Sustainability Policy

September
2022

Contents

1. About Us

Founded in 2000, Cardano is a privately-owned, purpose-built pensions advisory and investment specialist with a leading-edge sustainability offering. We are widely recognised as a market leader in the provision of specialised services to private-sector and collective pension schemes in the United Kingdom and the Netherlands. Our 500 professionals strive to deliver better and more secure financial outcomes.

- **Advisory:** A pensions covenant, investment, sustainability, corporate finance and risk advisory business serving approximately 400 scheme and corporate clients. Our scheme clients have aggregated assets of over £370bn (€430bn)

- **Investment Management:** A purpose-built asset and fiduciary management provider, with a leading-edge sustainability offering, serving pension schemes, insurance companies, banks and distribution partners with £50bn (€60bn) of assets under management

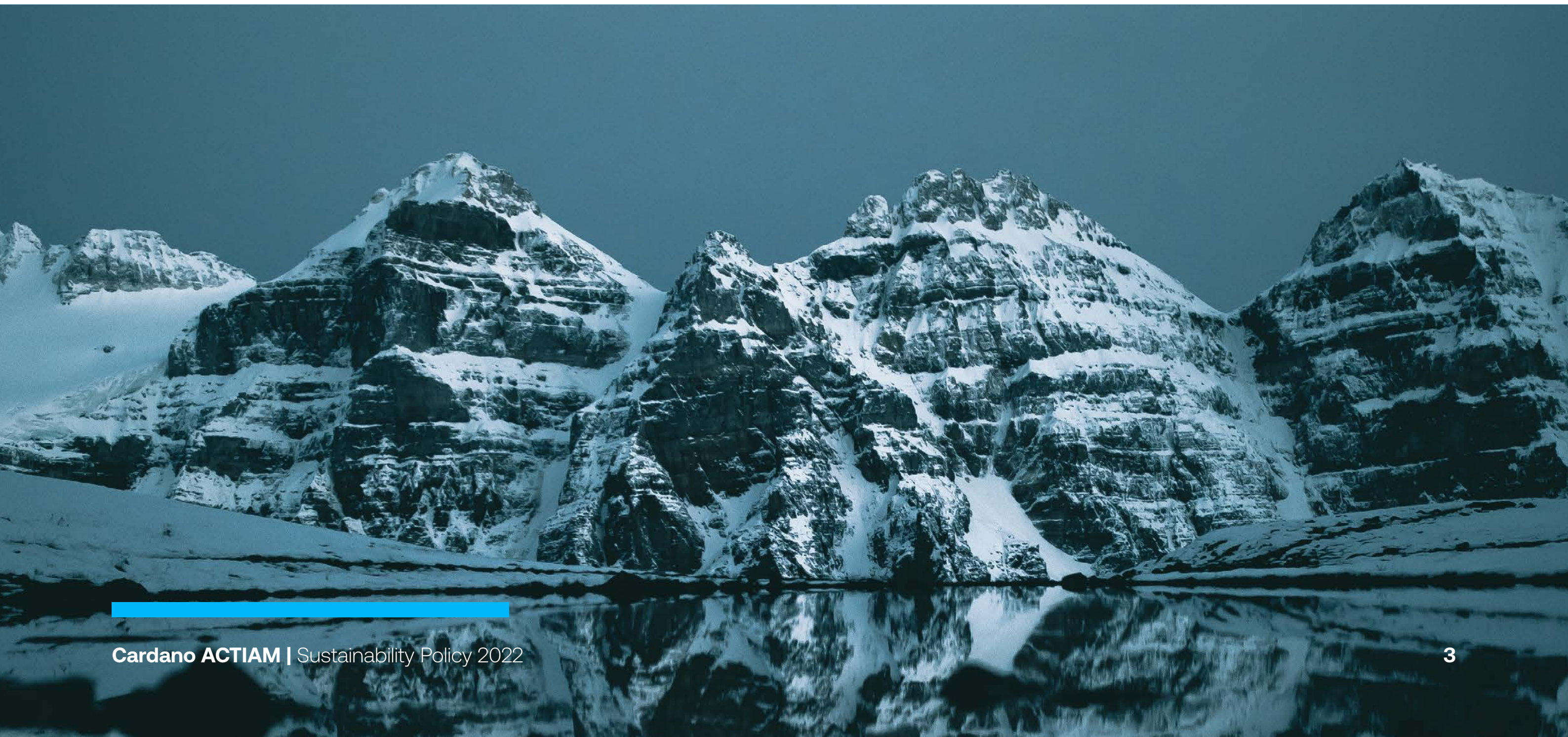
- **Defined Contribution (DC) Pension Provision:** We manage over £15bn (€17.5bn) in DC assets across the UK and the Netherlands. In the UK, we operate NOW: Pensions, an award-winning UK workplace pension provider, serving 2 million members and tens of thousands of employers from a wide range of industry sectors

Our world deserves better financial solutions – that are more resilient and sustainable. At Cardano, we bring a distinct approach to advisory and investment management that challenges the status quo. By bringing together cognitively diverse teams with a mix of perspectives and skill sets, we reduce blind spots and open up new possibilities, delivering tailored solutions for our clients.

In January 2022, Cardano acquired ACTIAM, a sustainable investor, with 30 years' sustainability-related experience, and a dedicated team of sustainability professionals with expertise in sustainability issues, environmental, social and governance (ESG) data and research, and stewardship.

ACTIAM was one of the first asset managers in the world to incorporate sustainability issues in fund and asset management, incorporating concepts such as planetary boundaries and social foundations – concepts we explain in this policy.

In the rest of this policy, we will no longer refer to Cardano and ACTIAM as separate entities. Our sustainability policies apply across our group.



2. Introduction

2.1. We approach sustainability from first principles

Sustainability has always been at the core of our culture and how we run our business.

Our clients are overwhelmingly pension schemes and insurance companies in the UK and Europe. Their members and beneficiaries are representative of society across industries, income levels, age groups and cultural and ethnic backgrounds.

The youngest members of these pension schemes may be over 50 years away from retirement. Many of them will have families who will live into the next century. We recognise that society is at a crossroads. Climate change, increasing inequalities in prosperity, security concerns, nature loss, biodiversity loss and resource scarcity are among the global challenges society and economies worldwide face.

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 be in a sustainable and less polluted environment within a fairer society where they can enjoy financial security.

We can contribute to achieving this in the way we invest and manage their assets – indeed, we believe we have a responsibility to do so. Sustainable investment is core to our corporate values and is right for our business, our society and our world.

There are compelling reasons to invest and operate sustainably, to:

- Maximise risk-adjusted return
- Identify new investment opportunities associated with the transition towards a sustainable society
- Align with client and beneficiary sustainability preferences
- Anticipate policy and regulation, technological developments and consumer preferences
- Achieve real-world sustainability impact.

We believe that sustainable investment and advice can contribute to more sustainable capital markets – and a more sustainable world.

Our sustainability policy sets out our approach.

2.2. How do we define sustainable investment?

We use the following definitions of sustainability and stewardship taken from the United Nations Bruntland Commission and the UK Financial Reporting Council to inform our approach.

Sustainability is meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and stakeholders, leading to sustainable benefits for the economy, the environment and society.

