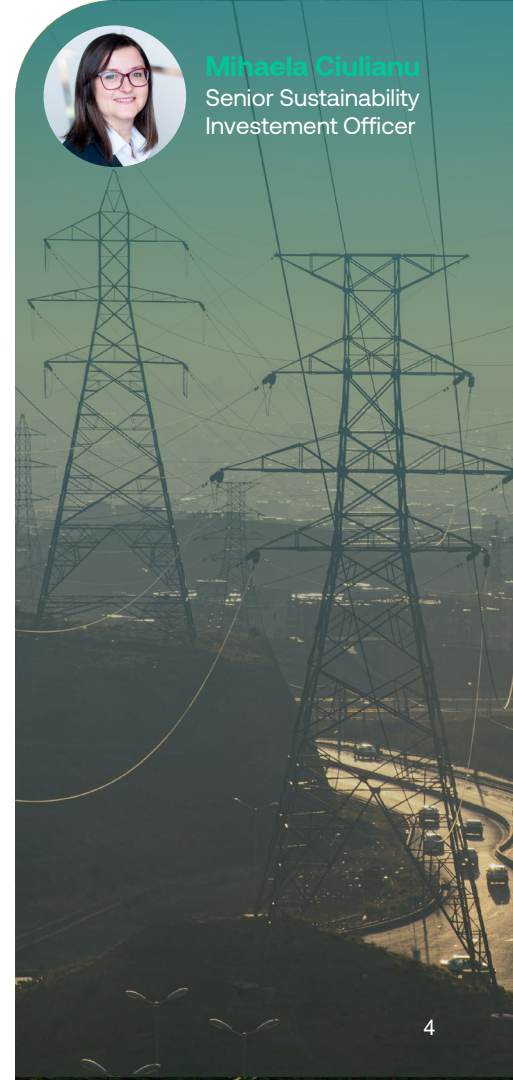
<sup>1</sup> <https://www.iea.org/about/oil-security-and-emergency-response/strait-of-hormuz>

<sup>2</sup> <https://www.iea.org/countries/france/energy-mix>

<sup>3</sup> [https://www.bbvaresearch.com/wp-content/uploads/2025/02/EW\\_Reaping\\_the\\_benefits\\_edi2.docxFinal.pdf](https://www.bbvaresearch.com/wp-content/uploads/2025/02/EW_Reaping_the_benefits_edi2.docxFinal.pdf)



**Mihaela Ciulianu**  
Senior Sustainability  
Investment Officer



# Theme in focus

## Iran: Geopolitics Returns to the Energy Markets

For long-term investors, this highlights a shift in how the energy transition should be assessed. The transition is no longer only a climate story; it is increasingly an energy security and macro resilience story. Assets that limit reliance on imported fossil fuels – renewables, grids, storage, nuclear and electrification infrastructure – offer not only decarbonisation benefits but also protection against geopolitical shocks. As a result, energy security considerations are likely to influence capital allocations, policy support, and risk pricing far more directly than in the past decade.

