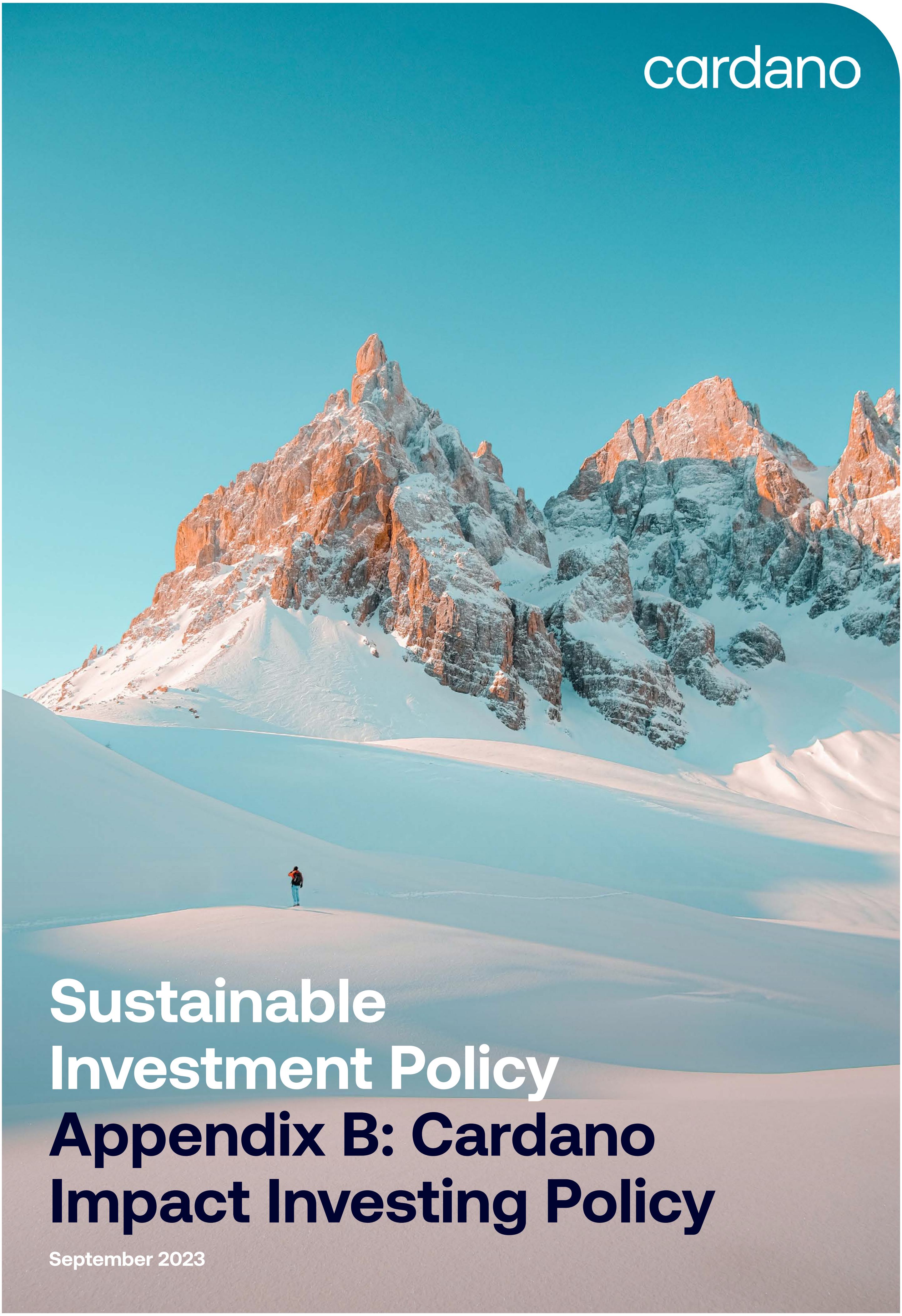


cardano

Sustainable Investment Policy

Appendix B: Cardano Impact Investing Policy

September 2023

Contents

1. Introduction

Humanity's 21st century challenge is to meet the needs of existing and future generations within the means of the planet. In other words, to ensure that no one falls short on life's basic needs. At the same time, we need to ensure we stop overshooting our pressure on Earth's planetary boundaries.