When we invest, we consider two simultaneous objectives:

1. Maximising risk adjusted return, which includes sustainability-related risks and opportunities
2. Maximising influence and sustainability impact, which considers the real-world sustainability impact of our investments

Institutional investors increasingly share this "double-materiality" view and want to incorporate both lenses into their investment process. As such, we define sustainable investment as follows:

Sustainable investment generates positive real-world impact and / or reduces negative real-world impact, while seeking to maximise risk-adjusted returns over the long-term, leading to sustainable benefits for the economy, the environment and society.

We define real-world impact as meeting the needs of the present without compromising – and, in fact, we actively seek to support - the ability of future generations to meet their own needs.

To implement our definition of sustainable investment, the concepts of social foundations and planetary boundaries are central to our approach; concepts we explain in this policy.

2.3. Our views on sustainability and financial performance

A growing evidence base demonstrates that sustainable investment as a long-term investment strategy is consistent with financial performance.

Investment and academic evidence[1] show that incorporating ESG issues into investment decision-making, and excluding certain companies or economic activities with unmanaged ESG risks, at worst leads to comparable results but at best, leads to superior risk-adjusted returns.

Companies that anticipate sustainability-related risks and contribute to solutions are likely to be higher quality investments compared to those that lag or ignore sustainability. Stock price volatility is often lower for more sustainable companies.

Sustainable companies are likely to benefit from more competitive access to capital. The opposite can be said for those who are less sustainable as they will be subject to higher risk. The more sustainable companies are typically better able to manage changing consumer and market circumstances.

Whenever constructing a portfolio there are trade-offs to be made, and we make trade-offs between risk, return and real-world impact. These concepts are interlinked. For example, there may be investments that have lower returns and high positive real-world impact but, from a portfolio construction perspective, provide a high diversification benefit.

We have also reviewed academic evidence of how investors can influence real-world impact. The evidence base for this is emerging. Our approach is summarised in our model of influence, discussed later in this document.

As such, each sustainable investment strategy and decision will be assessed on its own merits, and we will continue to review the evidence base on sustainability and financial performance.

We have reviewed the evidence base. Studies show that incorporating ESG issues into investment decision-making, and excluding certain companies or economic activities with unmanaged ESG risks, at worst leads to comparable results but at best, leads to superior risk-adjusted return.

1 For example:
1. UN PRI, Financial Performance of ESG Integration in US Investing, 2018: https://www.unpri.org/download?ac=4218
2. Morgan Stanley, Sustainable Reality, 2019, updated in 2021: https://www.morganstanley.com/content/dam/msdotcom/ideas/sustainable-investing-offers-financial-performance-lowered-risk/Sustainable_Reality_Analyzing_Risk_and_Returns_of_Sustainable_Funds.pdf

3. Model of influence

3.1. How we maximise our positive real-world sustainability impact

We believe that much of current economic behaviour is putting the planet and society at risk. We believe that all investment activities have real-world impact, and as such, that we should maximise our positive real-world sustainability impact and minimise our negative real-world sustainability impact.

When we invest or advise, we have two simultaneous objectives, known as “double materiality”:

1. Maximising risk adjusted return, which includes sustainability-related risks and opportunities

2. Maximising influence and impact, which considers the real-world sustainability impact of our investments

Our *Model of Influence* guides how we approach real-world sustainability impact.

We have developed our own *Model of Influence*. We apply it to our investment activities to help improve our real-world sustainability impact:

Tier one: High impact direct activities
The first tier of influence includes interactions that are most impactful:

- Supplying new capital, debt or equity to a company or government, where this has an environmental or social objective or provides solutions to global sustainability challenges.

- Collaborative company engagement on sustainability-related topics, for example through the Climate Action 100+ initiative.

- (Co-)filing shareholder resolutions to be discussed and put to a vote at company annual general meetings (AGMs).

- Engaging with public policymaking to create a more sustainable economy, for example engaging on EU level plans for corporate due diligence on human rights and environment.

- Enabling activities or markets that may be new to investors, such as water and sanitation, through new thematic impact strategies. This helps develop an evidence-base that can enable further capital flows into sustainability outcomes.

Tier two: Stewardship as an individual investor
The second tier may be less impactful, on average, than collaborative engagement, but can still have an important impact when executed skilfully.

- Engagement with companies and governments on ESG issues

- Voting on shareholder resolutions, director and management appointments and other resolutions

Tier three: Influencing cost of capital, and signalling to management and regulators
The third tier of influence to achieve real-world sustainability impact is one many institutional investors are already doing but could be doing more effectively.

- Incorporating ESG-related objectives into mandates, as part of a scheme’s investment approach

- Integrating ESG factors into the buying and selling of securities

- Disinvesting from companies based on ESG factors

The mechanism is one which decreases the cost of capital for more sustainable businesses (through purchases in the secondary market), creating a competitive advantage while increasing the cost of capital for less sustainable businesses (through denial of capital or sales in the secondary market). This indirectly influences their cost of capital and their competitive positioning.

It can be implemented through cash equities and bespoke derivatives – both influence security pricing and cost of capital. This includes, for example, ESG tilts in indices, exclusion policies such as excluding thermal coal or fossil fuels, and mandates emphasising climate change solutions.

We consider the following principles when applying our *Model of Influence*:

- Be ambitious about influence across the portfolio
  - Aim to have influence throughout investment programmes across asset classes

- There are many valid sustainable investing approaches, for example:
  - Allocate primary capital to solutions (in the positive impact category), for example, green bonds and impact lending. We would consider this Tier 1
  - Allocate secondary capital to solutions. We would consider this Tier 3
  - Focus on identifying successful transition companies in adapting and, in some cases, at risk categories. We would consider this Tier 1 if collaborative, if not, Tier 2
  - Avoid or exclude companies that are non-compliant with international standards, harmful, or non-adapting. This would be Tier 3

- Combine modes of influence where possible
  - For example, combining collaborative engagement and co-filing shareholder resolutions (Tier 1) with direct stewardship (Tier 2) and cost of capital influence (Tier 3) when investing in physical equities

