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Overshoot: Why climate ambition matters more, not less

Sustainable Investing Quarterly Report | Q3 2026

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Introduction



Ivo Kuiper

Head of Sustainability

Temperature overshooting 1.5°C is now seen as a reality, and sustainability investing must shift from avoiding future risk to managing an already changing market. Portfolio resilience now depends on credible transition planning and capital allocation that reflects real climate, social, and governance risks.

In News and trends, we examine SFDR 2.0, the EU's planned overhaul of sustainable finance regulation. The move from disclosure to mandatory categorization, and from flexibility to binding thresholds, will force investors to align what they claim with what they actually hold. For many, this will have significant implications.

In our Theme in focus, we explain why climate ambition matters more, not less, in an overshoot world. Global temperatures are expected to pass 1.5°C within years, and even full delivery of current national commitments would still leave warming peaking around 1.8°C. Investors therefore face slower growth, supply chain disruption, infrastructure damage, and higher inflation from food and energy prices. These are systemic risks, so diversification alone will not absorb them. Credible transition planning remains essential.

In Stewardship in practice, we close our Good Work Coalition engagements on UK retail living wage, with progress made but accreditation targets still unmet. We also continue engagement through the Platform for Living Wage Financials, because labour standards and social resilience remain material to long-term returns.

Finally, in Investment universe, our periodic screening tracks transition readiness, disclosure transparency, and governance capacity to support portfolio construction and investment decisions.

Together, these sections show the same conclusion: sustainable investing now depends less on labels and more on whether capital allocation and stewardship drive real-world outcomes.

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News and Trends

SFDR 2.0 taking shape



Felix den Ottolander
Senior Sustainability Investment Officer

The European Commission's proposal for the revision of the Sustainable Finance Disclosure Regulation (SFDR 2.0), unveiled in November 2025, represents a watershed moment in EU sustainable finance policy. The proposed revision promises a fundamental restructuring of how the EU categorizes and regulates investment products. As trilogue negotiations between the Commission, European Parliament and the Council enter their decisive phase in late 2026 and early 2027, the contours of this revised framework are becoming clearer.

From disclosure to categorization

The original SFDR, adopted in 2019 and implemented in 2021, was built on a disclosure model: financial institutions had to report on their sustainability practices and the environmental risks associated with their investments. However, the framework left room for interpretation. This flexibility, combined with a lack of clear thresholds or binding investment requirements, created confusion for investors and in some cases even greenwashing. In particular, the distinction between Article 8 products ("light green") and Article 9 products ("dark green") became increasingly complex as financial institutions creatively packaged conventional funds with sustainability claims.

SFDR 2.0 takes a different approach. Rather than relying on disclosure alone, it proposes a mandatory product categorisation framework with defined investment thresholds, mandatory exclusion criteria, and strict naming conventions. This shift from what you say to what you actually invest, reflects a hard-won lesson: without binding rules, sustainability labels can become a mere marketing tool with limited effect on channelling capital towards sustainable investments.

The three-category framework: Sustainable, Transition and ESG Basics

The proposed new framework replaces the current Article 6, Article 8, and Article 9 classifications with three voluntary but formally defined categories: Sustainable, Transition and ESG Basics.

- Sustainable products represent the highest tier. These funds must invest at least 70 percent of their assets in activities that meet clear environmental or social sustainability objectives. Companies developing new fossil fuel projects will be barred. This category, broadly supported across all three EU institutions, represents continuity with the strictest current interpretations of Article 9.

- Transition products are the innovation at the heart of SFDR 2.0—and the primary battleground of the ongoing negotiations. These funds target companies and projects that are not yet sustainable but are making credible improvements. At least 70 percent of investments must contribute to measurable transition objectives, such as decarbonization roadmaps or shifts toward sustainable business models. The rationale is clear: the global economy cannot transition to sustainability if capital cannot flow to companies genuinely improving but not yet meeting high sustainability standards. Yet this category has proven contentious because fossil fuel companies, amongst others, inevitably occupy this terrain.

- ESG Basics products form the broadest category, for funds that integrate environmental, social, and governance (ESG) factors but do not meet the higher bars of Sustainable or Transition products. At least 70 percent of assets must integrate sustainability considerations with measurable safeguards and exclusion standards. Notably, these products do not face the stringent fossil fuel exclusions applied to the other categories—a decision that has drawn criticism from environmental groups concerned about potential greenwashing through this category.

