# Cardano Annual Sustainability Report

2023

# Foreword

**We are in the midst of a long-term global economic transition towards a more sustainable society, which creates opportunities as well as tremendous challenges and risks for our sector. Financial institutions can influence this transition through stewardship and responsible capital allocation to create long-term value, leading to sustainable benefits for the economy, the environment and society.**

We believe that investing in the transition will make our investor portfolios more resilient to uncertainty and realise better returns, while achieving sustainable results in the real world. It is also good risk management, requiring an understanding of complex systems such as the economy and nature. Financial institutions are also facing new regulations and responsibilities to mitigate and manage their own sustainability-related risks, and the sector continues to wrestle with a lack of data availability and data quality.

Our approach is to take action with the information available today to prepare for the future: creating genuine insights, forming expert opinions to engage, educate and influence and developing innovative solutions. Our achievements so far support our ambitions to contribute towards the transition to a sustainable, fairer society and have a positive impact on our planet.

We are evolving our pioneering approach as we continue on our sustainability journey. Our sustainability targets guide us in achieving our ambition through a range of strategies and funding. From making social objectives investable via our private impact strategies to our stewardship activities beyond investment portfolios, we are committed to remaining invested in what is not yet fully sustainable – as long as we firmly believe in a company's future contribution to the transition.

We know our clients appreciate our independent approach, as more asset owners in the Netherlands, UK and the Nordics ask us to be their trusted sustainability partner. We hope that through this report, we can inspire you to challenge your contribution to achieving the best results in both your investment portfolio and the real world.

**Kerrin Rosenberg**
CEO Cardano UK

**Martine Snoek**
Group Head of Sustainability

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# Introduction

## Sustainability, according to Cardano

Founded in 2000, we are a privately-owned, purpose-built pensions advisory and investment specialist with a leading-edge sustainability offering. We serve pension schemes, insurance companies, banks and distribution partners with GBP 52bn of assets under management (at 31 December 2023).

On 11 June 2024 Mercer, a business of Marsh McLennan (NYSE: MMC) announced that it will acquire Cardano. The alignment of expertise and capabilities represents a unique and timely combination to become the pension provider of choice in the UK and the Netherlands, and to expand globally beyond pensions to serve other large asset owners. The transaction is expected to close near the end of 2024, subject to regulatory approvals.

Sustainability is at the core of how we run our business. We believe in a society in which people and businesses can prosper, and where our clients' members and their dependants enjoy a quality of life similar or better than now. However, the world needs multiple transitions (systemic changes) in human activity to achieve a sustainable society, which create both financial risk and opportunity.

In this report, we present our sustainability progress in 2023, showing our financials through a sustainability lens. We are developing our approach to achieve real-world impact: creating genuine insights, pioneering solutions and identifying new sustainable investment pathways to engage, educate and influence our industry's approach to driving change.

> **"We define a sustainable society as one that operates within planetary boundaries with strong social foundations.**

### Speeding up a global economic transition towards a sustainable society

Our starting point is that society can only be sustainable if it produces and consumes within the boundaries of what the planet can sustain. We define a sustainable society as one that operates within planetary boundaries with strong social foundations (included in the Sustainable Development Goals (SDGs)), through which every person can meet basic needs, people and communities are treated fairly, and businesses and governments are managed in such a way that they maintain their social licence to operate. This includes the right to a living wage for all, a safe place to live, and access to health care and clean drinking water. We endorse social equality, diversity and dignity and respect for all individuals and communities. The social foundations and planetary boundaries are highly interrelated. To transition towards a sustainable society we need to address multiple challenges: reducing the overshoot of the planetary boundaries and building strong social foundations.

We are seeing government policies and consumer demand starting to shift towards a low-carbon, circular economy that protects nature and biodiversity, manages water resources, and limits resource use and pollution. But we need to do more to speed up multiple transitions towards a sustainable society and prevent irreversible impacts on the planet, people and businesses.

We aim to function as a 'thought leader' in sustainable investing: engaging on key sustainability issues and using our influence to direct change. Our approach is based around the 'sustainability lens' through which we look at financial returns and the real-world impact we make from our investments and advisory activities. By investing sustainably, we can also make our clients' portfolios more resilient to uncertainty and realise better returns. Not only are these outcomes good for society, they also directly reduce systemic risks faced by the global financial system and should therefore lead to better financial outcomes.

### Leading by example

Cardano Asset Management (previously known as Dutch-based sustainable asset manager ACTIAM) was one of the first asset managers in the world to incorporate sustainability issues into fund and asset management. Since 1993, we have been a pioneer in sustainable investing.

We believe that being aware of the quantitative limits of the environment around the world and of the tragic consequences of chaos is essential for initiating new ways of thinking.

**1993**

**Incorporation ESG**
Introduction of the first sustainable investment strategy in 1993.

**2006**

**Sustainable Overlay**
Introduction sustainable overlay for all funds.

**Signatory PRI**
In 2006, ACTIAM was one of the first asset managers to sign the Principles for Responsible Investment.

**2007 / 2008**

**First impact funds**
In 2007 and 2008, ACTIAM launched the first institutional funds in microfinance.

**2015**

**Oprichting PCAF**
ACTIAM was involved in setting up the PCAF (Platform Carbon Account Financials) in 2015.

**2019**

**Launch ESG dashboard**
In 2019, ACTIAM introduced the first interactive ESG dashboard.

**Launch ESG Advisory UK**
In 2019, Cardano introduced the first ESG Advisory Service to UK pension trustee clients.

**2020**

**World leader PRI**
In 2020, ACTIAM was appointed by the PRI as a world leader in the theme of 'climate reporting'.

**2021**

**Acquisition Cardano**
In 2021, Cardano acquired sustainable asset manager ACTIAM, integrating sustainability throughout the Cardano Group.

**2023**

**5 stars from PRI**
In December 2023, PRI awarded Cardano with the maximum of 5 stars in all of the 15 categories that relate to our business.

We aim to support the transition towards a sustainable society by defining a clear vision, setting goals and ensuring a sustainable licence to operate in the economy. We are part of the system we are trying to change.

Our lead by example: providing insights that have a genuine impact, as well as actionable strategies, methodologies and innovative solutions to our clients and the finance sector. We focus not only on investing, but also on helping to shape the economic and social system. Understanding that our size has limited direct influence, we seek strategic partnerships to increase our impact. Through our services and investment strategies, we support pension funds and insurers with similar long-term objectives. We believe that joint leadership is essential to guide the change the world needs.

### Managing risk through a sustainability lens

Businesses that anticipate the systemic changes we need can reap the benefits of new market opportunities – but those that fail to act face increasing financial risk. Sustainability-related risks, such as climate change, biodiversity loss and water scarcity, and their social effects are the most impactful and likely to lead to economic and financial risks.

We believe we can only address the financial systemic risks posed by climate change, biodiversity loss and rising inequalities by supporting a real-world transition to a sustainable society. Risk is a fundamental part of our Sustainable Investment Framework, research and products, strategies and stewardship: we optimise the risk-return profile of our investments through the lens of sustainability. Through our double materiality approach, we integrate financial and real-world risks and opportunities related to the sustainability transitions – contributing to real-world impact beyond our investments and advice.

# 1. 2023 highlights

# Our ambitions

## Climate

14%

Reduced scope 1 and 2 GHG emissions by 14% for all our investment funds – c. double the 7% annual reduction target. (See page 10 for more).

45%

Increased investee companies with SBTi-approved or committed targets to 45% as more commit to climate change targets. (See page 11 for more).

## Water

82%

82% of investee companies in high-risk sectors taking water-related risks and impacts seriously. (See page 12 for more).

## Biodiversity

Launched Biodiversity Strategy[1], including our biodiversity-related ambitions: to help reverse the trend of biodiversity loss towards a biodiversity-positive situation. (See page 14 for more).

# Exclusion and inclusion

## New exclusions

17%

The market cap weight of excluded companies decreased to 17% for MSCI World.

28%

A small increase to 28% for MSCI EM. (See page 18 for more).