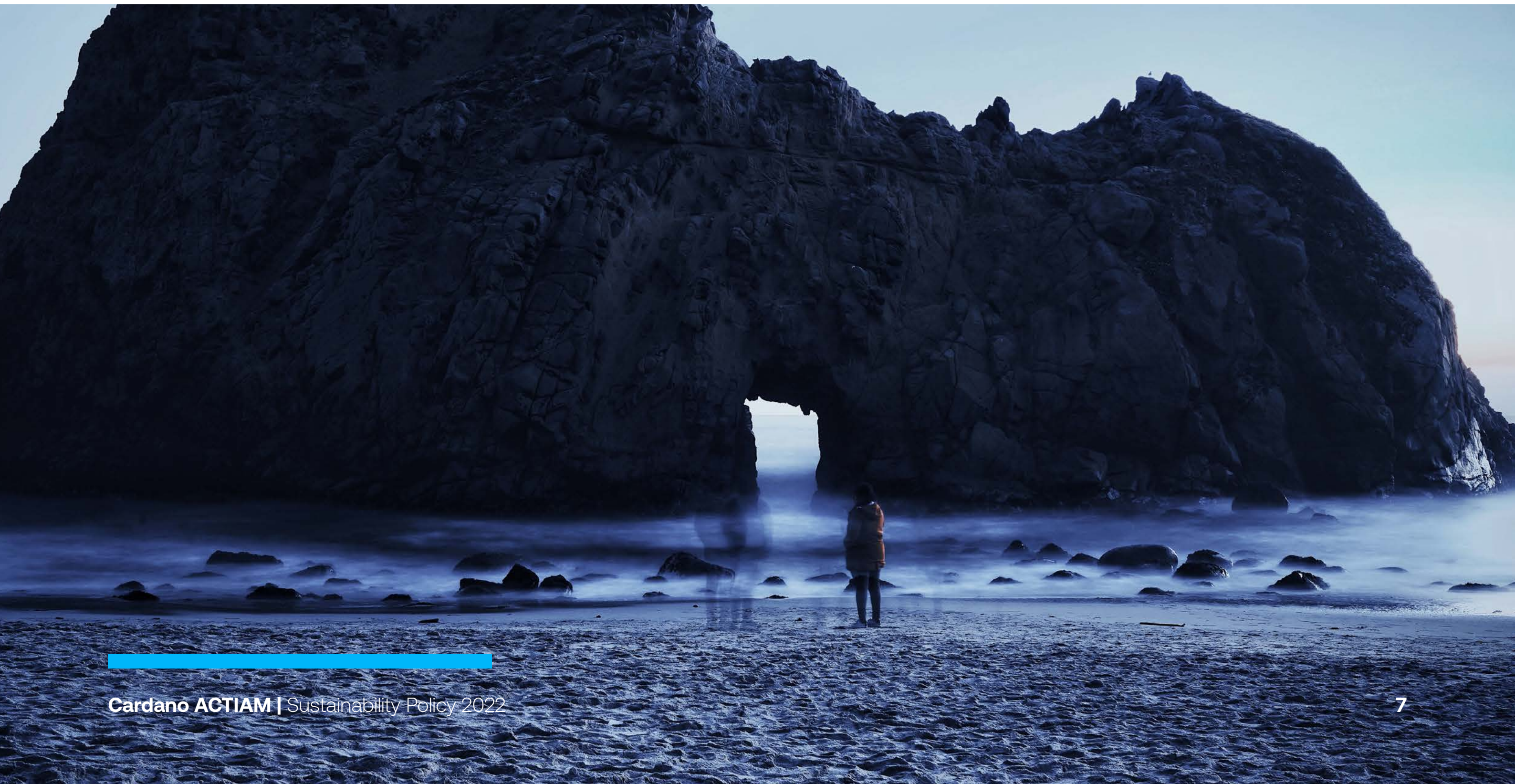
Our *Model of Influence* guides how we approach real-world sustainability impact.

- Undertake high quality stewardship
  - Including tracking engagement with companies on issues, and aligning voting and portfolio actions with outcomes
  - Focus on in-depth engagements with objectives that address systemic risks e.g. deforestation, climate change
  - Be transparent about stewardship activities and communicate decisions on voting (Tier 2) and changes in capital allocation (Tier 3) to companies to increase impact

- Invest in physical investments subject to collateral, efficient portfolio implementation and cost limitations. Physical investments allow Tier 1 and Tier 2 influence, derivatives are typically limited to Tier 3, with Tier 2 engagement of counterparties

- Aim for engagement rather than divestment unless 1) the company contravenes international standards, 2) the company's products or processes are harmful to the environment or society, 3) the company is consistently demonstrating that it is not adapting, 4) the company is not open to dialogue.

We achieve Tier 3 influence, influencing cost of capital, by investing in companies and governments by investing in sustainable companies and governments. Our investment solutions combine Tier 3 influence with Tier 2 stewardship (discussed later), and Tier 1, including co-filing resolutions, policy engagement and – where possible – supplying new capital to finance sustainable economic activities, such as through green or social bonds.



4. Our sustainability framework

4.1. Social foundations and planetary boundaries

Our starting point is that companies and countries that are sustainable operate within planetary boundaries and respect social foundations.

This includes companies and countries that are, for example, climate neutral, with science-based decarbonisation strategies, that do not contribute to deforestation, do not contravene international standards, and provide their employees or citizens with a safe working and living environment.

As such, we believe that sustainable companies and countries are where:

- Environmental pressures do not overshoot planetary boundaries (in other words, do not exceed the earth's regenerative ability)

- Society wellbeing does not fall short on minimum universal social and governance norms affecting people's health, wealth and wellbeing, for current and future generations as established through international conventions, agreements and law.

We consider this the safe and just operating zone for humanity. Various international agreements and science-based initiatives outline transition pathways for companies and governments to follow in order to make the transition towards the safe and just operating zone.

This can be visualised as two concentric circles, that together form a ring, or "doughnut". The inner circle reflects social foundations, the outer circle planetary boundaries. Both boundaries have been established through various international treaties and agreements. The safe and just zone for humanity combines the frameworks of the Planetary Boundaries (Rockström et al., 2009) and the Doughnut Economy (Raworth, 2018).

"In the long-term, operating outside the safe and just zone is untenable and leads to inequalities, social breakdown, and environmental degradation..."

Rockström et al. identify nine planetary boundaries, reflecting the earth's capacity to maintain the planetary life support systems essential for human survival and to maintain resilient production and livelihoods. Through human behaviour, some of the boundaries are breached or likely to be breached, endangering future growth and prosperity. The doughnut economy, is a framework described by Raworth's book, "Doughnut Economics".