All three categories impose mandatory exclusions based on conduct: investments in companies violating the UN Global Compact, OECD Guidelines for Multinational Enterprises, or ILO Declaration on Fundamental Principles and Rights at Work are prohibited across all categories.

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News and Trends

SFDR 2.0 taking shape



Felix den Ottolander
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Key policy considerations and tensions

Three key policy considerations animate the SFDR 2.0 debate and will shape the trilogue negotiations over the coming months:

1. **Credibility vs. inclusivity**. Environmental advocates and institutional investors invested in decarbonisation worry that overly permissive rules for the Transition category may recreate the greenwashing problem SFDR sought to solve. If a company can call itself "transitioning" while expanding fossil fuel activities, the category loses credibility. Conversely, member states, particularly those with significant oil, gas, and coal industries, fear that stringent exclusions will cut off capital to companies attempting genuine transitions and will prompt economically damaging stranded-asset write-downs.

2. **Data and measurement**. A 70 percent investment threshold only works if market participants can reliably measure what percentage of a company's revenue comes from coal, or what portion of capital expenditure targets EU taxonomy-aligned activities. The current state of corporate sustainability disclosure is fragmentary. The EU taxonomy itself, while advancing, does not yet cover many sectors comprehensively. SFDR 2.0 assumes a data infrastructure that does not yet fully exist, creating a potential implementation barrier.

3. **Scope of emissions**. A subtle but consequential debate concerns which greenhouse gas emissions count when assessing a company's transition credentials. The Council's proposal references only Scope 1 and 2 emissions (direct emissions and those from purchased energy). For fossil fuel companies, this excludes Scope 3 emissions (those generated in a company's value chain) which typically account for 85-90% of their carbon footprint. The Parliament's ECON committee did not (yet) resolve this, and it remains a critical point of contention in the upcoming trilogue negotiations.

Consequences for investors

For investors and asset managers, SFDR 2.0 will entail substantial operational and strategic changes:

- **Fund reclassification:** Existing Article 8 and Article 9 funds will need to be reclassified into one of the new categories or reclassified as non-categorized products. Many Article 8 funds, finding the ESG Basics bar too low to maintain their existing sustainability claims, will likely aim for Transition status—but meeting the new investment thresholds and mandatory exclusions may require significant portfolio reallocation.

- **Capital allocation shifts:** The framework's architecture—particularly the Transition category—could direct capital toward companies in energy-intensive sectors (e.g. utilities, transport, chemicals) pursuing genuine decarbonisation. Conversely, if the Parliament's position prevails and Scope 3 emissions receive greater weight, fossil fuel companies may find capital tightening further.

- **Data and governance demands:** The 70 percent investment threshold and mandatory exclusions require formalised methodologies for assessing company activities. Asset managers will need to invest in data infrastructure, engage with external data providers, and establish governance processes for subjective determinations (e.g., whether a company's transition plan is credible).

- **Costs and fragmentation:** Smaller asset managers may find compliance prohibitively expensive, potentially accelerating consolidation in the industry. Meanwhile, if trilogue negotiations produce a less stringent outcome than some expect, first-mover funds investing on the assumption of stricter rules may find themselves at a competitive disadvantage.

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News and Trends

SFDR 2.0 taking shape



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The path ahead

The anticipated timeline is accelerating. The Parliament is expected to formally adopt its position in October 2026, triggering the start of trilogue negotiations. Political agreement on the main SFDR 2.0 text is anticipated by late 2026 or early 2027, with detailed technical standards developed throughout 2027. The regulation would then enter into force, with a two-year implementation period favoured by both Parliament and Council (versus the Commission's proposed 18 months), placing the earliest realistic application date in early 2029. However, this timeline assumes smooth negotiations; any extended disagreements could push application into mid-2029 or beyond.

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Theme in focus

Overshoot: Why climate ambition matters more, not less

Global warming is expected to exceed 1.5°C above pre-industrial levels within the next few years. According to the United Nations Environment Programme (UNEP), even if all national climate plans and net zero targets are fully implemented, warming is projected to peak at around 1.8°C[1]. Recent CMIP7 scenario work points in the same direction; unlike in the previous round, even the lowest emissions scenario is no longer estimated to keep warming below 1.5°C[2]. The question is no longer whether the threshold will be exceeded, but how high warming will peak and how long it will remain above 1.5°C.