# Private market impact

## Financial inclusion

72%

Our Financial Inclusion Fund invested in the Philippines and the Dominican Republic for the first time, targeting female entrepreneurs, rural communities and people living in poverty. 72% of people reached by the financial institutions in our portfolio were low-income women. (See page 21 for more).

## Water and sanitation

Developed a water and sanitation impact strategy for institutional investors, aiming for crucial social impact, financing local financial institutions that target underserved customer segments. (See page 22 for more).

## Advisory and Fiduciary impact solutions

Worked with Dutch and UK pension funds to refine their thinking on impact investment strategies. (See page 36 for more).

# Engagement

Most highly engaged sectors across our portfolio in 2023:

> consumer staples;
> consumer discretionary;
> materials;
> industrials; and
> financials.

(See page 24 for more).

Our engagement initiatives relate to our priority themes of climate change, biodiversity loss and a fairer society. (See pages 25-27 for more).

# Voting results

## AGMs and votes against management

2,463

Voted at 2,463 meetings, including voting against 12% of management resolutions: majority of votes against related to Board and remuneration. (See page 29 for more).

## Shareholder resolutions

67%

Supported 67% of shareholder resolutions, majority related to human rights and labour rights, climate and energy. (See page 29 for more).

1 See https://www.cardano.co.uk/wp-content/uploads/sites/3/2023/12/Cardano-Biodiversity-Strategy.pdf

# Our Sustainability Advisory Solutions

Developed sustainability reporting, adding CSRD[2]-related advisory including double materiality assessment, implementation and reporting.

Added indicators to our interactive dashboard, including: SBTi[3] alignment, number of companies with carbon reduction plans and data quality.

## Continental Europe

**€100bn+**

Expanded sustainability advisory clients in Continental Europe to represent over EUR 100bn, including some of Europe's largest pension funds.

## UK

**40**

Support around 40 advisory clients with sustainability advisory solutions, representing c. GBP 80bn of assets under management.

# PRI: Five stars across the board

The United Nations' independent Principles for Responsible Investment (PRI) scores Cardano a maximum five stars in all 15 categories of the PRI Reporting Framework.

This score reflects the quality of our sustainable investment approach across all asset classes, including sustainability policy and governance, stewardship activities, external manager selection and ESG integration. We are proud to be part of a select group of financial institutions for which sustainability is a fundamental part of how we do business.

# Environmental Finance IMPACT Award

Environmental Finance's annual IMPACT awards recognise and reward impact investors, highlighting emerging pockets of best practice across all asset classes and all geographies. In 2023, our bioacoustics study won Naturetech initiative of the year: it was rated a 'pioneering' tool with real-time insights to measure different ways of managing biodiversity impact. The study makes up part of our double materiality assessment to assess the impact of our portfolio companies on the environment. (See page 40 for more).

2 EU Corporate Sustainability Reporting Directive.
3 Science Based Target initiative.

# 2. Our ambitions and progress

Through our capital allocation and engagement choices, we encourage investee companies to make the transition towards operating sustainably, within the planetary boundaries and respecting social foundations. As well as investing in issuers that operate sustainably and can act as role models for other companies, we like to invest in issuers that are willing and capable of making the transition. While they may be at the start of their sustainability journey, we will support them if these companies can demonstrate that they are committed to their transition and are putting capital to work to innovate and improve. to better decision making.

### Our transition targets

All our directly managed strategies aim to achieve:

**Climate change:**
Net-zero GHG emissions at the latest by 2050 in line with a 1.5oC trajectory: intermediate targets of a 50% reduction of emissions by 2030 and 75% reduction by 2040, compared to 2020 (emissions intensity should decrease by 7% every year).

**Water:**
Become water-neutral by 2030 (investee companies do not consume more water than nature can replenish).

**Biodiversity:**
Reverse the trend of biodiversity loss and work towards a biodiversity-positive situation. We aim to halt net deforestation by our investees by 2030.

**Chemicals and waste management:**
Move towards a circular economy by 2050.

Our transition targets are at different stages of development as we monitor our targets in different phases. For example, for climate, we have data available and are able to monitor progress. For biodiversity and water, we are in the data gathering phase, and for waste management we are in the strategy forming phase.

> **Where we have the right data, we monitor whether our funds are following the required pathway towards achieving their long-term ambitions.**

Where we have the right data, we monitor whether our funds are following the required pathway towards achieving their long-term ambitions. If data is unavailable, we evaluate whether the underlying companies are making the necessary steps to support the sustainability transition: have they developed policies, set targets, performed risk assessments, set up improvement programmes or made investments? This information helps us to evaluate whether our funds are following the required transition pathway or if we need to change our due diligence and active stewardship approach.

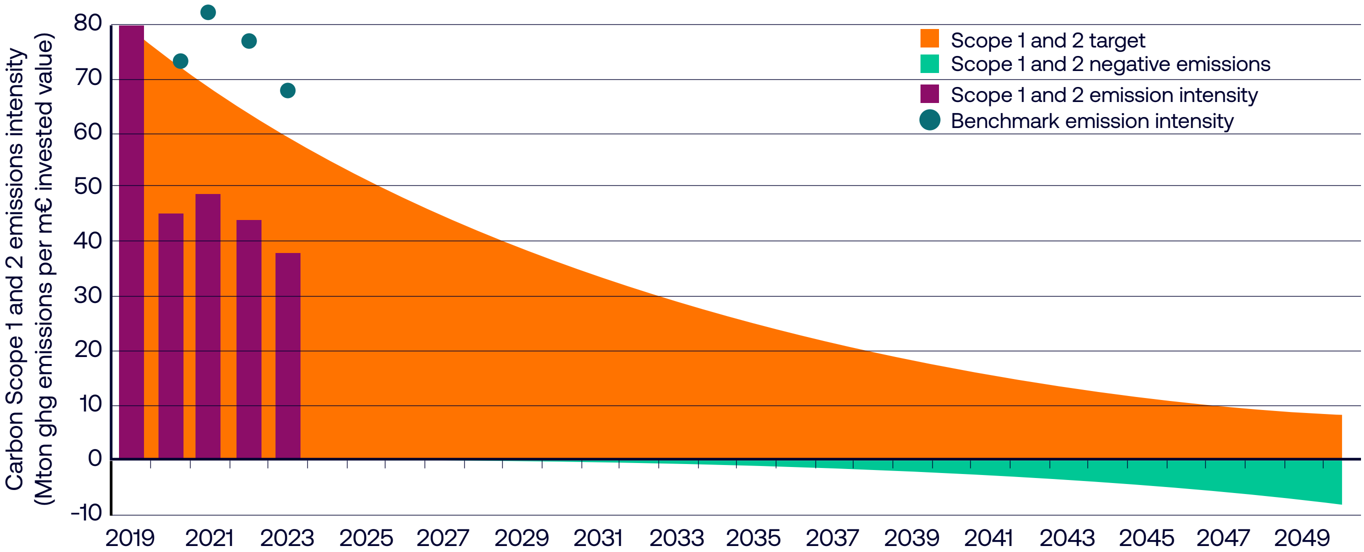
### Climate change

Climate is our most advanced long-term target, with extensive and improving data on current impacts and on forward-looking plans to reduce GHG intensity across a range of companies.

**Progress in 2023**

- Across Cardano's investment funds, scope 1 and 2 GHG emissions reduced on average by 14%, about double the 7% annual reduction target (see Figure #1 for the planned pathway of GHG reductions).
- Most funds saw a significant drop in emissions intensity, excepting Pacific and Emerging Markets enhanced index equity funds (due to increased portfolio weight/ carbon intensity of a few large emitters in the metals, chemicals and energy sectors).
- Cardano's fund investments had a 44% lower GHG emission intensity than their benchmark. The Cardano ESG Transition Enhanced Index Emerging Markets Fund and the Cardano Green, Social & Sustainable Euro Credit Fund performed best, with a significantly lower emission intensity compared to the benchmark.