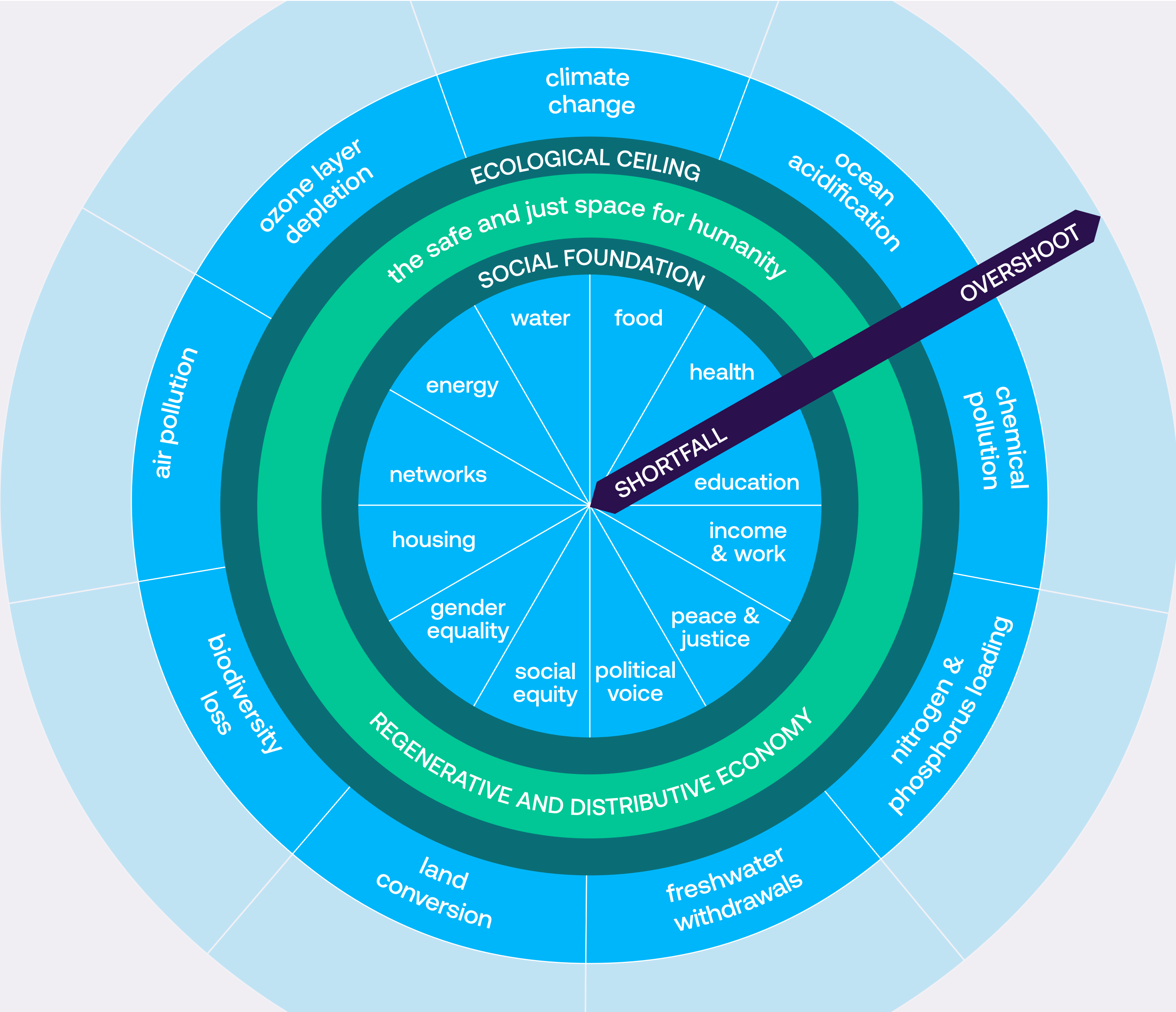
In the long-term, operating outside the safe and just zone is untenable and leads to inequalities, social breakdown, and environmental degradation, which hinders economic development, and as such, risk-adjusted returns. By operating within the safe and just zone, we will make progress necessary to achieve the Sustainable Development Goals, adopted by all United Nations member states in 2015.

The safe and just zone for humanity is where:

- environmental pressures do not overshoot planetary boundaries

- society wellbeing does not fall short on minimum universal social and governance norms affecting people's health, wealth and wellbeing, for current and future generations

The safe and just zone for humanity in the doughnut economy.



4.2. How we categorise the companies in which we directly invest

The concept of the safe and just operating zone, within planetary boundaries and respecting social foundations, underpins how we understand sustainability-related risks and opportunities, and therefore, our investment and stewardship decisions. We believe that companies and countries that are not operating within the safe and just operating zone are subject to ESG-related financial risks in our portfolios or do not lead to sustainable benefits for the economy, the environment and society.

Due to regulation and changing consumer preferences, companies and countries that do not transition towards the safe and just zone may be exposed to sustainability-related financially material risk.

For directly held equity and credit, we assess whether companies and countries in which we invest are adapting to manage material ESG risks and opportunities, and as such, operate in, or move towards, the safe and just zone. We call this, “adaptive capacity” – the capacity of companies and countries to adapt to the safe and just operating zone.

We assess whether the company or government is sustainable, is transitioning to become sustainable, or whether there is no or very limited evidence of transition.

As such for companies, we assess:

- How the company's business model, industry of operation and behaviour exposes them to sustainability risks
- The company's adaptive capacity to manage these risks.

For example, we may be comfortable investing in companies or governments that are highly exposed to sustainability risks but that have a high adaptive capacity.

Based on our assessment, we categorise companies[2] into one of the following categories:

- **Positive impact:** Companies making a positive and intentional contribution to one or more of the Sustainable Development Goals while operating within planetary boundaries and ensuring social foundations (in other words, within the safe and just operating zone). Their economic activities expand the safe and just zone and create positive impact.
- **Adapting:** Companies that are within, or close to, the boundaries of the safe and just operating zone and are sufficiently managing the risks they are exposed to. They have, or there is evidence to demonstrate they will have, science-based verifiable strategies in place to reach the safe and just operating zone within an acceptable time frame.
- **At risk:** Companies operating outside the safe and just operating zone, not transitioning, and, while they acknowledge the sustainability risks, they lack the capacity, and perhaps the will, to adapt.
- **Non-adapting:** Companies operating outside the boundaries, far removed from the required transition pathways, and lacking the capacity and the will to bring risk management up to standards. These entities lack sound management strategies on their material issues, are exposed to high risks and therefore face significant operational risks in the short- to medium-term.
- **Harmful:** Companies operating outside the boundaries, with activities either through their operations or products that are harmful to society or the environment at a threshold inconsistent with our sustainability beliefs. Examples include companies whose primary business is tobacco production.
- **Non-compliant with international norms and standards:** Companies that do not comply with recognised international norms and standards. Examples include companies that manufacture controversial weapons or are in breach of the United Nations Guiding Principles on Business and Human Rights.

4.3. Fundamental investment principles

In the same manner that some investments are judged to be too risky irrespective of returns, some investments are judged to have too negative a real-world impact, in particular, regarding systemic issues, such as climate change or respect for human rights.

We believe that non-compliance with our fundamental investment principles is untenable and leads to inequalities, social breakdown, severe environmental degradation and social tensions or unrest. We believe the societal damages of these activities to be too high and widespread. They may also have economic consequences.

Harmful

For our direct investment, our default is to not invest in companies categorised as harmful.

We categorise companies as undertaking activities deemed harmful as follows:

- Systematic involvement in fraud, corruption and tax evasion
- The sale of civilian firearms
- Significant involvement in activities with significant risk of harmful impacts to physical or mental health or animal welfare. As such, we exclude tobacco, gambling and adult entertainment.

Non-compliant with international standards

Across Cardano, we do not directly invest in companies categorised as non-compliant with international norms and standards. This includes, the UN Guiding Principles on Business and Human Rights, the OECD Multinational Enterprise Guidelines, and the International Labor Organisation labour standards. We categorise companies as non-compliant with international standards as follows:

2 Our framework for governments is set out in the ACTIAM strategy documents.

- Non-compliance with basic human rights, including labour rights
- Systematic involvement in severe environmental damage
- Involvement in controversial weapons
- Non-compliance with international sanctions
- Companies with more than 25% revenue from thermal coal in 2023, 15% in 2925 and 5% in 2028.

4.4. Material sustainability drivers

In order to categorise companies and governments within our sustainability framework, we consider seven material sustainability drivers. The drivers help us assess the level of sustainability of companies' processes and products. For governments, the drivers reflect the alignment of policies, laws and regulations with planetary boundaries and social foundations.

