A STATEMENT OF CARDANO'S SUSTAINABLE INVESTMENT BELIEFS

This document sets out Cardano's sustainable investment beliefs. These beliefs act as a foundation upon which our investment philosophy and processes are built and serve as a blueprint for future investment policy development.

The beliefs below are defined as a set of affirmative statements to which we aspire to uphold. We recognise that in many cases we have a journey to move from what we currently do to where we want to be.

Summary of Our Sustainable Investment Beliefs

We define sustainable investment as seeking to maximise risk-adjusted returns while generating positive real-world impact and / or reducing negative real-world impact. We set this out further in the following beliefs:

1. The assessment of both Environmental, Social and Governance risk and return factors (ESG factors), and real world impact is essential to all investment decisions
2. We will invest in sustainable investments. We will be active owners and stewards of all our assets. We will prioritise real world impact in our engagement activities
3. The transition to a more sustainable world economy is a journey that will evolve. The real world impact of our portfolios should be measured and targeted over time. Our real world impact agenda will be focused where we can be most effective
4. The United Nations Sustainable Development Goals (SDGs) form a good basis for defining real world impact. For Cardano, areas of particular focus where we can be most effective and which contribute to the UN SDGs are:
    a. We support the Paris Climate Agreement of aiming to limit global warming to +1.5C versus preindustrial levels. We do this by committing our investment portfolios to net zero carbon emissions by 2050, with ambitious interim targets
    b. A Fairer Society: We support the ideals of western liberal democracies and will look for ways to improve societal outcomes in the UK and the Netherlands, promoting diversity and inclusion and enhancing the wellbeing and financial security of our clients' beneficiaries and their families. We respect and support human rights and avoid human rights abuses
    c. Sustainable Development of Emerging Markets: We support the sustainable development of nations in the emerging world, who are most vulnerable to the effects of climate change transition and where impactful change can be most meaningful, in close alignment with the objectives of Cardano Development
5. The transition to a more sustainable global economy will create many attractive investment opportunities. As such, sustainable investment is consistent with, and core to, maximising risk-adjusted returns
6. Careful portfolio construction and employing an economically balanced risk allocation complements our sustainable investment beliefs and mitigates some of the factor risks that may arise when investing sustainably

Why does Cardano believe that it is right to invest sustainably?

Cardano's clients are overwhelmingly pension schemes. Their members and beneficiaries represent a broad swathe of society in the UK and Europe across industries, income levels, age groups and cultural and ethnic backgrounds.

The youngest members of these schemes may be over 50 years away from retirement. Many of them will have families who will live into the next century. We believe that our clients' members and their dependents should enjoy a quality of life similar to or better than that possible at present. This should also be in a sustainable and less polluted environment within a fairer society where they can enjoy financial security. We believe we can contribute to achieving this in the way we invest and manage their assets.

Sustainable investment is core to our corporate values and is right for our business, our society and our world.

"We will adopt a sustainable 'portfolio level' approach."

We will adopt a sustainable 'portfolio level' approach. Our beliefs will apply to all the direct investments that we make, as well as the third-party managers that we engage with (both in liquid and illiquid markets). In respect of third-party managers, our approach will aim to apply a 'look-through' to the assets held within those third-party managers' portfolios.

Our Journey

Cardano's position as a sustainable investor is sure to evolve as our thinking on the subject and the market itself develop. What we do now is important, but we acknowledge that we are embarking upon a multi-year journey.

We will set minimum standards that will be implemented across our discretionary mandates. Our core LDI, overlay and fiduciary management products will be sustainable and incorporate elements of impact investing where possible. We acknowledge that some clients will want to go further – we will support clients should they wish to further pursue impact investing.

For advisory clients, we will support them in developing their own beliefs and statements of investment principles and, where possible we will encourage them to invest sustainably.

Figure 1: Positioning Cardano's core products within the Sustainability landscape

How we look at investments – three lenses

We view all investments through the three lenses of risk, return and real world impact. For all these measures, real world impact included, we believe that our results should be measured at a net total portfolio level.

We build portfolios which aim to maximise expected return per unit of risk, and at the same time create positive real world impact whilst reducing negative real world impacts.

We recognise that we will not achieve this overnight; there is a journey to be taken to encourage businesses and governments to transition to a more sustainable global economy. We want to engage effectively with all relevant stakeholders to create those transitions. Similarly, in our portfolios we expect a measurable transition towards a more effective real world impact over time.

We will permit portfolios, subject to minimum standards, to hold some assets that detract from our objectives on one of these dimensions (risk, return or real world impact), whilst potentially adding in another dimension, provided that the portfolio as a whole is on the right path and progressing in line with targets.