**Figure #1:** Scope 1 and 2 emission intensity and target for all Cardano-managed mutual funds[4]




- Progress is different for scope 3 emissions: the emission intensity of Cardano-managed funds has grown over the past few years although it remains, on average, a third lower than scope 3 emissions of the benchmark (see Table #1). The increase in scope 3 emissions may be due to improved data as more companies report on more scope 3 sub-categories.

**Table #1:** Scope 1, 2 and 3 emission intensity for all Cardano-managed mutual funds[5]

| Year | 2021 | 2022 | 2023 |
|---|---|---|---|
| Change in scope 1 and 2 carbon emission intensity | 9% | -10% | -14% |
| Difference in scope 1 and 2 carbon emission intensity compared to the benchmark | -41% | -43% | -44% |
| Change in scope 3 carbon emission intensity | -12% | 9% | 23% |
| Difference in scope 3 carbon emission intensity compared to the benchmark | -30% | -38% | -36% |

As well as monitoring the emissions pathway, we evaluate Cardano-managed funds to assess the progress of our investee companies against their decarbonisation targets (see Table #2).[6] Our engagement and screening focuses on ten sectors with the highest emission intensity, with construction materials as the most intensive sector. The green-to-brown ratio captures green revenues from activities such as renewable energy versus brown revenues from activities such as oil and thermal coal.

**Table #2:** Change of additional climate-related data

| Year | 2021 | 2022 | 2023 |
|---|---|---|---|
| Average scope 1 and 2 emission intensity priority sectors | 111 | 93 | 85 |
| Average scope 1 and 2 emission intensity non-priority sectors | 13 | 14 | 12 |
| Green-to-brown ratio | 2.2 | 2.6 | 2.4 |
| Green-to-brown ratio compared to benchmark | 2.1 | 2.7 | 2.0 |
| Share of green revenues of investees | 6.4% | 6.5% | 7.0% |
| Increase of share of green revenues of investees compared to 2019 | 43% | 46% | 56% |
| Exposure to high-impact sectors compared to benchmark | n.a. | 0.96 | 0.94 |
| Share of green, social, sustainable and sustainability-linked bonds in credit funds | 21% | 28% | 32% |
| Share of climate focused bonds in credit funds | 14% | 20% | 23% |
| Share of funds with SBTi approved or committed targets | | 42% | 45% |
| Number of companies in funds with SBTi approved or committed targets | | 28% | 34% |

4 Cardano managed funds domiciled in The Netherlands.
5 Cardano managed funds domiciled in The Netherlands.
6 See https://www.cardano.co.uk/wp-content/uploads/sites/3/2023/12/Cardano-Climate-Target-Strategy.pdf.

- Over the past three years to 2023, the scope 1 and 2 emission intensity of investees in these top sectors has, on average, reduced from 111 Megaton to 85 Megaton CO2¬e per million EUR invested value (see Table #2).
- Construction materials has reduced its intensity from 1,406 Megaton to 970 Megaton per million EUR as many companies reduced their emissions.
- The green-to-brown ratio was 2.4 (2022: 2.6): the green to brown ratio compared to the benchmark should always be above 1 and we aim for 4 in 2030.
- Green revenues continue to grow, with share of revenues to 7.0% (2022: 6.5%).
- Investee companies in our Pacific and Emerging Market funds increased their emissions and brown revenues.
- Investments in 'high impact' sectors remained the same. We are realising progress on our carbon targets through reducing GHG emissions by investee companies and/or reallocation within those sectors.
- Our investments in green, social, sustainable and sustainability-linked bonds have increased to 32% of total credit investments.
- The share of credit investments in climate-focused bonds has increased to 23% (2022: 20%) as we encourage investees to invest bond proceeds in the transition to a sustainable society.
- Investee companies with SBTi-approved or committed targets have increased from 45% (2022: 42). In number of companies, the increase was from 28% to 34% as more companies are asking SBTi to approve their climate targets.

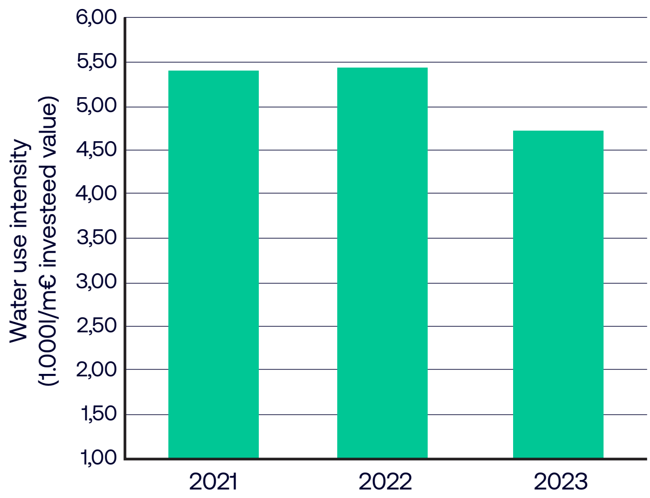
**Phasing out coal**
We have defined a pathway leading to complete phasing out coal-related investments by 2030. In practice, our funds hardly invest in coal-related companies, because they are making insufficient progress in transitioning. Only those coal-related companies with clear phase-out plans and a transition strategy in line with our pathway may still be investable. In 2023, we had investments in eight companies with some thermal coal mining-related revenue, with an average coal revenue share of 0.75%. We invested in 28 companies with involvements in coal-fired power generation, (2022: 29), but their coal-related revenue shares are reducing as they phase out their coal activities.

**Outlook for 2024**
We are making progress on our climate targets. In selected regions, we are stepping up our engagement and due diligence efforts to continue investing in companies that are transitioning sufficiently quickly. We are working on identifying investee companies that are taking credible steps to following the required pathways towards climate neutrality and those are lagging and creating additional transition risks for our portfolios.

## Water
A company is 'water neutral' if it does not use more water than nature can replenish and reduces its water use as much as reasonably possible, especially in water-stressed regions. In our Water Strategy, we describe with which steps we aim to move towards achieving this aim.

We are developing a water-neutrality indicator and a pathway towards our long-term target. Until then, we are monitoring water use of our investment funds using all relevant data available from companies. Understanding and awareness of water risk is increasing, but data is only just becoming available for select companies and often needs supplementary analysis.

**Figure #2:** Water use for all Cardano funds[8]




Water use across companies in our funds is decreasing (see Figure #2) although water usage itself is not an indicator of water stress. Water use in water abundant areas is not usually a problem. Water neutrality is when water usage in water scarce areas does not exceed nature's ability to replace that fresh water. Because water usage and water stress data is not yet easily available, we monitor indicators that show how investee companies are integrating water-related considerations into their decision making.

7 Cardano managed funds domiciled in The Netherlands.
8 Cardano managed funds domiciled in The Netherlands.

The main water users are in the following sectors:

- Metals & Mining
- Chemicals
- Semiconductors & Semiconductor Equipment
- Paper, Forest Products + Containers & Packaging
- Food, Beverage & Tobacco
- Restaurants
- Hotels & Travel
- Casinos & Gaming
- Electric Utilities
- Multi-Utilities
- Oil, Gas & Consumable Fuels