We believe all investments have both real-world impact as well as financial characteristics. A real-world impact is a change in an important outcome for people, society, or the environment, and can be either positive or negative. We believe that over the long term, an investment's real-world impact is reflected in its financial performance, and that through the investments we make as investors, we can affect real-world outcomes. Our impact investments aim to accelerate the transitional changes needed to drive towards a sustainable society.

We take a double materiality view across all investment strategies that we manage:

- **Financial:** We assess how sustainability matters impact (financial) risks and opportunities.
- **Real-world impact:** We assess how an investee company impacts people and the environment.

Towards a sustainable society

We define a sustainable society as one that operates within planetary boundaries with strong social foundations. Multiple transitions of human activity and behaviour are necessary to achieve a sustainable society. These transitions relate to both environmental and social changes to be made:

- climate transition, biodiversity, water and material use
- the provision of basic needs, a fairer society, required to provide strong social foundations
- strong governance, which ensures companies and government retain their social license to operate

In our approach to identifying our overall investable universe, we classify potential investments according to the material risks faced by the investment and the material contributions made to the transition to a sustainable society. We identify three types of companies[1] that contribute towards achieving a sustainable society:

- **Adapting companies** are expected to contribute to the sustainability objectives but may still do harm to some of the environmental or social objectives today. They have concrete and verifiable strategies to adapt substantially within an acceptable time frame, either by innovation in their solutions, in operations and/ or via improvement in their social and governance practices.
- **Sustainable companies** already operate sustainably (with no significant negative real-world impact). Investment in these companies supports them to scale and potentially grow into making a more positive real-world impact.
- **Positive impact companies** intentionally aim to generate positive real-world impact. They accelerate the transition to a more sustainable society through their products and services. Investment helps them to scale and grow their impact to accelerating the transition to a sustainable society.

All three types of companies are essential to achieve the transition to a sustainable society. This Impact Investing Policy outlines our approach to investment strategies focused on the third category of 'positive impact' companies and projects.

Positive impact companies are divided into two types:

- Products or services that a company provides contribute directly to a significant environmental or social impact, and their operations and activities do not create any significant harms. For example, a solar farm operator provides renewable energy.
- Products or services that a company provides that substantially enable another activity that contributes to the environmental or social impact, and their operations and activities do not create any significant harms. For example, a manufacturer of a wind turbine provides turbines necessary for renewable energy generation.

1 We refer to companies to denote underlying investments. This can also be used interchangeably with terms such as investees, projects, enterprises, opportunities, special purpose vehicles, sustainable bonds, issuers, and other terms where we are looking through to the impact and characteristics of the underlying entities and specific projects being financed.

2. Defining impact investing

We derive our definition of an impact investing strategy from international standards, notably the Global Impact Investing Network (GIIN)[2]. Impact investing strategies must meet criteria set out in this Impact Investing Policy. Detailed information on the focus, theory of change, strategy and ambitions of each impact strategy is in each fund mandate and documentation.

We believe positive impact is achieved through contributions from the investment manager executing the investment strategy, as well as from the underlying investments.

An impact investing strategy makes investments with the **intent** to generate **measurable** positive social or environmental **impacts that accelerate the transition towards a sustainable society** alongside **financial returns**. The impact Investment Manager should maximise its **contribution** towards the transitions and demonstrate a **high-quality investment process**.

Core characteristics of impact investing

Positive social or environmental impact

An impact investing strategy seeks to invest in companies that, through their products and services, intentionally aim to achieve significant positive real-world outcomes without significant negative side effects. These outcomes accelerate the transition to achieve a sustainable society and address challenges to planetary boundaries and social foundations.