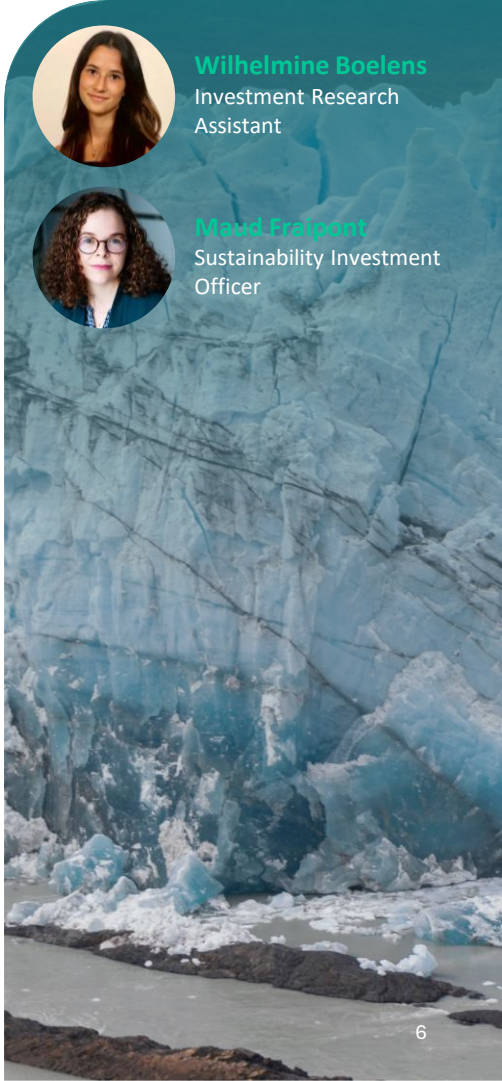
Overshoot carries material risks. UNEP's Limiting Overshoot report describes an "overshoot, peak and decline" pathway as the most plausible route back towards 1.5°C. Yet the higher the peak and the longer temperatures remain above 1.5°C, the greater the risk of severe, and in some cases irreversible, impacts. Each five-year period of sustained high emissions adds approximately 0.1°C to peak warming[3]. Rapid and deep emissions cuts, particularly in methane, can still have material outcomes.

For investors, the issue is not only where temperatures ultimately settle, but also the economic and financial impact that builds up along the way. This can come through weaker growth, lower productivity, supply chain disruption, infrastructure damage and pressure on food and energy systems. It can also contribute to inflation through higher food and energy prices, more frequent supply shocks and rising adaptation and insurance costs. The Network for Greening the Financial System (NGFS) estimates that, within the next five years, a series of extreme climate events could reduce euro area GDP by up to 5%, comparable to the impact of the Global Financial Crisis[4]. Such risks affect the economy and financial system as a whole and cannot be diversified away. Cardano's approach is designed to manage risk at the individual company level, while also addressing these system-wide risks, supporting the transition to a more resilient net zero economy, and a stronger long-term portfolio.

This is why Cardano remains focused on its 2050 net zero target. We pursue it through our investment decisions and stewardship, supporting decarbonisation, credible transition plans, the development of climate solutions, and engaging on the policy frameworks needed support an effective transition. While exclusions may reduce exposure to certain portfolio risks and reported portfolio emissions, there may be limited impact on real economy emissions. Cardano therefore also engages with high-emitting companies that demonstrate willingness and capacity to transition, with the aim of accelerating real-world emissions reductions and strengthening transition planning and disclosure.

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[1] UNEP's Limiting Overshoot Spotlight Report
[2] The Scenario Model Intercomparison Project for CMIP7
[3] UNEP's Limiting Overshoot Spotlight Report, p. 14.
[4] Climate risks: no longer the tragedy of the horizon