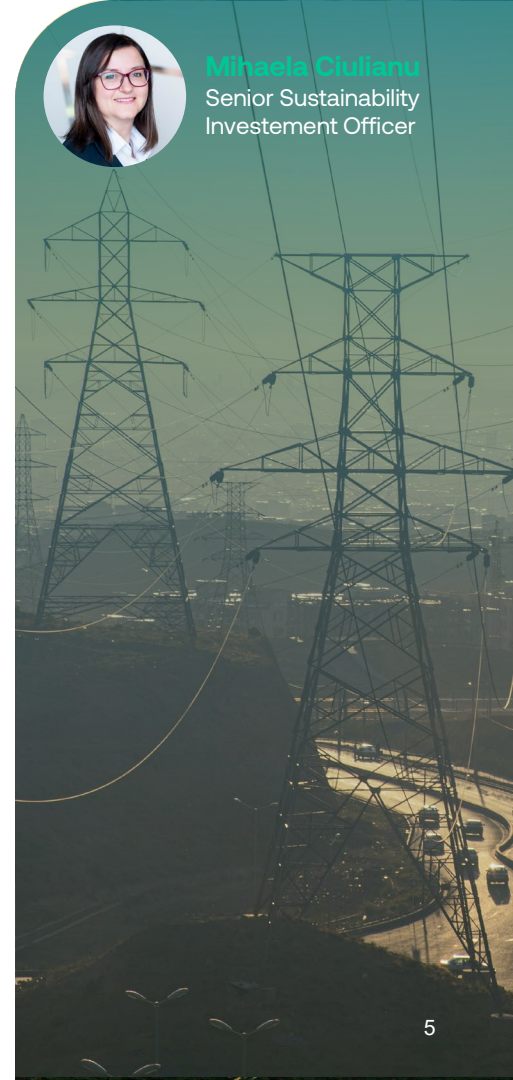
Conversely, economies and companies heavily dependent on imported oil and gas face higher volatility and potentially rising risk premiums. Investors may therefore differentiate between transition assets that enhance domestic resilience and those that remain tied to geopolitically exposed fossil fuel supply chains.

In an increasingly fragmented and protectionist world, the energy transition is as much about economic resilience and strategic independence as it is about the environment.

Geopolitics never truly disappeared from the energy markets, it simply receded into the background during periods of relative stability. The current tensions around Iran are a reminder that the global energy system still rests on fragile geopolitical foundations, and that reducing exposure to them is increasingly a strategic necessity.



**Mihaela Ciulianu**  
Senior Sustainability  
Investment Officer



# Stewardship in Practice

## PLWF Annual Progress Report – Enabling a living wage in the supply chain

**The cost-of-living crisis, exacerbated by shocks like the current with Iran, intensifies financial pressures on workers, making it essential to ensure that all workers receive a living wage to maintain their basic standard of living and economic stability.**

Cardano is part of the Platform for Living Wage Financials (PLWF), a group of financial institutions engaging companies to address the non-payment of living wages and incomes in their global supply chains. The theme of poverty and living wage is a key part of Cardano's stewardship activities and we focus our efforts on the garment and footwear sector as the production of goods often occurs in countries where legal minimum wages are either non-existent or too low to cover basic needs. By enabling the payment of a living wage in their supply chain, companies can mitigate the associated legal and reputational risks and build more resilient supply chains. It may also help address long-term system risks associated with increased inequalities, which affect productivity, social stability, and overall economic resilience.

The PLWF assesses companies on the topic using a public methodology which aligns with the UN Guiding Principles of Business and Human Rights (UNGPs) and looks at how companies enable the right environment for the payment of a living wage. It covers board oversight, existence of a code of conduct for suppliers that refers to a living wage and freedom of association, responsible purchase practices as well as active participation with multi-stakeholder initiatives. Cardano chairs the Garment and Footwear Working Group and leads the engagement with four companies.



**Marie Payne**

Senior Sustainability Investment Officer

### Recent Activities

Over the course of 2025, the PLWF Garment and footwear working group assessed 28 companies and engagement meetings were held with most of them. Cardano led the assessment with four companies: Next plc, Marks & Spencer (M&S), Gildan and Fast Retailing (whose main brand is Uniqlo). Engagement meetings were held with three of these as M&S only answered our questions via email and declined a meeting because of staff changes. In January 2025, the PLWF published its annual [report](#), showing progress and challenges over the assessment cycle.



# Stewardship in Practice

## Advancing the Reduction of Hazardous Chemicals Through Investor Engagement

Many products depend on industrial chemical processes, but hazardous substances such as PFAS pose serious risks to both human health and biodiversity. They can cause cancer, birth defects, and weakened immune systems, contributing to broader systemic risks, such as health and biodiversity crises. Despite these dangers, chemical companies continue to use these substances, increasing their exposure to regulatory, liability, and reputational risks, and thus to material financial risks.