Environmental drivers:

1. **Fossil fuel use:** Management of fossil fuels use impacting, among other things, climate change, air pollution, energy availability and human health
2. **Water use:** Management of freshwater use in water scarce areas impacting, among other things, water availability, water quality, health and food production
3. **Land use:** Land conversion management especially for agricultural purposes, impacting climate change, biodiversity loss, and water flows but also local communities and inequalities
4. **Chemicals and waste management:** Management of toxic and long-lived chemical substances and hazardous waste and plastics, impacting the environment and human health

Social drivers:

5. **Social capital management:** Actions that maintain the licence to operate on which businesses and sovereigns depend, impacting human rights, community relations, social equity and access and affordability of, for example, healthcare, housing and finance
6. **Human capital management:** Activities related to labour and union rights, employee health and safety and labour practices, impacting educational opportunities and income, diversity and gender inequality

Governance drivers:

7. **Organisational behaviour and integrity:** Actions that create an ethical business environment, impacting community networks, justice and work conditions. For companies this refers to their own business model and also how they treat companies up- and downstream in their value chain. For sovereigns this refers to how they govern human, civic and political rights.

Not all global challenges are equally relevant to each company. The challenge may not have an effect on their operations or results, or the company may not be able to influence the particular sustainability driver. For that reason, for each company, only the material drivers are considered, i.e. that matter to them from a long-term financial point of view or where they have significant real-world impact. Drivers are material to a company if their behaviour exposes them, society or the environment, and thereby their investors, to significant risks.

With respect to climate change caused by fossil fuel use, we consider both physical risks and transition risks. Physical risks include rising sea levels, droughts, wild fires, floods, and extreme winds. Transition risks include the costs of complying with policy and regulation change, changing workforces, changing market conditions, and new technologies.

Based on the assessment of each material sustainability driver, companies and governments are categorised into one of positive impact, adapting, at risk, or non-adapting.

For each driver, we assign weights unique to the company. A company or government's overall category assessment is determined by the lowest scoring drivers. In other words, our framework does not offset a negative score with a positive score. We do however individually analyse each company that breaches a threshold. Depending on the severity of the non-compliance and the scores of the other drivers, we assess whether the breach is expected to cause material risk.

We refresh our categorisations at least quarterly.

4.5. Targets

Based on the aim to have our portfolios operate within, or on, the pathway towards the safe and just zone, we have set targets.

In some cases, the targets apply universally, in other cases, they apply to our direct corporate equity and credit investment portfolios only (not, say, liability driven investment). This is because in some asset classes our investment activity is limited to certain assets or geographies, e.g. UK sovereign bonds.

The targets align with the required behavioural changes to reach the safe and just zone, within planetary boundaries and respecting social foundations.

Environmental targets:

Fossil fuel use: We support the Paris Climate Agreement of limiting global warming to +1.5°C versus preindustrial levels. We do this by committing our investment portfolios to net zero greenhouse gas emissions by 2050, known as “net zero”.

We support global emissions reduction of 50% by 2030, with baseline year 2019. This informs our asset-class decarbonisation targets.

We support the concept of ‘fair share’ decarbonisation targets. In other words, countries with historically higher emissions (which tend to be developed markets) should decarbonise more rapidly than countries with historically lower emissions (which tend to be emerging markets).

This is our default position – in our fiduciary management, our asset management, advice and liability driven investments.

In our direct equity and credit portfolios, we aim to realise an annual reduction of emission intensity of at least 7% per year, in line with the requirements from the Climate Transition Benchmarks, with 75% emissions reduction by 2040.

Water use: In our direct equity and credit portfolios, we aim to achieve water-neutrality by 2030. Water neutrality means that businesses consume no more water than nature can replenish, and cause no more pollution or impacts than is acceptable for the health of humans and natural ecosystems. It is predicted that by that time, half of the world will face severe water stress if water is not used more efficiently.

Land use: In our direct equity and credit investment portfolios, we aim to reach zero net deforestation by 2030. This means that any deforestation is replaced with reforestation of similar or higher quality. Deforestation is one of the major causes of biodiversity loss, also impacting water availability and climate changes.

Chemicals and waste management: No international pathway has been designed to remain within planetary boundaries. Therefore, until science-based pathways are determined, in our direct equity and credit investment portfolios, we aim to move towards an economy with zero waste by 2050, with an intermediate aim to reduce waste with 50% by 2030. To move towards this point, we expect companies to adapt their processes towards a circular business model that prevents as much as technically feasible chemicals and (hazardous) waste problems.

Social and governance targets: Across our three social and governance drivers, no internationally agreed targets have been set. Therefore, we aim to invest in companies that provide transparency about how they contribute to the living standards of the communities affected by their operations, secure proper wellbeing of their employees, protect against social injustice and inequality, and follow principles of good corporate behaviour, good human capital management and good social capital management.

Our priority themes are:

- Planetary boundaries
- Social foundations, working towards a fairer society and sustainable development

5. Investment

We work with clients in different ways:

- **As an asset manager, we invest directly (direct investment)**
- **As a fiduciary manager, we invest directly and indirectly, via third-party managers, and, for derivatives, via counterparties**
- **As an investment advisor**

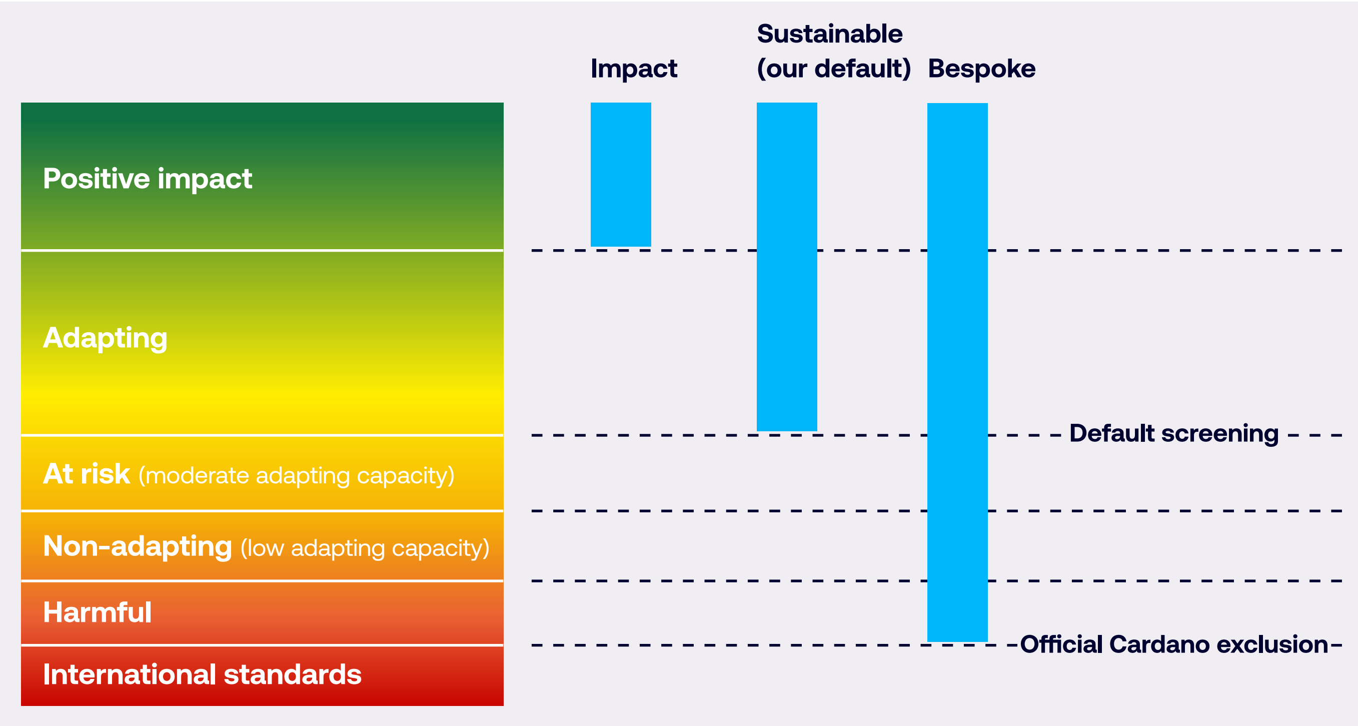
While we believe all clients can benefit from adopting a sustainable approach and can leverage our expertise in this area, ultimately advisory clients will determine their own path.