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Theme in focus

Overshoot: Why climate ambition matters more, not less

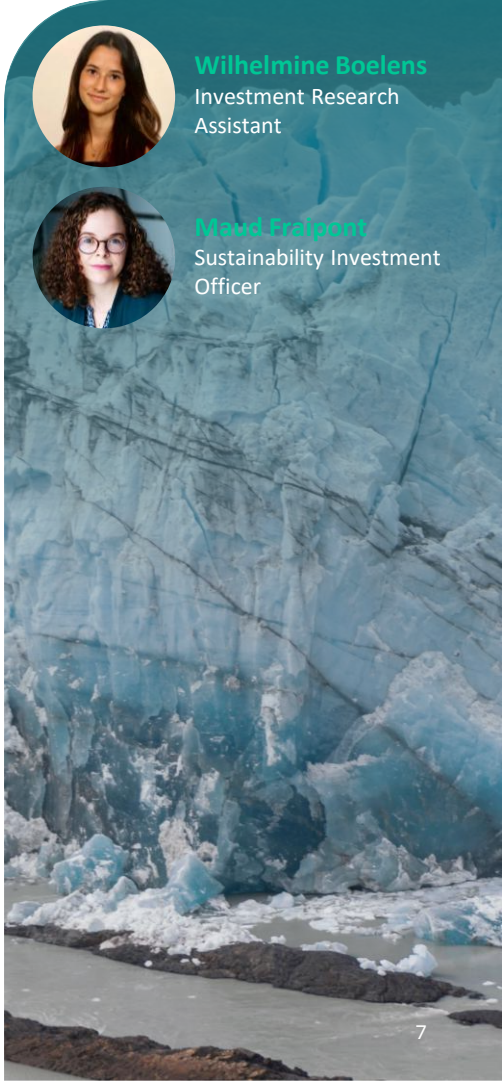
This has become even more important as the transition slows in the current political and regulatory environment. Climate policy has become less consistent, and some companies are scaling back commitments and investments, including in green hydrogen. In many cases, the key constraint is not a lack of willingness, but policy uncertainty, which weakens the business case for developing climate solutions.

UNEP has highlighted the importance of clear and credible policy signals for financial institutions and the private sector. Cardano is strengthening its policy engagement, alongside company engagement and investment in climate solutions. The revision of the EU Emissions Trading System (EU ETS) illustrates why. The EU ETS sets a price on CO_2 emissions and is one of Europe's key climate policy instruments. Uncertainty about its future has weighed on the share prices of companies that have already invested heavily in decarbonisation, including Heidelberg Materials in Germany. Through industry working groups Cardano supports a stable and predictable framework that safeguards competitiveness and energy security, and for ETS revenues to be directed towards the energy transition.

Corporate lobbying can either reinforce or undermine stated climate commitments. As outlined in our Q1 report on the EU Methane Regulation, Cardano engages with companies to help ensure that their lobbying, and the positions taken by their industry associations, are aligned with the Paris Agreement. Through these activities, Cardano seeks to support the policy clarity, market signals and disclosure standards needed for an orderly transition.

Finally, even in more favourable scenarios, overshoot implies that climate impacts will intensify. Mitigation and adaptation are therefore not substitutes; rapid decarbonisation remains essential to limit ultimate warming, while adaptation is increasingly needed to protect asset values and business continuity. A next step is therefore to consider how we can strengthen our engagement and research approach to physical climate risk, adaptation and resilience.

Exceeding 1.5°C does not change our direction, but it does make the transition more complex and more costly. Cardano's climate approach combines ambition with realism, with its net zero target as the central focus.



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Stewardship in Practice

Progress on the Spring Initiative



Wilhelmine Boelens
Investment Research Assistant

Spring is the PRI-led stewardship initiative for nature, addressing the systemic risks of biodiversity loss and aiming to help halt and reverse biodiversity loss by 2030. It now has 246 endorsing investors[1]. We remain co-lead investor for the engagement with Archer Daniels Midland (ADM) and supporting investor for Kinross Gold. Participation in this initiative supports long-term financial outcomes by helping address nature-related risks and opportunities that can affect companies' resilience, supply chains, cost of capital and sustainable value creation.

Activities

ADM: Co-lead Investor Role

Over the past year, we have led further dialogues with ADM's Chief Sustainability Officer and sustainability team. A key result came in July 2026, when ADM confirmed it has moved up its deforestation- and conversion-free (DCF) target for indirect soy suppliers from 2027 to 2025. ADM now applies one target date and a 1 January 2025 cut-off date across all commodities and direct and indirect suppliers. This was one of our investor group's primary objectives.

This progress comes amid industry headwinds. When ADM exited the Amazon Soy Moratorium in early 2026, NGOs flagged a spike in deforestation. However, ADM's commitment to a uniform 2025 cut-off across all commodities and suppliers, including indirect sourcing, represents a meaningful step forward, and our engagement now focuses on ensuring robust implementation.

Our engagement also focuses on:

- Traceability: ADM reports farm-level traceability for 93% of supplies, but indirect suppliers are largely traced only to the first aggregation point. In September 2026, the Accountability Framework initiative told us that full traceability should be expected where ADM buys directly from producers, and that a recent cut-off date may open the door to higher-risk producers.
- Policy influence: ADM prefers to use its leverage within trade associations rather than exit them. We have encouraged clear red lines for associations whose positions conflict with its deforestation goals.