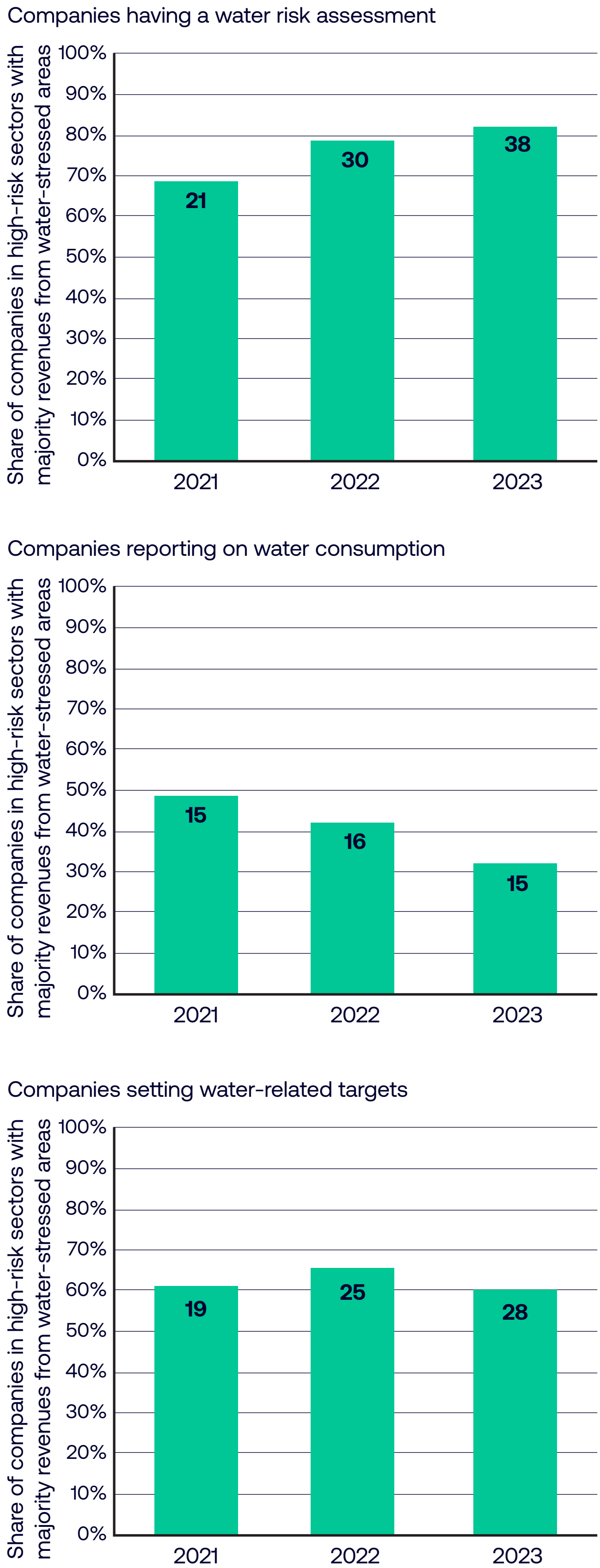
By 2030, we aim that all investee companies in high-risk sectors with the majority of their revenues in water-stressed areas consider the following four areas[9]:

1) Assess their water-related risks and impacts;
2) Report on their water consumption and withdrawal;
3) Set water-related targets; and
4) Implement plans to achieve these targets.

**Progress in 2023**

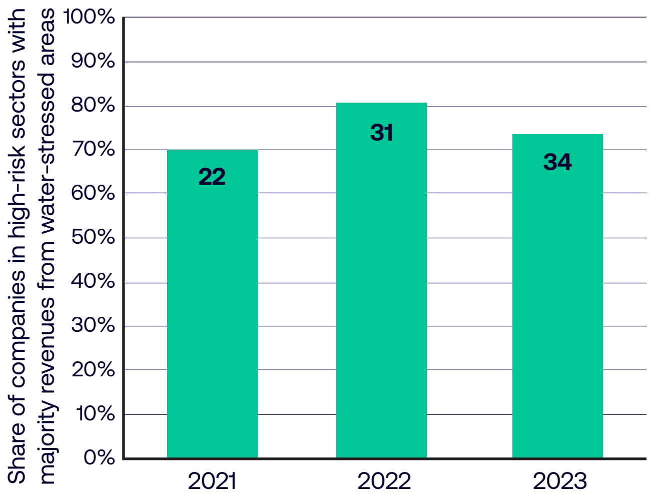
- 82% of companies in high risk sectors with the majority of revenues from water-stressed areas undertaking water risk assessments;
- Stagnating number of companies reporting on their water use and withdrawal, although the number of high-risk companies in water-stressed areas is rising as more regions become water-stressed;
- Only 33% of high-risk companies reported water consumption (2021: 48%)
- 60% of high-risk companies are setting water-related targets; and
- 74% of high-risk companies had programmes to reduce water-related risks or impacts. These programmes would be more efficient if companies also report on water use or set water-related targets.

**Figure #3:** Our water-related targets progress.




9 Note that the number of companies in high-risk sectors or in water-stressed areas changes over time. As a result, the target also changes over time.

Companies with water reduction programmes




**Outlook for 2024**
While more companies in high-risk sectors are taking water-related risks and impacts seriously, there is room for improvement in managing them. We will:

- Integrate water risks and water management into our due diligence: consider more local information on physical water-related risks and on efforts to mitigate these risks;
- Integrate water-related risks and impacts into our engagements: given the high correlation between water and climate change, pollution and biodiversity, we believe that the topic will attract more attention in multiple engagement initiatives; and
- In our impact-related investments, focus on water stewards, water-saving technologies and other innovations to better manage water-related risks and impacts.

## Biodiversity

The main drivers of biodiversity loss are climate change, land and sea change, resource over-exploitation, pollution and invasive species. The main sectors in our investment funds with the highest impacts on biodiversity loss are:

- Food and staples retailing;
- Food and beverages;
- Oil, gas and consumable fuels;
- Utilities; and
- Chemicals.

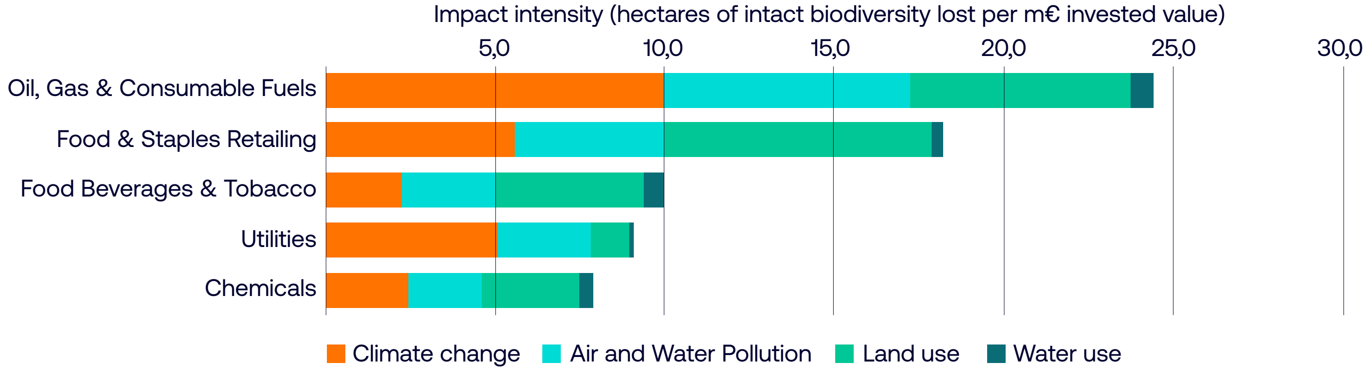
The alarming rate of biodiversity loss leads to higher risks, including:

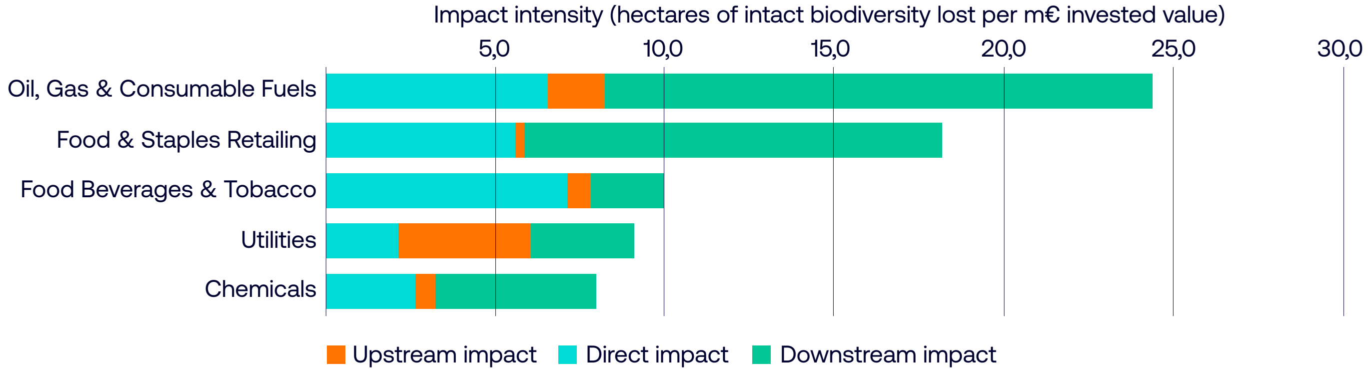
- **Physical risks**, where biodiversity loss may lead to lower or more volatile food or natural resources production, lower availability of key natural resources such as water or land, and higher costs if we lose key ecosystem services such as pollination, pest control, soil processes and water or air purification.
- **Reputational risks and litigation risks**, where companies and financial institutions are increasingly held accountable for their direct or indirect contribution to biodiversity loss through their activities or investments.
- **Transition risks**, where companies may lose market position due to stricter regulation, changing consumer preferences and changing market demand.
- **Systemic risks**, where ecosystems may collapse if we cross ecological tipping points, leading to shocks in supply chains and potential cascading impacts on multiples sectors and financial institutions.