To reduce the negative effects of these chemicals and limit the financial risks for investors, Cardano actively participates in the Investor Initiative on Hazardous Chemicals (IIHC). This initiative, launched in 2023 and coordinated by the NGO ChemSec, conducts engagement dialogues with 33 companies. ChemSec benchmarks companies based on the objectives below:

- Improving transparency by publishing both the revenue share and production volume of products that contain hazardous chemicals or are hazardous themselves.
- Publishing a time-bound phase-out plan for persistent chemicals, such as PFAS.
- Reducing hazardous chemicals in the portfolio.
- Developing safer alternatives to these hazardous chemicals.



**Mariet Druif**

Senior Sustainability Investment Officer

### Recent Activities

Cardano co-leads the engagement with one company and is an active participant for three other companies. In the first quarter of 2026, three dialogues were held in which the key objectives outlined above were discussed. Preparatory meetings were conducted for each of these engagements.

### Progress

- **Arkema:** This year, unlike in 2025, Arkema was willing to have a dialogue with the investor group. Arkema demonstrated progress across several areas. The company published its first CSRD report in 2025, which included disclosure of revenue from products containing Substances of Very High Concern (SVHCs). This is a positive development and is considered best practice. In addition, Arkema added four safer alternatives to ChemSec's marketplace, increasing its share of safer alternatives. With these improvements, the company progresses to the next milestone.
- **Dow:** While last year Dow noted that it's making progress on the four key asks and it was working on increasing transparency around these topics, this call we observed that Dow's ambition has shifted. The company noted it will not disclose more details than what's required under regulations and didn't provide new details. As co-leads, we followed up with the company reiterating the importance of the subject to investors and asked for a follow up call to discuss Dow's shift. Dow responded thanking us for the feedback but did not agree to a call.

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# Stewardship in Practice

## Advancing the Reduction of Hazardous Chemicals Through Investor Engagement

- **Dupont:** Next to the key objectives, the implications of recent corporate separations were discussed. DuPont reported updated metrics on substances of very high concern (SVHCs), noting a reduction from 27 to a net total of 26 following five phaseouts and four newly added substances. The company also outlined upcoming sustainability objectives and confirmed that its initial CSRD reporting will begin in 2028. Investors reiterated the need for stronger quantitative disclosure—particularly revenue linked to hazardous substances and substance-level transparency. Lastly, following its corporate separation, PFAS will no longer be part of DuPont's product portfolio.

### Outlook

Some companies are showing encouraging progress, but all still need to make substantial improvements to meet the engagement objectives and mitigate the material financial risks associated with their hazardous substances- portfolios. In Q2, a dialogue is planned with Syensqo in which we will actively participate. Engagement will continue with all companies throughout 2026, and escalation will be considered if companies don't make progress.



**Mariet Druif**

Senior Sustainability Investment Officer

# Stewardship in Practice

## EU Methane Regulation Statement and related sector engagements on systemic climate risk

**In October 2025, we signed an investor statement calling on the European Commission, the European Parliament and EU Member States to maintain and swiftly implement, the EU Methane Emissions Regulation (EU MER) as adopted. Methane is a highly potent greenhouse gas, with a global warming potential many times greater than CO<sub>2</sub> in the near term, posing material financial and systemic risks to the long-term value of our portfolios. The EU MER is an important instrument for reducing methane emissions across the energy value chain. Robust implementation of the regulation is important for market stability, supporting the transition to a low carbon economy and protecting our interests as an investor.**

Alongside the statement, in Q4 last year and Q1 2026 we also engaged collaboratively with companies in the oil & gas and utilities sectors about their influence on the implementation of the EU MER, as corporate lobbying can have a strong impact on the effectiveness of regulation. Together with other investors we encouraged the companies to (1) clarify their position on the EU MER, including an explanation of how the companies engage with their industry associations to ensure alignment of positions regarding this regulation. And (2) publicly disclose their position on the EU MER.