Intentionality

The intention of our impact investment strategies is to generate positive real-world outcomes that contribute to the necessary social and environmental transitions. To help realise this intent, each impact strategy has a 'theory of change,' including:

- a description of the real-world problems it seeks to address
- how the investment strategy seeks to contribute to the solutions through investments
- the outcomes those investments will seek to create
- how the investment manager will contribute to achieve the outcomes
- transparent impact goals and/or objectives focused on real-world outcomes

Measurability

To assess the effectiveness of each impact investment strategy, we measure the real-world impact of our investments. Our measurement goes beyond measuring financial outcomes, such as green revenues, to measuring real-world outcomes and impacts of products, services, or operations. This process enhances reporting transparency, helps to assess whether the investee company is reaching the intended impact and creates a feedback loop to consider how to improve this impact.

We prefer to align with standardised metrics and independently assess impact where possible. Given the breadth and complexity of the market, obtaining measured impact data is not always feasible and most existing data focuses outputs or outcomes, rather than impacts. In many cases, we will assess impacts through models based on outputs. Given the quality of data available, measurability is a balancing act between collecting high-quality data and being pragmatic. To enhance data availability and quality, we work with sector initiatives (such as the Joint Impact Model and the Netherlands Advisory Board on impact investing), deploy innovative solutions (see our work on satellite imagery and bioacoustics relating to biodiversity) and engage with companies to improve reporting transparency.