5.1. Direct investment

Direct investment is where we invest directly in companies, either in physical equity or credit, or via derivative. It does not include indices (whereby we select "off-the-shelf" indices, and as such, their composition is not within our control). It does not include third-party managers which we cover later in this document.

5.1.1. Selection

For our direct investments, we use our Sustainable Investment Framework to construct our portfolios, as follows:



Through impact investing funds, we intentionally seek to generate positive, measurable social and environmental impact alongside a financial return. We develop and manage funds that focus on impact investments, with a focus on individual themes such as: the SDGs, financial inclusion and the energy transition.

In our default direct investments, we invest in the positive impact and adapting categories. We may include selected at risk companies if we believe the company is likely to be re-categorised as adapting.

We may also invest in green, social, sustainable or sustainability-linked bonds of 'at risk' companies if the proceeds are used to address the reasons that have caused the 'at risk' status.

For our fiduciary portfolios, we also invest in market indices and via third-party managers, that will not apply our categorisation process (but will be subject to sustainability-related considerations, covered below).

5.1.2. ESG scoring

We also determine a bespoke ESG score for each company, to further integrate relevant ESG information into the investment decision-making process.

This information allows us to optimise the sustainability performance of portfolios – in other words, we may favour investments in higher ESG scoring companies, than lower scoring. ESG scores are determined for companies and for governments. The ESG score for companies consists of three elements:

- **Company score:** The risk exposure and the adaptive capacity for the material drivers are combined into an ESG base score
- **Sector score:** We apply a quantitative positive or negative sector score based on whether the sector is supporting or hindering progress towards the safe and just zone
- **Analyst score:** The analyst score allows a further distinction between leaders and laggards at our discretion based on proprietary analysis of the company or government.

5.2. Stewardship

For our direct and indirect investments, we undertake stewardship (also known as, active ownership) across our investment activities, engaging the companies we own, in our equity investments, voting at shareholder AGMs, and engaging our third-party managers and counterparties (also covered later), as informed by the UK stewardship code.

Good stewardship can be subjective. We set out our preferences as follows.

- **Collaboration –** engagement is more efficient and impactful when managers collaborate, not just for the investors, but for the companies too (who will field fewer, but higher conviction, engagements from their investors)
- **Quality over quantity –** we are interested in meaningful engagements, seeking tangible results with strong reporting
- **Long-term –** we encourage long-term relationships with companies. Successful stewardship can take many months, maybe even years
- **Real world impact –** we are interested in engagement on topics that contribute to positive real-world sustainability impact and address systemic issues (such as, reduction in absolute carbon emissions)
- **Innovation –** we encourage innovation, for example, our satellite-based engagement towards zero-deforestation
- **Integrated –** stewardship contributes to investment decisions
- **Goal-oriented –** we set objectives and work towards those; if progress is not meaningful we will consider escalation including voting against board members or changes in capital allocation
- **Transparency –** some engagements, perhaps even many, will be unsuccessful.

Our engagements focus on companies in their transition to the safe and just operating zone and to encourage companies to move up to a higher level in our sustainability framework. In many cases, we participate in collaborative engagements with other investors (Tier 1, in our Model of Influence). Where we identify sustainability issues that relate to our targets where there is no collaborative engagement underway, we start our own engagement.

During an engagement process, we set clear targets and milestones in order to monitor changes related to the material sustainability drivers.

Engagements that relate to a potential breach of the Fundamental Investment Principles, or a downgrade in categorisation due to insufficient adaptive capacity, may lead to exclusion. And vice versa: where the engagement is successful, and the company is not in our portfolios, it may lead to investment.

We also vote at shareholder AGMs to communicate our sustainability views to companies. We have a standalone voting policy that details how we will vote at companies to promote better oversight of sustainability issues. If needed, we initiate or support shareholder resolutions on actions necessary for a company's transition towards the safe and just zone. In our Model of Influence, we consider the co-filing of resolutions (filing in collaboration with other investors) to be a Tier 1 form of influence.

We aim to link engagement and voting activities together with investment decisions. Our observations made during engagements often inform our voting activities, and also decisions about exclusions and inclusions.

5.3. Indirect investment: Manager research

In addition to our investments, we help our clients invest in more than 160 investment managers across most major markets, asset classes (public and private) and geographies.

Our approach, therefore, is flexible – to account for different strategies – without compromising on focus, which we believe drives the best outcomes. We comprehensively assess and integrate sustainability issues at every investment stage.

We recognise that there are many valid sustainable investing approaches.

We expect our managers to:

1. Be aware of financially material ESG issues associated with an investment
2. Take ESG issues into account where they have the potential to materially affect the financial risk and / or return
3. Engage strategically on ESG issues, where possible within the portfolio and externally. We expect all managers to exercise voting rights where possible.
4. Weight substance over form – we look for genuine integration of ESG issues

Our ESG assessment framework is deliberately detailed and assesses fund managers across four areas:

- People and policies
- Investment integration
- Stewardship and engagement
- Reporting

We treat external investment managers as partners, feeding back ESG ratings and using these to set specific, time-based milestones for managers to make progress.

From there, we are able to engage with managers further to ensure sustainability remains at the forefront of their investment decision-making.

We regularly discuss sustainability topics as part of our ongoing monitoring throughout the year.

Aligning to industry best practice

We believe that a critical part of improving sustainability practices requires improved clarity and standardisation (around terminology but also metrics and reporting).

We have aligned our strategy specific ESG questionnaires – detailed sets of questions we send to all our managers annually – with the UN PRI's reporting framework. The framework is recognised as the best-in-class industry standard. We hope this will encourage managers to align to a single, standardised means of reporting, as well as to become UN PRI signatories themselves.

We are active participants in the Investment Consultants Sustainability Working Group (ICSWG) – a body made up of 17 investment consultant firms to UK asset owners. The group published in guidance designed to improve the engagement reporting by managers, which we incorporate in our approach.

5.4. Counterparty engagement

In our Liability Driven Investments and derivative investments, we invest via a counterparty, often an investment bank.