While several companies expressed support for full implementation of the regulation, others highlighted operational challenges and advocated for delaying certain requirements. Engagement on this subject continues in 2026.



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# 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.

### Companies

**Costco:** U.S.-based company that operates membership warehouses and e-commerce sites offering a selection of nationally branded and private-label products. The company's status is maintained at **'Adapting'** amidst controversies surrounding its supply chain labour standards. In November 2023, the heads of the US Congressional-Executive Commission on China sent a letter to Costco's CEO, asking why the company still sold seafood and security cameras allegedly linked to coercive state labour transfers in the Xinjiang Uyghur Autonomous Region (XUAR). Since then, the company has partnered with LRQA to conduct a salient human rights risk assessment. Furthermore, the company has a robust Supplier Code of Conduct and helped establish and actively participates in the Seafood Task Force (STF). This collaboration tackles human rights and environmental issues in the seafood

industry. The maintained 'Adapting' status reflects the proactive response and adequate measures taken by the company to address human rights infringement allegations.

**Hisense SA:** China-based manufacturer and distributor of home electric appliances. The company has been downgraded to **'International Standards'** reflecting ongoing human and labour rights controversies. Similar to Costco, the company has been accused of involvement in coercive state labour transfers in the XUAR. In June 2025, the Bureau of Investigative Journalism (TBIJ) published an investigation titled "How big brands and foreign money prop up Chinese forced labour," alleging that Hisense HA was linked to forced labour through factories that received ethnic minority workers from Xinjiang. Unlike Costco, the company only denied these accusations with no further press releases, clarifications, or evidence provided to substantiate this denial. The company has a non-public Supplier Code of Conduct and overall lack of transparency about human rights and labour standards across its entire value chain. Therefore, we are not sufficiently certain about their alignment with the United Nations Global Compact. This case illustrates that following serious allegations, we expect transparency and an adequate response from the company to justify overruling the controversy.



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# Investment Universe

## New Inclusions and Exclusions

**Italgas S.P.A.:** Italy-based distributor of natural gas to residential and industrial customers. The company has been maintained at **'Adapting'**, reflecting robust targets and proven progress for decarbonisation. Although the company operates in a higher-impact sector with a high reliance on gas distribution revenue, it acknowledges these concerns and has set decarbonisation targets aligned with the Paris Agreement and EU climate goals. This includes a full net-zero target by 2050, and interim targets outlined in their 'Transition Plan'. Key efforts are in methane leak reduction, energy efficiency, green gas integration, and carbon removal initiatives. Since integration, the company has seen significant progress in reducing GHG emissions. For example, fugitive methane emissions have almost halved through advanced leak detection technologies, network digitisation, and AI-based predictive maintenance. Though the company's transition plan is comprehensive and it has no related controversies, its exposure and operational risks mean it must continue to strengthen its climate strategy to fully address long-term sustainability concerns.

**Casey's General Stores:** U.S.-based convenience store operator offering self-service fuel, a wide selection of grocery items and an array of freshly prepared food items. This quarter, the company has retained its **'Adapting'** status for its locally adjusted management of carbon emissions. The company obtains over sixty percent of its revenues through fuel retail activities, which are expected to persist at least in the short to medium term. In the long run, the company has the option to transition to electric charging stations (a shift it has already begun) but faces slower adaptation due to regional demand. The company's main operations are in the Midwest and Southern regions of the US. EV adoption historically has been lower in those interior U.S. regions compared to the coasts. The company's electric vehicle strategy is deliberately aligned with their regional market base, focusing on installing chargers where EV ownership is highest and gradually expanding as demand grows. Although the company trails behind its peers in climate strategy, and we would like to see clear targets and meaningful capital expenditures, their plans to expand EV charging aligned to regional demand justify an 'Adapting' status.

The case studies presented here highlight some of the discussions held within the Sustainability Categorisation Committee this quarter, 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 benchmarks and restrictions, we refer to the relevant prospectus.



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