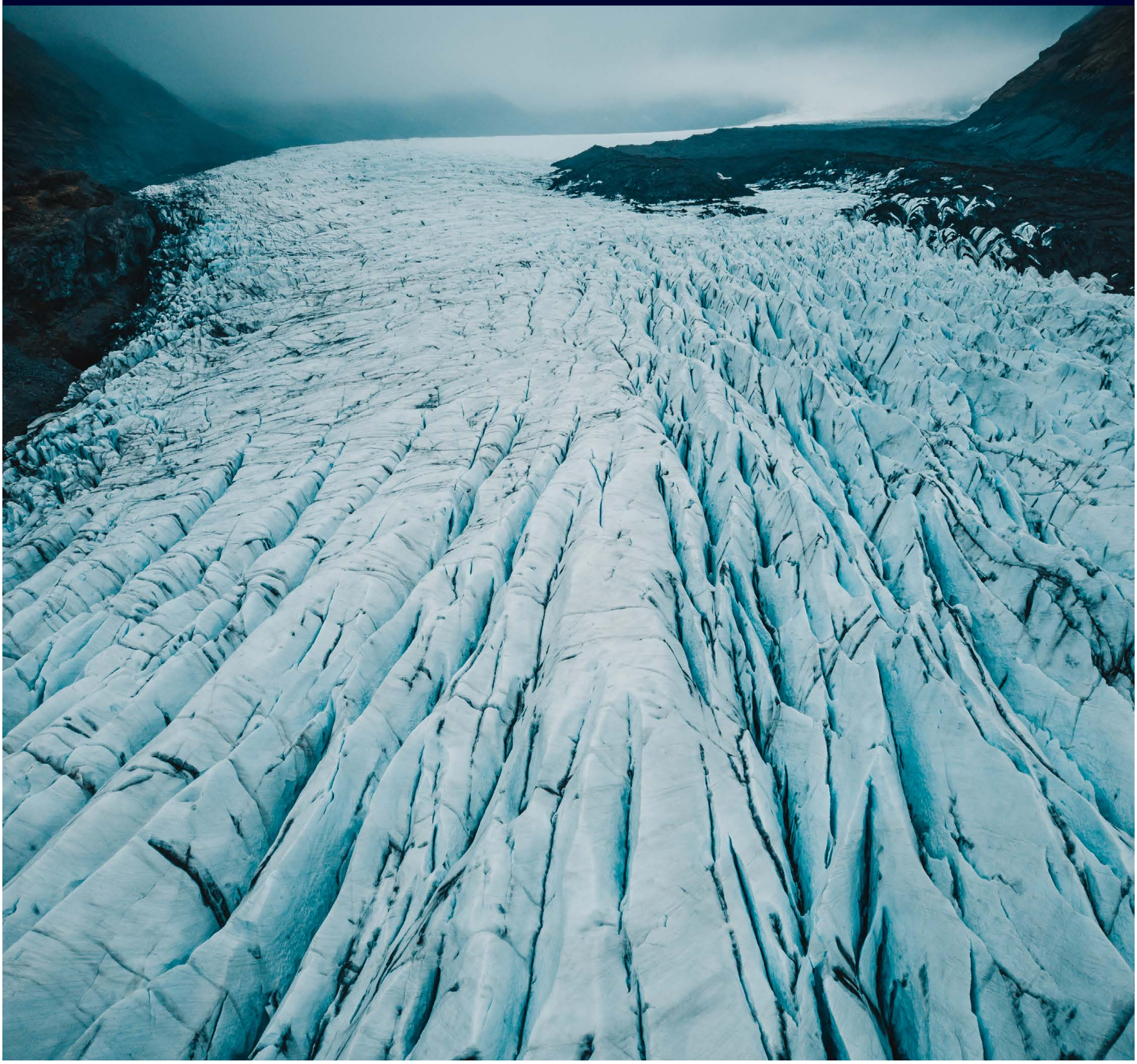
Financial return

Our clients seek market-related financial returns on their impact investments commensurate with the risks they take, along with impact return. We assess what constitutes a commercial financial return on an individual investment basis, considering risk characteristics targeted by the impact strategy.

While we don't invest concessionary capital (capital willing to accept a below market rate of return), we work with concessionary investors to create blended finance solutions and other innovative strategies to expand the accessibility of impact investments for our clients.

2 Impact Investing | The GIIN

3. The Investment Manager’s contribution



Throughout this Impact Investing Policy, we distinguish the role and responsibilities of the investment manager - and the underlying companies or projects in realising impact. Impact investing strategies seek to maximise their impact at both levels.

Impact investing goes beyond identifying the impact of the underlying investments. In line with the double materiality objectives we set for all our impact strategies, we strive to maximise Cardano's positive contribution to the transition to a sustainable society. As an investment manager, we have a variety of tools to influence and create positive real-world impact, and drive towards a sustainable society, depending on the impact investment strategy.

We've two primary channels to influence/drive impact: **capital allocation** and **stewardship**.

Capital Allocation

The most direct way to influence the outcomes a company generates is to provide capital when we are sure it will be used to generate positive impact. In many private market strategies, our influence is generated by supplying new capital to positive impact companies through debt or equity provision. Some positive impact companies in which we invest via the secondary market may also require new primary capital through either debt or equity issuance. If this aligns with our impact goals, financial goals and portfolio needs, we will support it.

As an investor in debt or private markets, we can stipulate a 'use of proceeds' or other covenants requirements in exchange for supplying capital, ensuring that the capital is used to create the desired impact.

Through product development and by establishing blended finance solutions with partners including development banks, we can open new areas of impact: creating impact capital solutions that address previously unmet needs.

In private markets, a responsible exit strategy when selling an investment helps to safeguard the impact angle under a potential new owner.

When investing in the public markets (via the secondary market) we do not provide new capital directly to a business. The financial influence of our capital allocation is limited to a potential effect on the cost of capital through share purchasing. We aim to be long-term supportive investors, helping positive impact businesses to achieve their long-term financial and impact goals: directing our influence to hold the management accountable for maximising positive real-world impact through our stewardship approach. For example, we will resist calls by short-term orientated investors for short-term profits at the expense of impact.

Stewardship contributions

Our stewardship approach seeks to maximise positive impact investment outcomes. We take various approaches, depending on the investee company's appetite for change.

Engaging with an investee company's Board and management team

Assessing the alignment of the investee company's objectives with our impact strategy objectives is crucial to ensuring longer-term success. We hold them accountable to maintaining their social and/or environmental mission, in line with our investment strategy's theory of change.

Our engagements are well-defined and have clear objectives, and we report on our progress. When we need to address specific issues, we map out an engagement plan including milestones, monitoring and escalation points.

For an impact investing strategy, our objective is to grow the positive, real-world impact of underlying companies as much as possible, alongside financial returns. By focusing on the positive, real-world impacts of its products, the investee company is often able to improve its financial performance and reduce material risks.

An effective stewardship strategy will increase transparency of the investee company's measurable impact outcomes, promote progress in relation to these objectives and provide the means to hold management to account in the mitigation of potential negative side effects.