**Measuring progress**
Our understanding and awareness of biodiversity risk is increasing, but data is only just becoming available for select companies and often needs supplementary analysis. Measuring progress on our biodiversity ambition is also challenging due to the diversity of impacts. For example, a palm oil producer impacts biodiversity through its land use, while an oil company does so through its contribution to climate change. Supermarkets have a large indirect impact because of their sales of food products that may have a large land or water footprint, and a telecommunication company may have a large footprint if the commodities used in equipment and technologies lead to deforestation, water pollution or GHG emissions. To understand the right steps to reverse the trend of biodiversity loss, we focus on where the impact takes place and the driver of biodiversity loss that is most material to a company (see Figure #4).

> **Measuring progress on our biodiversity ambition is also challenging due to the diversity of impacts.**

**Figure #4:** Impact of the priority sectors on biodiversity loss – drivers causing biodiversity loss and location in the supply chain where the impact takes place.




**Progress in 2023**

- In 2023, we published our Biodiversity Strategy, presenting our biodiversity-related ambitions and the steps we take to work towards these. Until we have meaningful measures for all biodiversity loss drivers, we perform forward-looking monitoring, focused on how well investee companies: set targets, formulate strategies, comply with certification schemes and invest to reduce their pressure on each driver of biodiversity loss, or positively contribute to it.

- Our Biodiversity Strategy describes how we monitor company biodiversity management and determine scores[10]: 2023 scores (in January and in December 2023) show a mixed picture due to reduced data availability.

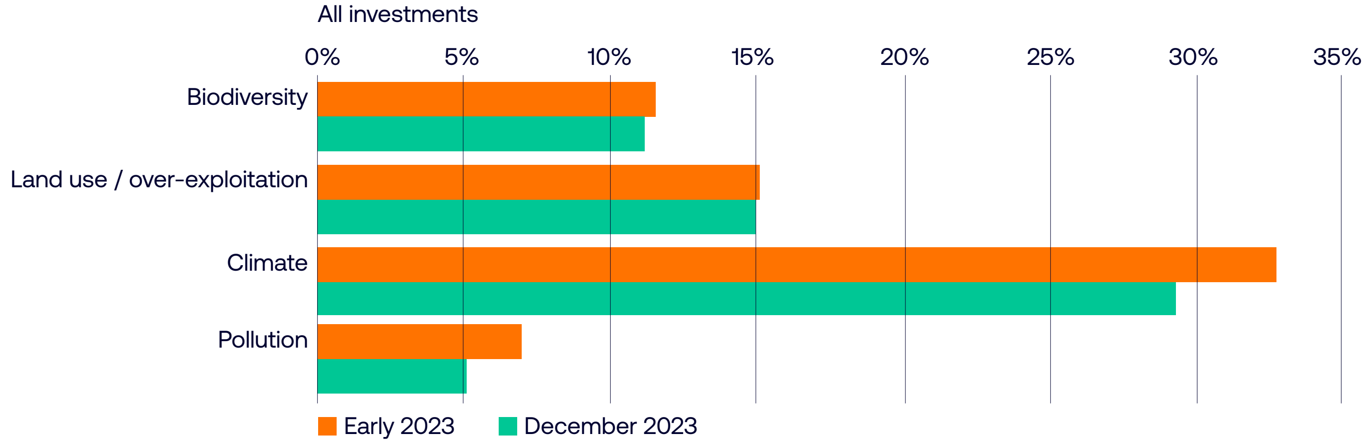
- Biodiversity-related management scores slightly reduced for overall investments (see Figure #5), but scores for priority sectors slightly improved (those sectors causing the largest impact). These results suggest that more companies in the priority sectors are aware of their impacts, and therefore of their biodiversity-related risks.

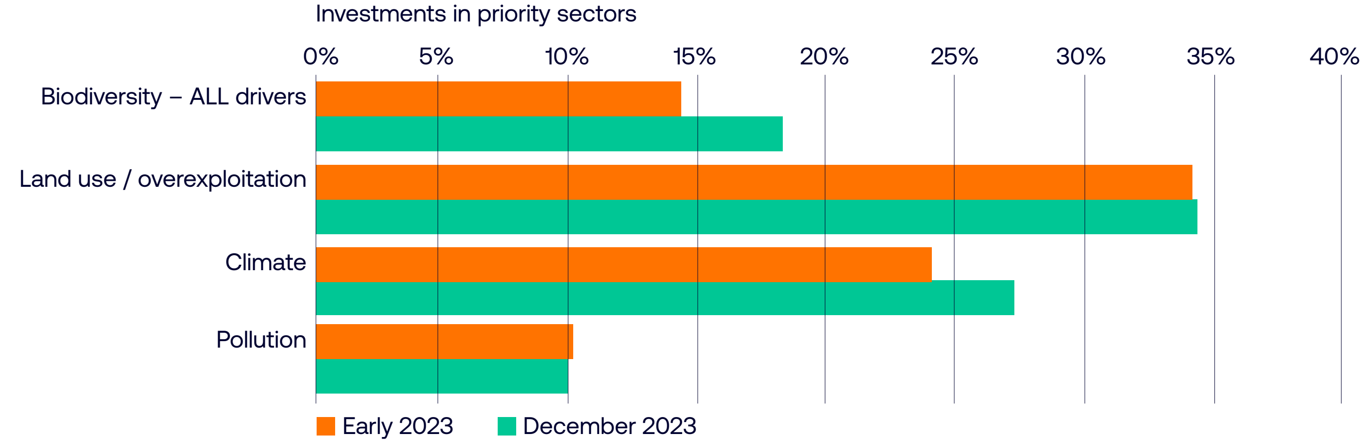
- For issuers in high-risk geographies (water-stressed areas or near fragile ecosystems), biodiversity-related management scores are slightly higher. Issuers running the highest risks better manage their biodiversity-related risks.

- Not many companies manage their biodiversity impacts well, and we need significant change to start reversing the trend of biodiversity loss.

10 We expect that new information will become available to better monitor the steps issuers take to reduce their contribution to biodiversity loss, through the EU Corporate Sustainability Reporting Directive, the EU Corporate Sustainability Due Diligence Directive and the EU Deforestation Regulation.

**Figure #5:** Share of investments with sufficient biodiversity-related management (defined in our Biodiversity Strategy) considering all investments or only investments in priority sectors.




**Outlook for 2024**
We are working on sourcing better market-relevant data to monitor the progress of our investment portfolios, to accurately measure the impact by investees on the drivers of biodiversity loss and the steps they are taking to mitigate this.

We are developing on new indicators to better understand which companies are doing well and those that are lagging. Where progress is less than expected, we will step up our engagement and/or increase our screening.

We intend to publish a TNFD report on our investments by 2025, with fuller detail about the biodiversity-related risks and opportunities of our investments.

### Chemicals and waste management
For the circular economy, we are at the early stages of developing awareness, data metrics and appropriate strategies, but we know that there are many businesses exposed to risks for which we don't yet have the data. We aim to build a strategy on circularity in more detail in the coming period.