Kinross Gold: Supporting Investor Role

We held a second company meeting with Kinross in December 2025. Kinross has made progress since 2024, adopting a biodiversity management standard and reporting TNFD LEAP assessments across its operations. It has also purchased around 6,400 hectares to form the Paracatu State Park in Brazil. However, disclosures remain high-level, with limited clarity on methodology and outcomes, and we are still awaiting details of its nature strategy.

Following a meeting with the Initiative for Responsible Mining Assurance (IRMA), the group is encouraging Kinross to consider this standard, which investors regard as more rigorous than the industry-led CMSI. In September 2026, we agreed to sharpen our asks on a company-wide nature strategy by 2027, asset-level disclosure and site-level targets for priority sites.

Outlook

For ADM, we will continue to monitor implementation of its deforestation- and conversion-free commitment, including progress on traceability beyond the first aggregation point and alignment of its policy influence with its stated objectives. For Kinross, the engagement group will request a meeting in Q4 2026 to discuss a company-wide nature strategy supported by asset-level disclosure and measurable site-level targets at priority operations.

As co-lead investor for ADM and supporting investor for Kinross, we will continue to engage with both companies through the PRI Spring initiative and assess whether progress is reflected in stronger practices and disclosures. This will help us evaluate how the companies are managing nature-related risks and contributing to the initiative's objective of halting and reversing biodiversity loss by 2030.

[1] UN PRI Spring

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Stewardship in Practice

Closing engagements under the Good Work Coalition: Living Wage in the UK Retail Sector



Marie Payne
Senior Stewardship Specialist

In Q3 2026, the Good Work Coalition engagements were closed, following the decision by ShareAction to stop the work under the initiative to focus on other themes. At the end of the engagements, none of the seven UK retailers engaged by Cardano became an accredited Living Wage employer. However, progress on pay, transparency and oversight of workforce demonstrate some positive outcomes. We also continue to engage on the topic of living wage as part of the Platform Living Wage Financials.

The coalition's goal

Cardano has been an active member of the ShareAction Good Work Coalition, which aimed to raise labour standards in UK retail, a sector with large workforces and many low-paid roles. Under the Cardano Sustainability Investment Framework, labour conditions and inequality are assessed as material social factors with a direct bearing on the resilience of our portfolios: low pay weakens workforce stability and productivity at the companies we hold, and persistent underpayment across an economy feeds inequality and economic fragility, a long-term systemic risk.

The Good Work Coalition called on companies to go further than minimum legal requirements and pay the voluntary Real Living Wage[1] – a rate set according to what people actually need to live a decent life, rather than the statutory minimum. By asking for accreditation with the Living Wage Foundation[2], those rates would be guaranteed year on year to direct staff and third-party contractors. Unlike government imposed minimum rates, the Real Living Wage brings higher rates for London-based workers and does not differentiate workers based on age.

As a coalition, our engagement discussions also went beyond accreditation itself, covering related topics such as oversight of the workforce, including third-party contractors, working hours, workers voice and the structure of pay packages more broadly.

Accreditation was not reached despite progress along the way

Unfortunately, no company became accredited, and 2026 brought a step back. Sainsbury's, Tesco and M&S had matched the Real Living Wage rates in earlier years but did not follow its 2026 increase, amid rising costs and a tougher policy environment (for example, one company cited national insurance rises and day-one statutory sick pay policies for not being able to match the updated rates). Despite not reaching the 2026 Real Living Wage rates, retailers still implemented base rate increases. In this context, one company mentioned workers being very satisfied with the 2026 package.

Progress was at times slow and where dialogue stalled, we used varying approaches. In 2022 Cardano co-filed a resolution at Sainsbury's asking for the company to move towards accreditation. In 2025 we also co-filed at Next and JD Sports and supported a shareholder resolution at M&S. Those 2025 resolutions asked for better workforce pay disclosure and received substantial investor support[3].

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[1] More information on current rates at What is the real Living Wage? | Living Wage Foundation
[2] For the real cost of living | Living Wage Foundation
[3] Support reached 31% at M&S, 26.9% at Next and 13.7% at JD Sports (34.4% of independent votes)

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Stewardship in Practice

Closing engagements under the Good Work Coalition: Living Wage in the UK Retail Sector



Marie Payne
Senior Stewardship Specialist

Despite no company reaching accreditation, companies under engagement moved forward in some areas, as described in the table on the right:

Conclusion

Closing without any company reaching accreditation does not mean closing without any progress. Over several years, the coalition engaged through private dialogue, letters, meetings with chief executives, co-filed resolutions and votes. As shown above, over the same period, several companies advanced on pay, strengthened oversight of contractors and introduced new disclosures.