To maximise our effectiveness, we emphasise Collaborative Engagement. Working together with other like-minded investors is more efficient and powerful than attempting to engage with each investor and is more likely to lead to meaningful change. We collaborate by leading on certain engagements, for example, and leverage other investor efforts. We work with Sustainalytics, our engagement partner, to amplify our impact through consolidating the influence of many assets managed by like-minded investment managers.

Our approach to engagement emphasises quality over quantity. We recognise we can't effectively engage with every investment we have: so, we look at where the engagement is most needed. What is most likely to be effective? Where do we bring a unique angle that can make the difference?

Where and when necessary, our stewardship approach involves other tools in our engagement toolkit. If the investee company is unresponsive, we escalate issues with its management team and Board, and vote on resolutions at AGMs in support of our impact objectives. When appropriate – and if it is in our clients' best interests – we may co-author public letters (in collaboration with other investors), file or co-file shareholder resolutions and vote against company directors. If all avenues are exhausted, we will disinvest.

For third-party fund investments, we target our influence and support at the third-party investment managers, with an active programme to engage those who are substandard to improve in areas of policy, process, stewardship, impact measurement and reporting, with similar escalations that may apply.

Direct impact assistance

As an impact investor we can directly support the companies we fund and go beyond typical investor level of engagement. We provide technical support (for example around reporting, disclosure, and measurement standards), share information and knowledge with our investee companies, assist with networking to make connections to other like-minded capital suppliers or service providers. We work with other investors and concessionary capital providers to structure funding solutions in such a way that new impact themes become investable for institutional investors.

Our advisory business can directly advise companies on achieving their sustainability goals. For private strategies with third-party managers, we often take advisory Board roles, or a Board or advisory Board seat at an investee company or underlying investment.

Enabling impact investing ecosystems

We believe in creating partnerships with other investors, industry initiatives, regulators, governments, NGOs and other stakeholders to contribute to growing the impact and sustainable investing sector. In addition to working with partners on blended finance solutions, we support initiatives that directly enable new areas of impact, such as improving data availability and standardisation, influencing regulation and policymaking processes to build an enabling impact environment, and supplying resources to work with sustainability industry groups,[3] such as the PRI, the IIGCC, GIIN, the Joint Impact Model, the Netherlands Advisory Board on Impact Investing. We report on our activities and involvement with these groups and our consultations with regulatory bodies.

What does a high quality impact investment process entail?

To qualify as an impact investing strategy, we require specific criteria from each investment manager (for both external third-party managers and Cardano's teams):

- A high-quality investment process that includes:
  - implementing a robust approach with a clear intention (including a theory of change) to achieve positive outcomes
  - clear impact goals (based on evidence and data)
  - measuring and managing impact performance (including negative side effects of investments)
- Using the best quantitative and qualitative data available to ensure an impact investing strategy targets identified societal and/or environmental needs
- Established and monitored feedback loops from outcomes to ensure an impact investing strategy continues to target the best approach to reach stated impact goals

Where relevant, we aim to follow the Impact Operating Principles[4] for our impact strategies.

> **“As an impact investor we can directly support the companies we fund and go beyond typical investor level of engagement.**

3 See our website for the list of active programmes we are involved with and our annual Sustainability report. Our approach to Sustainability - Cardano - UK
4 Invest for Impact | Operating Principles for Impact Management (impactprinciples.org)

4.

What qualifies as a positive impact investment?

A variety of asset classes and investment strategies should contribute to the transition to a sustainable society. When identifying impact investments, we consider both public and private companies as a potential impact investment: our starting point is the company itself and its intention to realise positive impact. We don't start off excluding any asset class. We aim to identify positive impact companies for private market investments, and there are also an increasing number of public market companies with clear positive impact intentions.

Each impact investment type is considered on its own merit.