However, at an individual asset level, some investment opportunities will be found to be unacceptable. In exactly the same manner that some investments are judged to be too risky irrespective of the returns that they offer, some categories of investment will likewise be judged to have a too negative real world impact. For this reason, we will transition towards a policy of disinvestment, in line with clearly defined and identifiable parameters. By way of example, we will be disinvesting from fossil fuel-related direct commodity investments.

By way of corollary, whenever constructing a portfolio there are trade offs to be made, and we will make trade offs between risk, return and real-world impact. For example, there may be investments that have lower returns and high positive real world impact, but that provide a high diversification benefit.

In practice, real world impact will be a primary screen for new investments being considered for portfolios, assessed on an equal footing with the investment's risk and return characteristics.

> **"We believe that on average, more sustainable investments will have lower long-term risk profiles and higher quality growth characteristics..."**

How do the three lenses impact upon our proven balanced risk premia approach to portfolio construction?

We do not believe that sustainable investment will lead to a reduction in return per unit of risk generally amongst our investment opportunity set.

We believe that, on average, more sustainable investments will have lower long-term risk profiles and higher quality growth characteristics compared with less sustainable investments. This improved risk/reward profile will, in time, be recognised by the market, reducing the cost of capital for these investments and conferring an ongoing competitive advantage. Sustainable investing can therefore produce at least as good of a risk/reward profile as a non-sustainable approach, and in many cases a superior outcome.

As the global economy undertakes a massive sustainability transition, we believe there will be a great deal of opportunity to capture interesting investment return opportunities whilst also creating positive social and environmental impacts.

We recognise that there are certain scenarios where sustainable investment may temporarily underperform a broad market approach, due to factor risks that are introduced by it e.g. a strong rally in fossil fuel commodity prices. However, we believe sensible portfolio construction, an economically balanced approach to risk management and prudent use of leverage can mitigate many of these factor risks.

This approach is entirely consistent with our existing portfolio construction discipline. However, it does bring with it a greater monitoring and measurement requirement. Critically, the real world impact of our portfolios and their changes over time needs to be measurable.

What do we mean by real world impact?

The real world impact of an investment is the sum total of the consequential effects on the environmental, social, and/or governance landscape, anywhere in the world, that are caused by the investment being made. Real world impact can be positive or negative.

Simply, if we have a choice between two investments with comparable risk/reward characteristics, we would prefer the investment with the more positive real world impact. Indeed, we believe real-world sustainability impact may not be fully priced using traditional risk-return metrics, and as such, sustainability represents a source of future economic value.

We believe that the best available framework for considering real world impact is found within the UN's Sustainable Development Goals (SDGs). This is a set of 17 goals developed by the UN which is widely accepted as sensible development objectives across the globe, and is beginning to be assimilated into industry standard measurement frameworks.

> **"We believe that if society fails to tackle the climate crisis, the cost in human suffering is likely to dwarf many other potential calamities..."**

We believe that sustainable investment supports many of the UN SDGs. However, there are certain environmental, social and governance aspects that we choose to place particular emphasis on because we can be more effective in our impact on these areas:

The Climate Crisis: We believe that if society fails to tackle the climate crisis, the cost in human suffering is likely to dwarf many other potential calamities that we face. Multiple issues are relevant to our consideration e.g. emissions, deforestation, water and land usage.

We believe that a speedy, fair and just transition to a low carbon economy is the only way to address this crisis and will likely constitute the biggest change to the current global economic system in our lifetimes.

We believe that our core products should be constructed in alignment with the achievement of net zero carbon emissions and consistent with Paris Agreement goals of limiting global warming to less than +1.5%°C versus preindustrial levels.

We recognise the complexities involved in measuring Greenhouse Gas (GHG) emissions. We're working through a process to measure our portfolios using best-available data sets. We will set ambitious interim targets to meet our net zero carbon emissions commitment, which will be informed by commitments made by UK and EU policy makers. We will work with industry groups to encourage the industry to coalesce around standard methodologies.

A Fairer Society: We will align our portfolios to be consistent with our corporate policies of furthering causes that improve societal outcomes in the UK and The Netherlands; enhancing the wellbeing and financial security of our clients' members and families, promoting diversity and inclusion, and a fairer financial system. We will respect and support human rights, and avoid human rights abuses.

Emerging Markets Sustainable Development: Emerging market countries face far greater physical risks than most developed countries from the climate crisis, poverty and inequality. We have an ability to create a direct impact in creating a more stable and sustainable world through sustainable investing in these markets and in our area of expertise; financial risk management. This focus aligns us with the goals and initiatives of our sister foundation Cardano Development to further progress frontier market sustainable development.