Despite the closing of the Good Work Coalition engagements, living wage remains a key part of Cardano's stewardship activities, including through its role in the Platform for Living Wage Financials (PLWF) as well as UN PRI Advance. Other opportunities to engage on this key theme are also being explored.

Company	Matched Real Living Wage (past years)	National Living Wage for all ages[4] (2026)	Third-party pay oversight (2026)	Progress made
Sainsbury's	Had reached it before 2026 but did not match the latest rates	Yes	Yes	Raised direct staff to the Real Living Wage from 2022, after a resolution Cardano co-filed; security contractors followed in 2023.
Marks & Spencer		Yes	No	Base pay matched the Real Living Wage in past years; led initiatives to improve conditions for security and cleaning staff.
Tesco		Yes	Yes	Matched the rate in previous years.
Kingfisher	Same as above (only for some brands)	Yes	Yes	Real Living Wage base pay at some brands; open, constructive engagement calls
Ocado	No	Yes	Yes	Worked on pay parity between workforces (including warehouse workers and third-party contractors). Has aligned in the past some of the rates with the Real Living Wage rates.
Next	No	No	No	Moved from difficult to constructive dialogue; now more transparent on pay-setting and workforce data
JD Sports	No	Yes	No	Published its first Global Impact Report in 2026, improving workforce disclosures. This partly met the asks of the 2025 shareholder resolution that Cardano co-filed.

All seven meet legal minimum wage requirements and apply regional pay weighting; none pays all third-party staff the Real Living Wage.

[4] National Living Wage is the government rate applicable for workers over 21 years old. By paying this rate to all employees, including younger workers, the companies are going beyond legal requirements

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Stewardship in Practice

The Chemicals Sector in Transition: Accelerating the Path to Net Zero



Mariët Druif
Senior Sustainability Investment Officer

Climate change is increasingly affecting corporate profitability and resilience, posing a financial risk to the long-term value of investment portfolios. The chemicals sector accounts for approximately 6% of global greenhouse gas emissions[1] and therefore has a critical role to play in the global climate transition. As part of implementing Cardano's Sustainable Investment Policy and Net Zero by 2050 ambition, we engage with companies through ShareAction's climate transition programme for the chemicals sector. Its overarching objective is to encourage chemicals companies to develop climate transition plans aligned with a 1.5°C pathway, supported by clear short-, medium- and long-term targets.

The programme's underlying objectives are to encourage companies to:

- Electrify production processes and transition fully to renewable energy by 2050.
- Transition to emissions-neutral feedstocks by 2050.
- Set ambitious Scope 3 targets aligned with 1.5°C pathways.
- Align capital allocation with a 1.5°C pathway and provide transparency on future investments.
- Align policy engagement with the goals of the Paris Agreement.
- World Economic Forum (2024) - Primary Chemicals Industry Net-Zero Tracker

Activities

Recent engagement included dialogues with the CEOs of Yara and BASF. We also co-signed AGM statements for Yara, Air Liquide, BASF and Linde, including questions that were raised at their respective Annual General Meetings (AGMs). Earlier this year, we also co-signed a public statement and sent a letter to the GHG Protocol.

Progress

BASF: Although Scope 3 emissions increased in 2025, it is positive that BASF's CEO indicated during our dialogue in September that he still expects the company to achieve its 2030 Scope 3 emissions reduction target. The coalition also encouraged BASF to publicly clarify which policy measures are needed to accelerate the transition, for example with regard to the EU Emissions Trading System (EU ETS), and to continue actively engaging with European policymakers on these issues.

Yara: The coalition has repeatedly encouraged Yara to publish SBTi-validated Scope 3 emissions reduction targets and once again raised this issue at the AGM. As the company continues to delay this, we voted against the Chair and a member of the Sustainability Committee and communicated our voting intention in writing in advance. This expectation was reiterated during the most recent dialogue with the CEO. On a positive note, Yara has committed to publishing a climate transition plan aligned with the Paris Agreement in 2028. The coalition also discussed European climate policy with the company. Yara emphasised that robust European carbon pricing, including through the EU ETS and CBAM, combined with a stable and predictable policy framework, is necessary to make long-term investments in decarbonisation economically viable.

Air Liquide: As one of the world's largest producers of industrial gases, the company is making clear progress in its decarbonisation. At the AGM, the coalition encouraged the company to maintain its leadership position in clean energy procurement by setting concrete short- and medium-term renewable energy targets and publishing its renewable energy procurement policy.