To understand a counterparty's ESG risk exposure, our dealer committee has developed a framework that screens counterparties for material ESG issues using data provided by different ESG rating agencies. The dealer committee monitors the creditworthiness of counterparties and determines an internal rating.

A view on counterparties' ESG risk exposure forms an important part of that decision-making process. Counterparties that score below a threshold on various tests under the framework are subject to further investigation. All other counterparties are deemed to pass the ESG assessment.

We have supplemented third-party ESG data with our own questionnaire. The detailed disclosures are used as part of our review process.

Where a counterparty is subject to further investigation, the framework applies a more granular screening process, where the ESG issues under consideration are closely linked to our sustainability beliefs.

Companies that fail this screening process are then subject to an in-depth ESG review. The review primarily consists of a detailed review of MSCI ESG reports, together with broader research on the counterparty.

Where a counterparty that is subject to active engagement is not demonstrating signs of engagement or a willingness to address our ESG concerns, after a reasonable period of time the counterparty ESG assessment will be deemed to be "poor".

A poor rating will typically result in a downgrade to our rating, and therefore may be excluded from our list of counterparties with which we will transact new business, or potentially, if credit concerns are raised, unwind existing positions.

5.5. Sustainable bonds

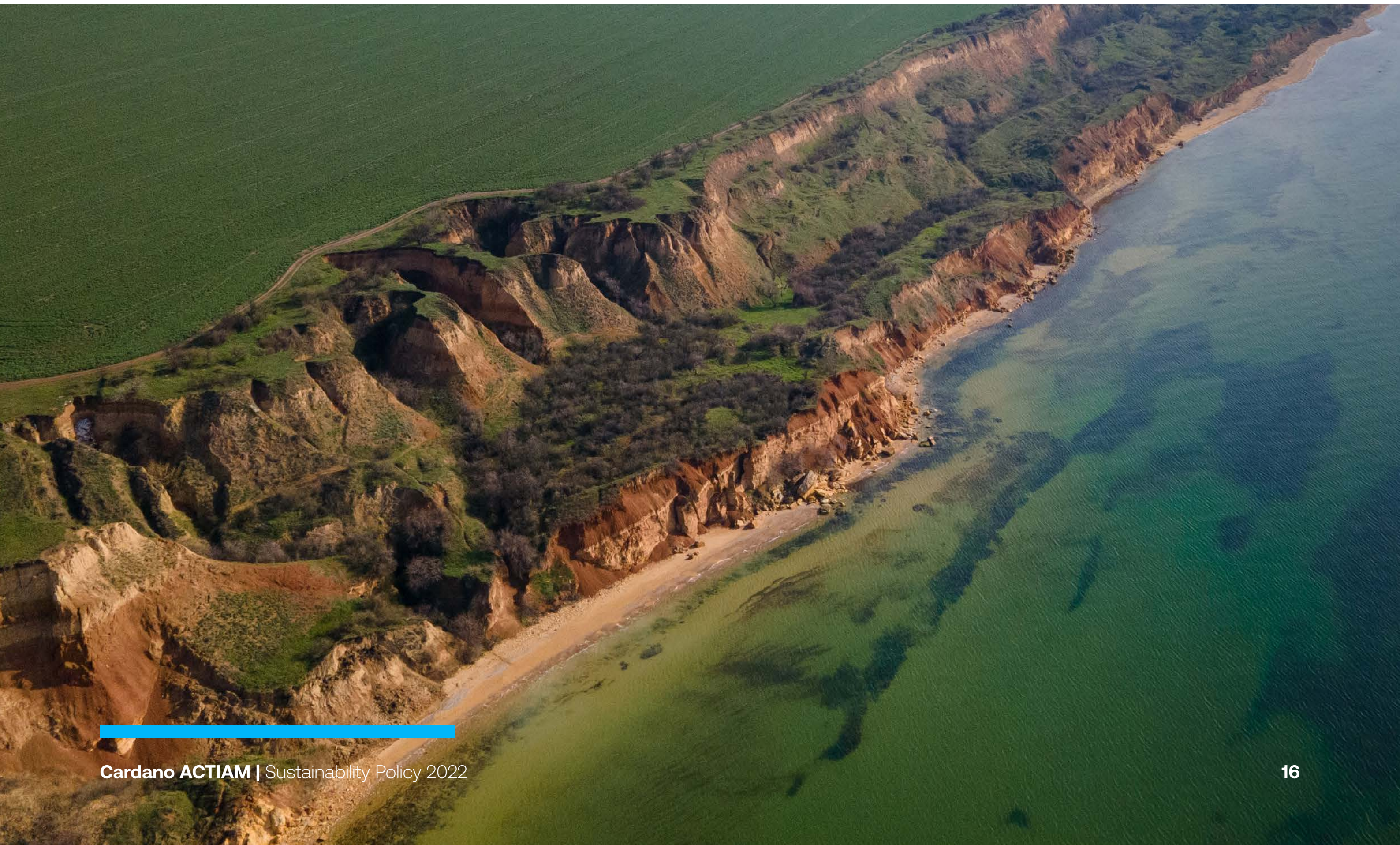
Green (environmental), social, sustainability and sustainability-linked bonds (hereafter, "sustainable") are the same as conventional bonds in terms of financial characteristics: they have a fixed term, fixed notional and a fixed coupon.

The main difference is that the proceeds are used for green, social or sustainable purposes, such as a renewable energy project or social housing, or in the case of sustainability-linked bonds, an adjustment to the rate of interest if the company does not meet predefined sustainability indicators.

Sustainable bonds can trade at a premium compared to their conventional counterpart. In the case of green bonds, this premium is referred to as a 'greenium': the difference in yield between a green and a comparable conventional bond.

We believe the 'greenium' is justified and are increasingly comfortable with the premium. We consider it a factor in the overall qualitative assessment of the investment. In our credit, liability driven investment and fiduciary portfolios, we favour investments in sustainable bonds where these offer appropriate risk/return for the mandate.

As part of the investment decision-making process, we undertake our own assessment of the use of proceeds and assess the sustainability of the issuer, to ensure consistency with our sustainability framework.



6. Advisory

It has always been our view that a sustainable company is a stronger sponsor for all stakeholders.

Cardano Advisory provides advice and support to trustees, corporate clients and asset owners looking to understand the interplay between corporate financial strength, sustainability and defined benefit scheme liabilities.

Making a real-world impact is core to our sustainability efforts at Cardano Advisory. We are proud to have helped clients understand sustainability risks and, crucially, make plans to avoid them and maximise their opportunities.

To achieve this, we have established a dedicated sustainability advisory team of professionals that provide consultancy advice. The team has developed a number of in-house propriety models to support their work, including the award winning MACCI model (Methodology for Analysing Climate Change Impact, which we use to provide corporate climate risk analysis) and EARTH model (broader corporate sustainability risk analysis).

The models analyse company specific data alongside market inputs, obtained from a wide range of public and subscription data sources, to break down and distil complexity to enable a user to identify the most significant risks and the potential impact of those on a corporate

We believe the sustainability transition will represent one of the most fundamental shifts in our lifetimes. We encourage clients to consider both how to mitigate and adapt to these risks, and how we can help them align their business towards science-based transition plans to operate within planetary boundaries and respect social foundations.