We expect that improved real world impact will be achieved by investments which demonstrate higher sustainability criteria, by engaging with third part managers and investee entities to encourage their greater alignment with our sustainability goals (including their engagement with underlying companies to achieve these goals), and finding new investment opportunities that further our real world impact at a total portfolio level.

All of these areas will offer substantial investment opportunities. We will broaden our investment portfolio to incorporate asset classes that are accretive to our overall sustainable investment objectives: supporting climate change objectives, a fairer society and providing sustainable development opportunities in the emerging markets.

Specifically, in respect of Corporate Engagement, what is Cardano's approach?

Our starting point is to stay invested and have influence rather than disinvest. Climate change and social change are too large a problem to simply disinvest, and we believe that the biggest perpetrators are not being sufficiently pressured to change. Investors have a critical role to play.

We believe in collective action. More is to be gained from collaborating with other like-minded investors and supporting joint initiatives.

Our most significant engagement impact with companies will be via our third party managers. We will encourage all managers to develop strong sustainability practices. We will differentiate between those managers that can exert a high influence (e.g. managers in equities, credit, and emerging market debt markets) and those that cannot, and will focus our attention accordingly. For high influence managers, minimum sustainability standards and ongoing improvement will be a necessity.

Because engagement with companies will be driven by the managers we select, the efficacy of 'Stewardship and Engagement Policies' will be key criteria in manager selection. We will require evidence of their own development and improvement over time, particularly within the areas that we see as most important. We will also encourage them to support industry wide sustainability initiatives, for example actions around climate engagement to create a just transition towards a low carbon economy.

Disinvestment is a prerogative that we will retain as an ultimate sanction. We will only choose to disinvest in instances where we find third party managers or investee corporations that are unable or unwilling to demonstrate, after engagement, adequate progression towards fulfilling our sustainability objectives.

Where we hold direct investments, we will engage actively, especially with governments around issues that affect pensions policy, social policy and climate change such as workplace diversity, green bond issuance and decarbonisation policies.

How will we manage, measure and monitor our progress?

We will actively measure and manage our portfolios' progress in terms of real world impact, just as we do for risk and return. This will take time as many of the measurement approaches that will be required are still evolving. We will develop our own protocols, work collaboratively with others and support industry standards and regulatory initiatives that contribute to a more sustainable financial system.

We will undertake varied measurement and monitoring of our investments.

With respect to environmental impact, we will:

- To the fullest extent permissible by available data, calculate the contribution to greenhouse gas emissions and climate change from investments that we make
- Calibrate our own internal targets for scientifically based, ambitious interim goals for example on the decarbonisation of our portfolios
- Develop climate change scenario analysis to understand the impacts of different potential scenarios on our portfolios consistent with the TCFD recommendations, which we support
- Start measuring what we can at an asset class level before going on to develop more aggregate portfolio wide measures which are presently in their infancy
- Consider forward looking planned improvements, monitor progress and assess the credibility of targets. This will be particularly relevant for our third party managers who we will work with to improve knowledge, data collection, climate impact assessment and engagement with companies around the low carbon transition. We will set meaningful interim targets
- Require evidence of the actions that third party managers are taking to support industry wide initiatives on climate change

With respect to social impact, we will:

- Engage with government on policy, particularly around pensions policy, social policy and climate change policy that can affect our clients' members
- Engage with and educate our clients, suppliers and other stakeholders on social issues
- Engage with third party managers and trading counterparties, and, through them, investee corporations (in both corporate debt and equity markets) with a particular emphasis on furthering our objectives in areas such as:
  - Fair working practices, workforce diversity, gender equality, minority representation and board diversity
  - Executive remuneration, conflicts of interest, board diversity and tenure of board members
- Measure the impact of our portfolios' social engagement and, where possible, impact against the UN SDGs as data measuring these impacts becomes more readily available

With respect to governance, we will:

- Engage with third party managers to ensure compliance, at least, to our minimum standards
- Track engagement actions and voting across managers and, where we can, monitor outcomes
- Assess and challenge the extent to which managers engage in industry initiatives that we support and encourage
- Critically asses and challenge exceptions

Good governance is a necessary foundation for environmental and social impact. Governance has improved in recent years, following the introduction of binding corporate governance codes, which we support.

Final Words

Managing risk through the prism of forward looking scenario analysis is the bedrock of our investment process. Incorporating potential real world impacts into those scenarios is a logical extension of that process.

We consider sustainable investment to be a natural extension of our investment philosophy and our disciplined approach to portfolio construction and risk management.

Finally to note, our corporate policies are aligned consistently with, at a minimum, the same objectives as we set out here for our investment policies.

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