Private markets

- Providing financial support to growth-stage companies with limited access to capital
- Directly contributing to achieving specifically targeted, measurable impact objectives
- Direct influence via specific loan agreements and/or advisory roles

Public markets

- Supporting impact companies to scale their impact products or services
- Supporting the mass deployment of more proven products and technologies
- Influence and encouragement via active stewardship activities

Impact investing in public markets

An impact investing strategy needs to specify clearly the specific positive impact investments on which it is seeking to focus. To ensure ongoing alignment, we invest in 'positive impact' companies that have:

- A purpose, narrative or mission about creating positive impact
- Align their intent with our impact investment strategy
- Stated impact objectives (where possible)

Our proprietary classification approach ensures a high materiality standard for a 'positive impact' company. We measure this as a substantial portion of the company's revenues, capital expenditure and research and design plans, operational expenditure, or directly measurable real-world impact. A large company that may have a positive impact as a small part of its overall business will not qualify as positive impact, since little of our investment could be attributable to the positive impact portion of their business.

We have a similarly high materiality standard for a positive impact company not doing significant harm. To qualify as 'positive impact,' an investee company must meet the 'sustainable' criteria in our Sustainable Investment Framework - requiring no significant negative real-world impacts. We classify an investee company with any significant negative impacts in other categories, such as the 'adapting' category - if it has a plan to reduce those negative impacts.

Occasionally a potential investee company's operations and supply chain management create substantial environmental or social positive impact, while their products or services do not particularly contribute to impact solutions (but also do not create any significant harm). Take a coffee shop chain that intentionally seeks to employ ex-offenders upon release from prison, who may otherwise struggle to find employment and reintegrate into society. The product and service – coffee provision – does not create the impact, the operations do.

We recognise the difficulty of quantifying positive impact through metrics. Qualitative assessment of an investee company is an important part of the impact assessment process. Our Sustainability Classification Committee signs off all investment classifications and maintains a high standard of what qualifies as a 'positive impact' investment. It opines on harder-to-classify cases (such as the 'operations and supply chain' example above).

Sustainable bonds

When classifying a sustainable bond as a positive impact opportunity, we follow a separate approach. The market for labelled sustainable bonds (green, social, and sustainable bonds) has grown in recent years. But simply investing in green or sustainable bonds doesn't qualify an impact investing strategy. It must meet all criteria for impact investing strategies: a positive social or environmental impact, intentionality (via a theory of change), measurability and financial returns.

Our specific assessment process assesses the quality of a sustainable bond issuance: just because the market labels it a sustainable bond doesn't mean we will consider it as such. We label bonds 'positive impact' when we have high certainty they make direct contributions to social or environmental outcomes.

Issuance is labelled 'positive impact' even though the underlying issuer may not be labelled in this way. We usually consider sustainable bonds as 'positive impact' if they're issued by adapting, sustainable or positive impact businesses and they pass our rigorous sustainable bond assessment process.

Impact investing in private markets

For our private market impact investments, we also need to understand each investment's real-world impact in detail. When assessing the impact for our (potential) private impact investments, we use the **five impact dimensions** adopted by the IRIS+ framework (developed in partnership with the Impact Management Project (IMP), a leading impact investing framework).[5] The contribution of each dimension differs depending on investment, context and asset class.

This assessment process ensures all investments align with our impact investing strategy's theory of change and objectives. It also provides a feedback loop on real-world outcomes, which can guide future investment decisions.

We monitor all investments in our portfolios according to their environmental and social impact performance. For externally managed multi-theme mandates/investment solutions, we develop a framework with a core set of indicators, standard for all portfolio investments and a few specific indicators per investment or impact theme. These indicators align with sector standards such as the IRIS+ indicator framework[6], HIPSO[7] and PCAF[8], as much as possible.

We also monitor selected environmental and social key performance indicators as part of our regular portfolio monitoring process on a quarterly basis. Every year, we collect data on a large set of impact outputs and outcomes on the five dimensions of impact, as defined by the Impact Management Project.

The five impact dimensions

1. What?

Does a company's outcome provide a solution to the impact problem defined in the fund's theory of change and objectives?
For example, increased education in the fight against poverty, or the generation of renewable energy in the fight against climate change.

2. Who?

Who, where, which people or on which part of the environment does the investment have an impact?
Examples could be people excluded from access to basic needs in emerging markets or a specific environmental issue, such as 'biodiversity loss in the Amazon.'