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[1] World Economic Forum (2024) - Primary Chemicals Industry Net-Zero Tracker

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Stewardship in Practice

The Chemicals Sector in Transition: Accelerating the Path to Net Zero



Mariët Druif
Senior Sustainability Investment Officer

Engagement on Regulation and Sector Standards

As highlighted in the theme in focus, Cardano is increasingly focusing its engagement on regulation and sector standards that can accelerate the climate transition. In addition to our support for a robust and predictable EU ETS, earlier this year we joined other investors in signing a public statement and sent a letter to the GHG Protocol expressing our support for proposed improvements to Scope 2 emissions reporting. These changes are intended to ensure that reported emissions better reflect actual electricity consumption. This will help us assess climate risks more accurately and engage more effectively with companies on their energy use and emissions reductions. This is particularly relevant for Air Liquide, Linde and Air Products, as industrial gas producers are among the world's largest electricity consumers and Scope 2 emissions therefore represent an important part of their climate impact.

Outlook

The companies are making progress in their climate transition, but further steps are needed to achieve the engagement objectives. The coalition plans to engage with Linde in 2027 and will determine its engagement approach for the other companies during a strategy session in Q4.

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Investment Universe

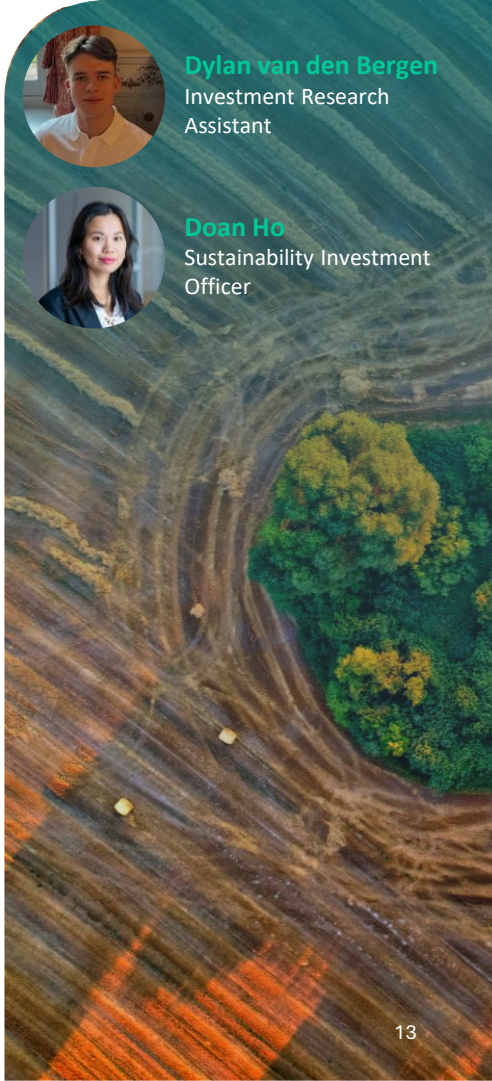
New Inclusions and Exclusions

Companies

Nestlé S.A.: Switzerland-based company primarily engaged in food manufacturing, operating globally across beverages, nutrition, dairy, confectionery, and pet care. The company's status is maintained. Nestlé was flagged for two active raw materials controversies: a very severe deforestation controversy linked to its palm oil supply chain, for which the company is on the MSCI UNGC Watchlist, and a severe, ongoing plastic pollution controversy. Both reflect longstanding, systemic issues tied to indirect suppliers and global product systems. The company assessment supports maintaining the company's current ESG status: even though Nestlé demonstrates high exposure to forest-risk commodities and plastic packaging, it has been responsive to engagement and shows genuine progress. The company has implemented a Forest Positive strategy with ~96.7% deforestation-free sourcing coverage, satellite monitoring, and supplier engagement programmes. On packaging commitments, 90% of the company's products are already recyclable against a 100% target for end of 2025. The Cardano/Satelligence deforestation engagement has been successfully closed. Persistent gaps in full supply chain verification and absolute plastic reduction remain, but the overall trajectory is positive.