# 3. Our investable universe

## Our Sustainable Investment Framework

Through our Sustainable Investment Policy[11], we encourage companies to contribute to the transition towards a sustainable society. We classify companies according to our Sustainable Investment Framework (see Figure #6). that are transitioning towards a sustainable way of operating, and we evaluate them in two steps:

**Step 1**

- Does the behaviour and activities of the company fit within a sustainable society?
- Does the company violate international standards or is it involved in activities too harmful for society?

If a company does not comply with the standards in Step 1, we classify it as 'non-compliant with international standards' or 'harmful' and exclude it from investment.

**Step 2**

- How likely is the company to adapt or contribute to the transition to a sustainable society – through reducing negatives or accelerating positives?
- Is it unlikely to adapt and therefore represents unacceptable risk to our portfolios or does it create too much negative real-world impact?

| Sustainable investment framework |
|---|
| Positive impact |
| Sustainable |
| Adapting |
| At risk |
| Non-adapting |
| Harmful |
| International standards |

## Our approach to inclusion and exclusion

**Exclusions**

We exclude companies because they do not align with international standards, produce harmful products, or are non-adaptive or risky regarding sustainability transitions.

In 2023, we excluded several companies from our investible universe based on their management of material sustainability risks. The market weight of excluded companies slightly decreased in most regions, but the absolute number of excluded companies increased. Most 2023 exclusions were based on high levels of $CO_2$ emissions, either from the companies' own activities (scope 1 and 2) or products sold by them (scope 3).

**Table #3:** Percentage of the benchmark weighted assets excluded per region

| Benchmark | 2023 | 2022 | 2021 |
|---|---|---|---|
| MSCI Europe | 14.2% | 15.0% | 13.1% |
| MSCI North America | 17.6% | 19.5% | 17.9% |
| MSCI Pacific | 14.4% | 15.2% | 14.5% |
| MSCI Emerging Markets | 28.0% | 27.5% | 26.8% |
| MSCI World | 16.8% | 18.2% | 16.7% |

- **At risk:** Starbucks, a roaster, marketer and retailer of specialty coffee with operations in approximately 84 markets. Over the past year, workers and the union have accused the company of using anti-union strategies. The allegations are that Starbucks:
  - threatened to close unionised stores
  - monitored and fired pro-union workers
  - launched an anti-union website
  - forced workers to attend mandatory 'captive audience' meetings
  - tried to pack bargaining units with newly-hired employees, who were trained separately from pro-union workers.

  Starbucks has not responded to engage on labour relations and anti-union practices. We have categorised Starbucks in the 'at-risk' category of our Sustainable Investment Framework.

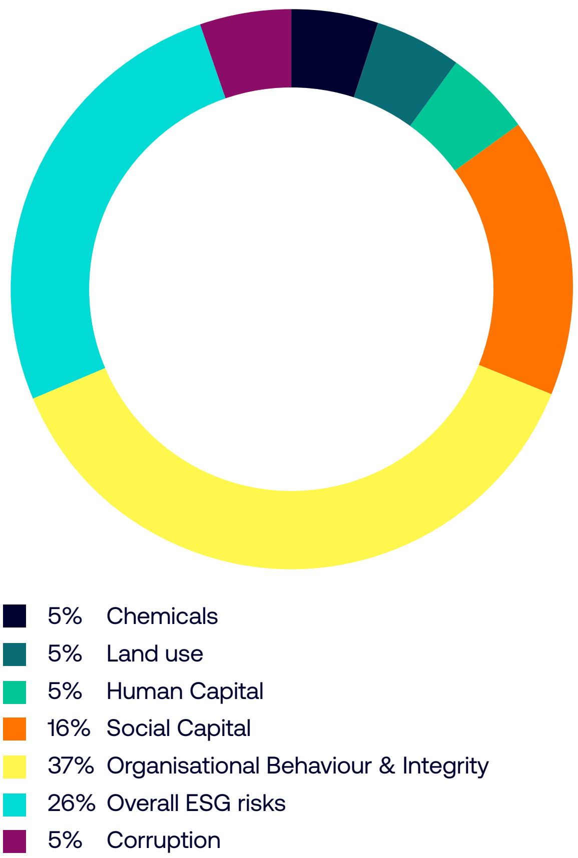
- **Harmful:** VICI Properties is a US real estate investment trust that owns and acquires gambling, hospitality and entertainment destinations, with properties including Caesar's Palace Las Vegas, Harrah's Las Vegas and the Venetian Resort, three of the larger entertainment facilities on the Las Vegas Strip. VICI Properties supports gambling activities and is in violation of our Sustainable Investment Policy.

11 Cardano Sustainable Investment Framework can be found here: Sustainability Policies - Cardano - UK

### Inclusions

In 2023, a number of companies that were previously excluded from the investable universe have been (re) included. The new inclusions are presented per topic. Notably, there have been no new inclusions in topics such as fossil fuels, water and weapons.

**New inclusions per topic**




- In 2016 we excluded **Walmart de Mexico (Walmex)** for allegations of bribery and corruption and its subpar Labour Conditions Policy. Walmex has since improved its Anti-Corruption Policy and has not been involved in any further similar incidents. Additionally, Walmex has improved its Labour Rights Policy, offering employees a compensation and bonus package that is significantly higher than the national minimum wage. Moreover, it also conducts annual employee satisfaction surveys.

- In 2020, we excluded **Pfizer Inc.** due to controversies related to health and safety (primarily asbestos-related lawsuits in the US) and anti-competitive practices (alleged price-fixing of generic drugs in the US). Additionally, the company demonstrated weak management of key ESG issues. Pfizer has since settled these controversies and improved significantly its ESG practices. Since 2020, Pfizer has not been involved in any product safety-related controversies (apart from concerns regarding the safety of its COVID-19 vaccine, and with no concrete issues proven).

  Pfizer now has strong ESG management practices, and is leading its global peers in corporate governance and access to healthcare. It has also established partnerships with governments and licensing agreements, particularly in emerging markets. Pfizer also demonstrates robust practices with its Responsible Market Policy and in-house product testing.

4.

# Private market impact update

### Private Impact strategies

We have invested in financial inclusion since 2007 when we launched our first microfinance fund, followed by a second fund in 2008. We focus on strengthening financial inclusion by providing private debt, and prompting portfolio companies to include it in their own ESG policies and procedures.

We launched the **Cardano-FMOSME Finance Fund** in 2013 and it is now in wind-down phase, with no new investments in 2023. The fund's focus has shifted from screening potential investments to monitoring and evaluating portfolio companies. By year-end 2023, the fund had 26 financial institutions in its portfolio and nine institutions had repaid their loan. With support of current portfolio companies, the fund continues to reach out to local small and medium-sized enterprises (SMEs) that lack access to capital from the local formal finance sector.

The **Cardano Impact Financial Inclusion Fund (CIFIF I)** was launched in 2014. it is an open-end fund providing access to financial services to micro-entrepreneurs and low-income households in emerging and developing markets. In 2023, the CFIF fund invested in the Philippines and the Dominican Republic for the first time. By the end of 2023, the portfolio consisted of 54 financial institutions in 27 countries, delivering positive impact through lending.

- About 17 million end-clients (micro-entrepreneurs, SMEs and low-income households) benefitted from financial products and services provided by financial institutions in the CIFIF I portfolio in 2023
- 141,963 end-clients can be attributed to our fund investments
- 2,783 indirect jobs attributed to our outstanding capital to SMEs in emerging markets through the Cardano-FMO SME Finance Fund
- In 2023, 72% of end-clients reached by the financial institutions in the portfolio were low-income women.