3. How much?

What is the outcome in terms of intended scale, depth, and duration?
The number of stakeholders that are impacted positively by the product, service, or operations, how the new situation compares to a baseline scenario and when the positive outcomes take place.
For example, the number of people provided with access to clean energy, or affordability of clean energy, or level of education received.

4. Enterprise contribution

What is the enterprise's contribution to social and/or environmental outcomes?
This should consider what impact is attributable to the enterprise versus other potential contributors.
For example, an education project may consist of funding a school building and funding for teaching staff, each contributing to the outcome of better education.

5. Impact risks

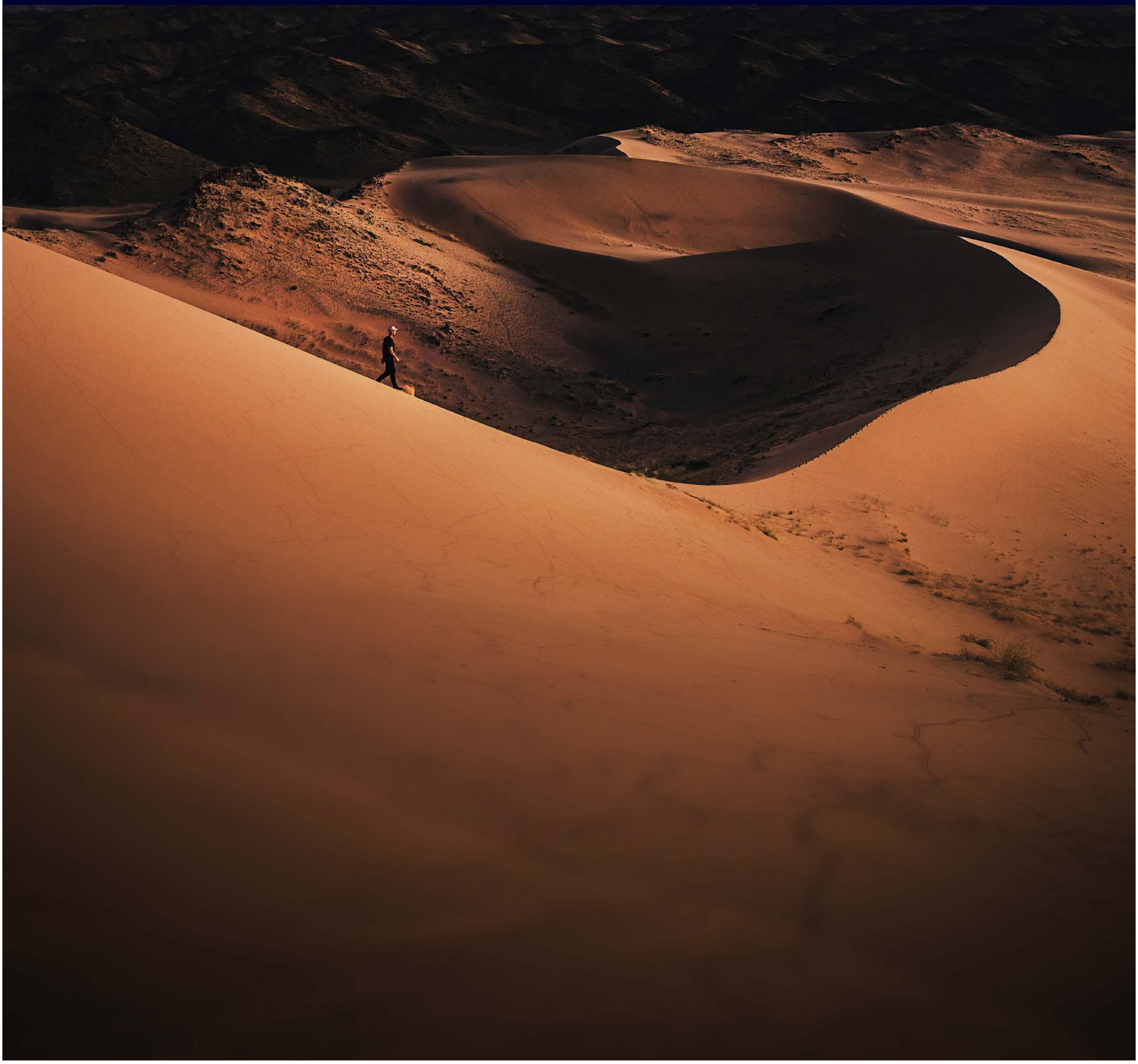
What is the chance that an investment does not reach the intended positive social and/or environmental outcomes, or has (unintended) negative side-effects?
For example, building a hydropower dam may displace local communities or change downstream ecology.