Climate Covenant Impact

We have worked with leading academics to develop MACCI (Methodology for Analysis Climate Covenant Impact), a scenario-focused solution that breaks down the complexity of climate change by drawing on extensive academic literature and leading climate change thinking to help trustees understand the following:

- What risks could materialise? Are these climate risks (e.g. weather events) or transition risks (e.g. social change)?
- Where are these risks likely to develop?
- In what climate change scenario are these risks most prominent?
- How will these risks impact on all aspects of the sponsor's value chain?
- How extensive will the impact be from supply through to the consumer end-market?
- Is it possible for the employer to mitigate those risks?
- Overall, how robust is the employer covenant in the face of these risks?

Our proprietary methodology and model assess the risks to every country across the globe and maps these risks to the location of the sponsor's supply chain, operations and end markets to identify areas of primary concern. We have designed our approach with the intention that all stakeholders can understand the key aspects and concerns.

We are able to highlight specific risks for sponsors, where other approaches might only note broader or 'sector relative' concerns through a rating or score.

MACCI has been developed such that the analysis required can be scaled up or scaled down, depending on the level of climate risk exposure of the sponsor, or circumstances of the scheme. The flexibility in-built within MACCI enables trustees of all schemes to consider whether their covenant may be at risk from climate change.

Our approach can work alongside existing advisors to provide integrated guidance in this specialist area. We believe that MACCI is the 'first of its kind' and will facilitate trustees understanding the exposure of their employer covenant, together with guiding focus on the areas of highest concern so that targeted and relevant actions can be taken, when necessary.

Example output of our assessment tool (MACCI) demonstrating global climate risk exposures in company supply chains:

Keys risks to sponsors value-chain (supply chain), production sites, operational locations highlighted

Risks all assessed relative to sponsor's needs: Lower exposure causes a lower risk score

Low risk areas highlighted to demonstrate the potential flexibility of sponsor to climate change

Sponsor location

Demographic changes and migration

Extreme temperature changes

Droughts

Increase in carbon pricing

Extreme rainfall

Increase in extreme weather

Increase in climate legislation

Extreme wind events

Wild fires

Coastal flooding

7. Collaboration and policy engagement

7.1. Collaboration and membership organisations

Collaboration is efficient and effective. It allows us to benefit from external expertise and we, of course, contribute our expertise where appropriate to do so.

We see collaboration as part of the way we can contribute to a more sustainable financial system. By aligning around common themes and methodologies, we send clear messages to the companies we own – and to our regulators. Collaboration allows for a faster, smoother transition.

As such, we are members of, and contributors to, a range of sustainable investment organisations, which includes:

- Access to Medicine Foundation
- Access to Nutrition Initiative
- Climate Action 100+
- Finance for Biodiversity Pledge
- ICMA – International Capital Market Association
- ICSWG – Investment Consultants Sustainability Working Group
- IIGCC – The Institutional Investors Group on Climate Change
- Investor Alliance for Human Rights
- NZAMI – Net Zero Asset Managers Initiative
- NZICI – Net Zero Investment Consultants Initiative
- PBAF – Partnership for Biodiversity Accounting Financials
- PCAF – Partnership for Carbon Accounting Financials
- PLWF – Platform for Living Wage Financials
- PRI – UN Principles for Responsible Investment

We participate in working groups, contribute our expertise where appropriate, and listen to and learn from others. We do this across the business so that our sustainability expertise is widely embedded across our investment and advisory teams.

In addition, we encourage and assess our third-party managers on their participation in relevant sustainable investment organisations.

We are a signatory to the UK Stewardship Code, and we support the aims of the EU's sustainable finance action plan and the UK's green finance strategy.

We welcome policy intervention on sustainable investment topics, and we will contribute to policy development where we have expertise.

We will review our membership of sustainability organisations on an at least six-monthly basis. We will consider how and where we can best contribute and whether we should consider additional organisations as our sustainable investment activities evolve.

7.2. Policy engagement

Over the past few years, there has been a dramatic increase in the attention paid by financial policymakers to sustainability issues. Indeed, analysis by the UN PRI identifies over 730 hard and soft-law policy revisions which support, encourage or require investors to consider ESG issues across world's 50 largest economies.

Accompanying, and in some markets, leading this change, institutional investors have actively engaged with these policymakers on sustainability issues.

We see policy engagement as a Tier 1 Model of Influence, and as such, a natural extension of our sustainability commitments. We recognise the need to improve the sustainability of the market as-a-whole and that there are clear benefits to our clients through well-designed sustainable investment policy reform.

In particular, we will respond to consultations relevant to sustainable investment in the UK, Netherlands and Europe, and we will offer our expertise and experience where it is appropriate to do so.

7.3. Regulatory reporting

SFDR: We fulfil our disclosure obligations under SFDR, at legal entity-level and at product-level. Per 1 January 2023 the regulatory technical standards (RTS) under the Sustainable Finance Disclosure Regulation (SFDR) will apply, where we will make pre-contractual disclosures, periodic reports and website disclosures.

TCFD: We follow the recommendations of the TCFD, across governance, strategy, risk management, and metrics and targets. We support our clients in the preparation of TCFD reports. We will publish a group-wide TCFD report.

Stewardship Code: We are signatories to the UK Stewardship Code, disclosing against the principles annually.

7.4. Industry group reporting

UN Principles for Responsible Investment: As signatories to the PRI we report annually on our responsible investment policies and processes.

Net Zero Asset Managers Initiative: As signatories to the NZAMI we report on our decarbonisation targets, our metrics and our progress towards meeting our targets.

Net Zero Investment Consultants Initiative: As signatories to the NZICI we report on how we incorporate sustainability in our investment advice.

8. Sustainability oversight

Our Sustainability Team is responsible for the continual development and implementation of our policies, alongside our investment teams.

Our ESG Scoring Committee (ESCOM) decides on our ESG company scores and meets quarterly. The ESCOM monitors the methodology by which the ESG scores are determined.

Our ESG Selection Committee decides on policy changes, exclusions and additions, emerging sustainability themes, and implementation, and includes the participation of an independent ethics professor.

Our Investment Committee Sustainability (ICS) focuses on the implementation of our sustainability policies in investment decision-making and meets monthly.

Our Sustainability Steering Committee (Steer Co) oversees our sustainability policies, both for our firm and client portfolios, and meets monthly.

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

This policy reflects our group sustainable investment and advisory policy. ACTIAM's detailed strategy documents apply to all ACTIAM managed assets.

The strategy documents can be found on ACTIAM's website: https://www.actiam.com/en/sustainable-investments/.

We're in the process of reviewing the strategy documents, updating to align with this sustainability policy, and applying to all Cardano Group directly managed assets. Any questions, please email sustainability@cardano.com.

cardano actiam

Cardano
9th Floor
6 Bevis Marks
London
EC3A 7BA

T: +44 (0)20 3170 5910
E: sustainability@cardano.com

Cardano NL
Weena 690 - 21ste etage
3012 CN Rotterdam

T: +31 (0)10 206 1300
E: info@cardano.com