CIFIF I is a top-quartile fund with outstanding[12] returns, and realised a net return of 6.8% in 2023 (outperforming SMX EUR Index (peer group) return of 2.1%) and the annualised return since inception of the fund stands at 4%.

| CIFIF I | 2023 | Accumulated since 2007 |
|---|---|---|
| Screening private deals (worth) | EUR 150mn | EUR 4.7bn |
| Invested private deals (worth) | EUR 60mn | EUR 2.6bn |
| Deployed loans across number of countries | 45 loans in 20 countries | 1,000 loans in 60 countries |
| Lending to number of financial institutions | 36 | 350 |

### Investment Case | Growing avocados for a better future

First investment in the Dominican Republic
Banco Múltiple Ademi is a key player in providing credit and savings products to the 'base of the pyramid,' fostering financial inclusion in the Dominican Republic. It was established 40 years ago as a non-profit organisation and offers loan products for personal use, businesses, agriculture and clean energy throughout the country. The bank offers various financial services to micro, small, and medium-sized enterprises, supervised by the Superintendency of Banks of the Dominican Republic (regulator). With additional financing from CIFIF I, Banco Múltiple Ademi will be able to expand its portfolio to micro businesses and small-scale entrepreneurs and smallholder farmers, such as William Portes. William credits his business growth to financing from Banco Ademi, which has also improved his quality of life.

**Support to smallholder farmers**

Approximately 50% of the adult population in the Dominican Republic has an account with a financial institution, while only 22% has borrowed money from a formal financial institution[13]. This lack of access to and use of formal financial services inhibits low-income households from building assets and investing in growing microenterprises and other productive activities such as farming and cattle raising.

William Portes (45) is a farmer in San Victor, Dominican Republic. He grows avocados, lemons and bananas, which he sells in the local market and for export. William employs 12 people in his farming operations.

He became a Banco Ademi client when he was looking for financing to support diversifying his crops eight years ago. The financing has enabled him to purchase inputs and expand his production, leading to increased sales. With this income, he can also better support his household. William comments: "I'm very proud of the expansion I've achieved, thanks to the support of the bank."

12 https://www.cardano.nl/en/our-funds/cardano-impact-financial-inclusion-fund-i/
13 The Global Findex 2021.

### Access to sanitation and water

In 2023, we developed a new Impact Strategy for institutional investors to invest in improved health (SDG3) and access to water and sanitation for all (SDG6). Our private debt solution aims to contribute to improved access to sanitation and drinking water for low-income households in emerging and developing markets. It will launch in 2024 as part of our series of impact funds, and is linked to our financial inclusion and SME finance strategies.

The new fund finances local financial institutions that specifically target underserved customer segments: people living in poverty, women and smallholders in emerging and developing markets. It will be a blended finance structure with a first loss protection of approximately 10%, reducing the risk of the senior investors. In 2023, first commitments included a (soft) commitment by the European Investment Bank[14] and a hard commitment by a corporate foundation. We are confident we will attract sufficient senior institutional investors to support the launch of this blended finance fund with crucial social impact.

### Growing demand for Fiduciary and Advisory Impact Solutions

In 2023, we expanded our clients looking for impact solutions, as more pension funds seek to integrate impact investing into their strategies. We believe private market investment activity is critical to address the social and environmental challenges that we face.

Our impact investing methodology builds on the methodology we have been developing for over 15 years to build investment solutions for the private market. Through our outsourced impact solution, we help clients design, build and manage impact investment portfolios that align with their specific impact and financial goals. In 2023, we invested in developing more advanced tools and expanded our Fiduciary Impact team, and we look forward scaling this in 2024.

In the Netherlands, we recently worked on several impact projects helping clients to define an impact strategy and design an impact portfolio, explore impact and allocating to impact. In the UK, we have conducted impact investing training sessions and presented impact investment opportunities to clients.

### Pipeline development for energy transition investments

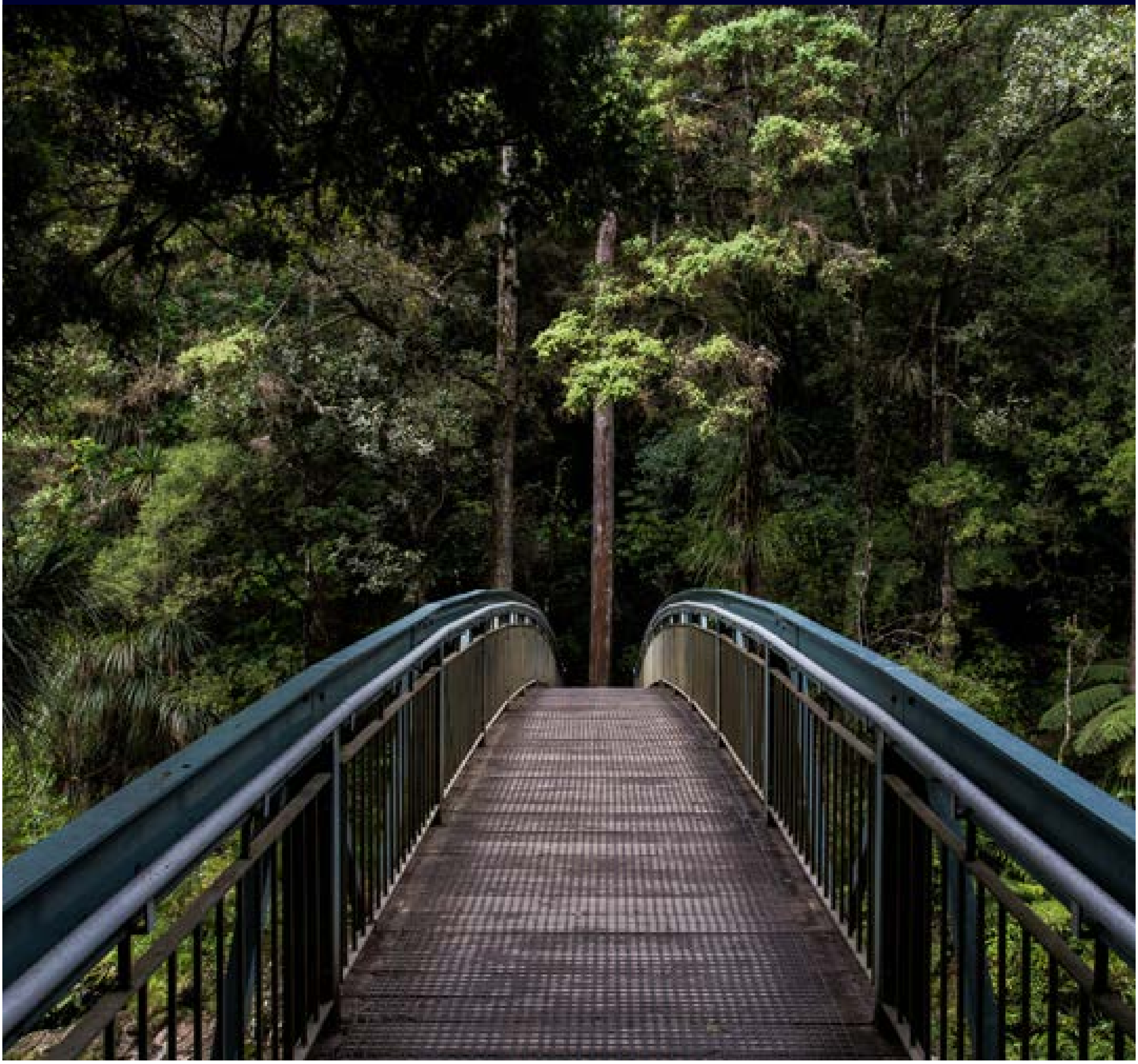
Developing countries are expected to account for two-thirds of the growth in electricity demand over the coming decades. If that power comes from non-renewable sources, global average temperatures will rise.

In 2023, our impact portfolio managers assessed renewable energy projects and their developers in Asia, including Singapore and Vietnam. As experts on investments in the transition to renewable energy, we conducted due diligence on the projects and their management teams. We learned about recent developments in local electricity markets and distribution, and local community projects including the provision of digital tools for local schools and building clean drinking water infrastructure for villages in the area, funded by profits from renewable energy parks.

Our due diligence took place as part of screening of renewable energy projects for our new to be launched energy transition fund, which will focus on operational solar and wind projects, for which the development and construction risk has been removed, with long-term off-take contracts in USD and thus a good view of long-term cash flows.