Note: When attributing Cardano/client contribution to an impact, we scale the total impact by the proportion of the investment that the client has funded.

5 https://iris.thegiin.org/document/iris-and-the-five-dimensions/
6 Widely accepted indicator framework developed by the Global Impact Investing Network (GIIN). See website.
7 The Harmonised Indicators for Private Sector Operations (HIPSO) defined by the Developing Finance Institutions.
8 Partnership for Carbon Accounting Financials.

5.

Impact investing in the broader portfolio context



Our philosophy is to work with investors to maximise their contribution to a sustainable society within the context that they operate in and across different strategies we manage, including (but not limited to) impact investing strategies.

Our client mandates and operating constraints will often dictate available opportunities, and rule out others on fee or liquidity grounds.

Many impact investing opportunities exist across different asset classes, which can be aligned with investors' targeted risk/return and liquidity profile. Our impact offering focuses on supporting the transition to a sustainable society, while assessing market opportunities to deploy capital at scale, leveraging our inhouse expertise, and understanding our client preferences.

For example, where investors have capacity for private investments, they may consider impact strategies that focus on high-impact underserved markets unlikely to secure other forms of funding, such the Cardano Financial Inclusion product, which focuses on micro-lending. Public market capital can be directed towards more 'scaled impact' opportunities in sustainable bond impact strategies and impact equity strategies.

Investors often come to us with specific areas of impact interest, driven by interests of their sponsor's industry, for example. We can help them decide on priority impact themes where their capital can be most effective in creating impact. We support a wide range of investments that further the transition towards a sustainable society, and we don't favour one impact theme over another other than for practical reasons: where opportunities exist to deploy capital, and where we have the expertise and knowledge to help.

Our focus and expertise include the following thematic areas:

1. Fair and equal societies:

Meeting basic needs (from food and housing to healthcare and sanitation) of all when the world population reaches 10 billion people by 2050 requires equal, stable, resilient societies that safeguard the wellbeing of its citizens now and in the future.

Our strategies related to this theme focus on:

- Financial inclusion: access to financial products and services for underserved client groups
- Job creation and inclusive development through SME finance
- Access to improved water and sanitation facilities
- Social housing financing

2. Climate change:

Human activities emit c.50bn tonnes of CO_2e per year. To slow and reverse catastrophic climate change, we must reduce emissions to zero. We focus our investments on projects and businesses that accelerate this transition and help society to increase renewable energy production and consumption, improve energy efficiency, and support recycling of energy and materials.

Our strategies related to this theme focus on:

- Renewable energy production and storage (solar, wind, hydro, hydrogen, batteries) in emerging markets
- Sustainable bonds

3. Nature-inclusive societies:

To feed our growing population and make cities and human settlements safe, resilient and sustainable, while ensuring the future availability of key natural resources (water, land) and biodiversity is a major global challenge. It requires significant changes in our food system (from farm to fork) and our way of living (transport and housing).

Our strategies related to this theme focus on:

- Public positive impact companies related to a broader scope of themes

Through external managers, we have access to:

- Biodiversity: conservation and restorage
- Sustainable use of natural resources (water, land, air)
- Recycling and recovery of waste and materials in all sectors
- Sustainable food systems (soil protection and recovery, plant-based protein, nature inclusive agriculture, aquaculture, natural fertilizers, natural crop protection, local supply systems)
- Bio-based materials (chemicals, pharma, buildings, packaging, industrial appliances, vehicles)

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