H&M Hennes & Mauritz AB: Sweden-based multinational clothing company and one of the world's largest fashion retailers, operating globally through thousands of physical stores and e-commerce channels. The company's status is maintained. The company was flagged on a raw materials controversy, which stems from Earthsight's 2024 'Fashion Crimes' investigation, which alleged that cotton in H&M's supply chain originated from suppliers associated with deforestation, land grabbing, and related environmental harms in Brazil's Cerrado biome. The allegations concern indirect involvement through suppliers rather than H&M's own operations, and no regulator or court has concluded that H&M was directly involved. Better Cotton, the certification scheme implicated, stated its review found no breach of its standards, though Earthsight has continued to question the adequacy of those investigations. The company assessment supports maintaining the company's ESG status, as H&M has strengthened its responsible sourcing, traceability, and supplier due diligence in response to the controversy. The company reports that 100% of cotton used in commercial products is now recycled, organic, or otherwise sustainably sourced, and 91% of all materials are recycled or sustainably sourced. The controversy remains relevant but unproven against H&M directly.

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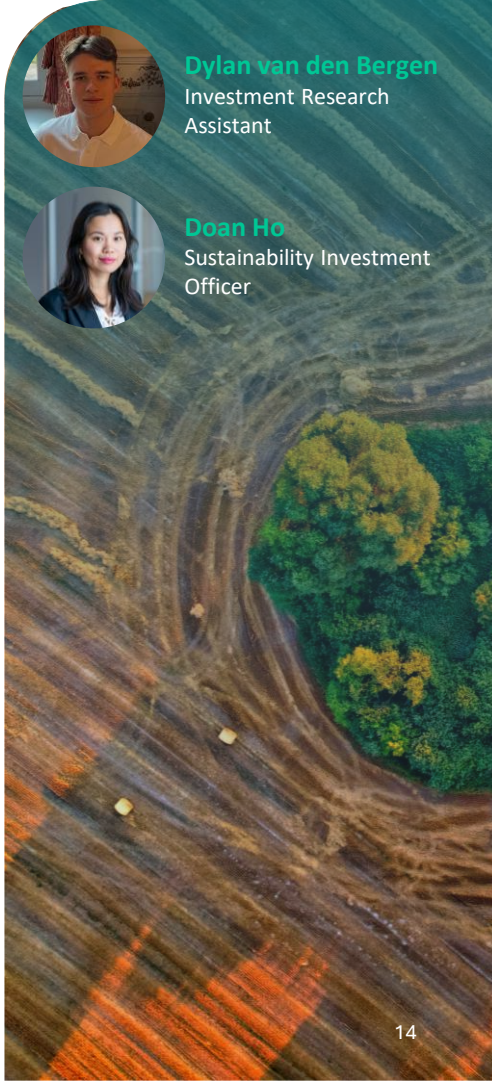
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Investment Universe

New Inclusions and Exclusions

Development Bank of Japan Inc.: Japan-based government-owned financial institution providing long-term loans and investment to support economic development, infrastructure, industrial growth, environmental protection, and regional revitalisation in Japan. The company's status is downgraded. The downgrade is driven by critical deficiencies in DBJ's climate transition framework. Scope 3 financed emissions represent over 90% of the bank's total emissions, yet disclosure covers only approximately 25% of the lending portfolio, limited to the power and oil & gas sectors. Major financed emissions in transportation, manufacturing, mining, and real estate remain entirely unquantified. While DBJ has a net-zero by 2050 commitment, Scope 1-2 targets by 2030, and initiated a strategic shift toward transition and clean technologies through its Green, Resilience & Recovery, Innovation, and Transition/Transformation (GRIT) strategy, the bank lacks comprehensive portfolio-wide decarbonisation targets and clear transition pathways across its full portfolio. This is further evidenced by a lower than industry average Financing Environmental Impact score from ESG data provider MSCI. Progress on carbon reduction is limited and difficult to assess given these disclosure constraints. The combination of concentrated exposure to high-emitting sectors and incomplete transition planning prevents a credible assessment of the bank’s actual decarbonisation outcomes.

South32 Limited: Australia-based global mining and metals company producing minerals and metals critical to the energy transition. The company's status is upgraded. The upgrade reflects improvements in South32's climate management and reporting since the last assessment, including enhanced Scope 3 disclosure, more detailed emissions reporting, and greater transparency on emissions drivers. The company has a net-zero ambition across Scopes 1, 2 and 3 by 2050, a target to reduce operational emissions by 50% by FY2035 from a FY2021 baseline and has reported a 58% reduction in Scope 3 emissions. The company does not yet have interim Scope 3 reduction targets or SBTi-validated targets, and delivery of operational emissions reductions has been gradual, though there has been tangible progress through portfolio optimisation, including divestment from metallurgical coal assets. South32 also demonstrates strong water governance, using approximately 83% recycled or reused water, and site-level risk assessments and disclosures reflect good water management practices.



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