14 https://www.eib.org/en/projects/pipelines/all/20230004
15 https://app.tameo.solutions/indexes/smxeur

# 5. Stewardship



Stewardship plays a central role in our Sustainable Investment Strategy. We believe that companies that can manage their sustainability transitions are resilient and will be more valuable in the long run, and we use stewardship activities across all our investments, influencing and collaborating with companies to help them move along their sustainable transition pathways. We focus on entities that are actively managing their transition pathways and have the capacity to contribute positively to a sustainable future. Our stewardship is defined through our collaboration, meaningful and long-term engagement; focus on real-world sustainability impacts; support for innovation; and clear ambitions.

Our interpretation of stewardship is broader than just the investee level. Through our contributions to consultations and working groups, we provide policymakers and other financial institutions with advice, evidence and support to take action to promote and enforce sustainable practices.

As a signatory to the UK Stewardship Code, we adopt an active approach to stewardship that includes engaging collaboratively alongside other investors, using escalation tools such as filing shareholder resolutions, voting at AGMs to express our views, or then disinvesting. We will publish our full 2023 UK Stewardship Code submission in 2024.

### Our engagement

For our direct investments, we set clear objectives when we engage with companies. We consider each company's unique context and engage on all the themes that relate to our Sustainability Strategy: their interconnected nature means that addressing one area often influences others.

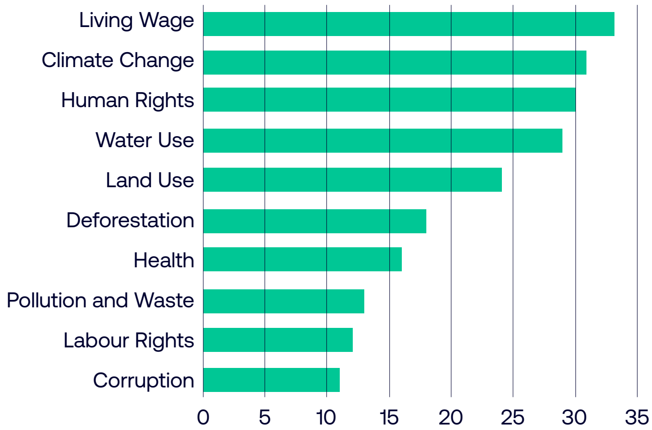
We comprehensively address different sustainability risks and implement our ambitions across themes to improve the long-term value and stability of our investments. For example, we engage with companies on the real Living Wage to meet our fairer society ambitions (see page 27), and on deforestation to meet our zero-deforestation goals and support our Biodiversity Strategy (see page 26).

Within these themes, we engage on relevant and material topics from an investment perspective and those considered the most urgent for achieving system resiliency. We look at each company's immediate sustainability performance, as well as its broader contribution to issues that align with the major environmental and social transitions.

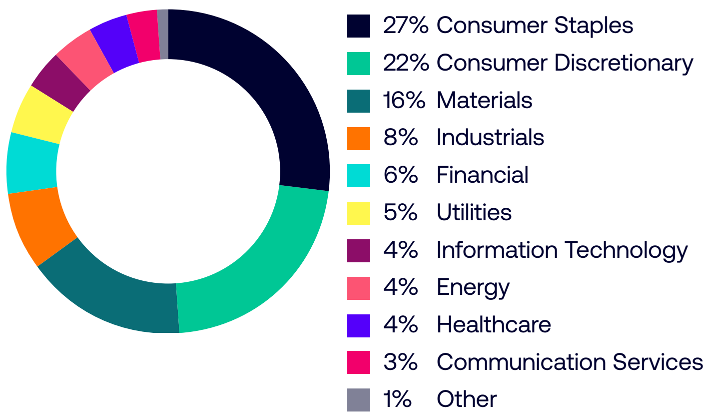
The most highly engaged sectors across our portfolio are consumer staples, consumer discretionary, materials, industrials and financials. These sectors are integral to the global economy and thus our global portfolio. Sustainability issues are material to these sectors due to their significant environmental footprint, supply chain complexities and regulatory exposure.

The following charts show our engagement issues and the total of all funds distributed by theme and sector.

**Engagements per topic (Top 10 percentage)**

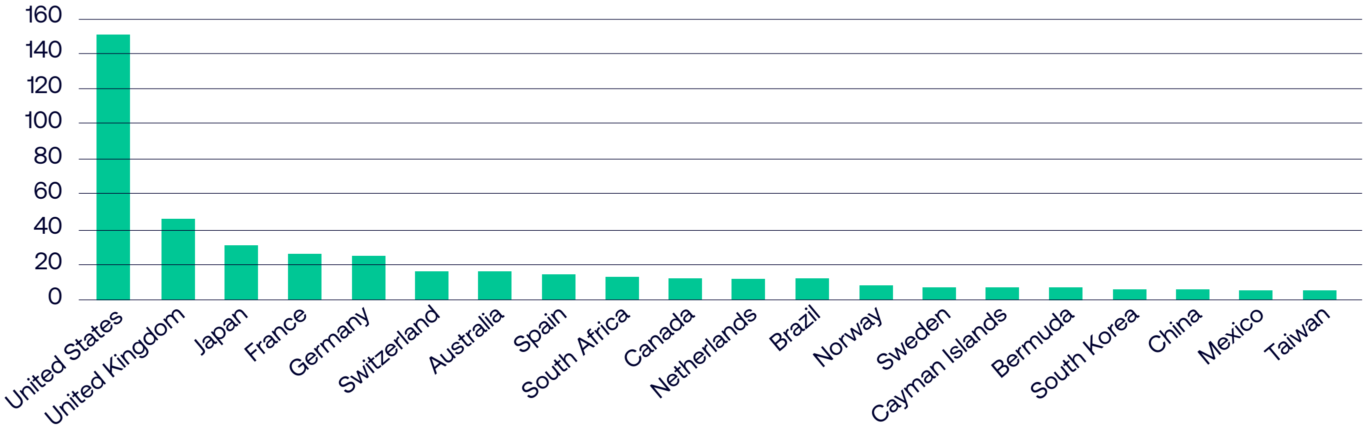



**Engagements per sector (percentage)**




We engage with companies headquartered in a range of countries, with a focus on US and European firms. Engaging with companies in emerging markets is also important, but it often requires a larger investment stake, local knowledge and understanding of cultural nuances. These factors influence company accessibility and our ability to initiate engagements. Although our engagements are skewed towards companies with headquarters in developed markets, they are still vital because the companies with headquarters in developed markets often have significant global influence with global supply chains extending into emerging and frontier markets and can drive substantial sustainability progress, setting standards and practices that can be adopted globally. The chart below shows our engagement in 2023 with companies based on the location of their headquarters.

**Number of engagements per country (Top 20)**




The initiatives we engage on relate to our transition goals including climate, biodiversity and a fairer society. We encourage our investee companies to mitigate their GHG emissions and contribute to decarbonisation in the 'real economy,' adopting business models that are in line with a 1.5°C pathway.

We do this through:
- Engagement
- Voting and shareholder resolutions
- Stimulating a supportive community

Collaborating on public policy can also strengthen our influence beyond individual companies, affecting industry standards and regulatory frameworks (see page 43 for more).

### Climate engagement with banks

Banks play a key role in the global economy, and, through their loan portfolios, their scope 3 emissions are a material part of their total carbon footprint. By encouraging this industry to reduce its financed emissions, we can accelerate the low-carbon transition. Redirecting financial capital to green technologies can significantly contribute to reaching the Paris Agreement goals, mitigate systemic climate risk and position banks to take advantage of evolving markets and innovations. Investments in green technology can diversify banks' lending portfolios and hedge against climate-related risks, offering long-term business resiliency.

**Three goals for our engagement with banks**

(1) Oil and gas: encourage banks to develop policies to restrict non-Paris aligned lending, such as financing new oil and gas fields and phasing our financing of oil and gas on pathways aligned with 1.5°C warming, as per the Paris Agreement;

(2) Climate target setting and disclosure: ensuring banks have robust climate targets and disclosures in place, and that those reflect the emissions and finance they help facilitate through capital markets; and

(3) Green finance: ensuring banks rapidly scale financing of green activities to facilitate the low-carbon transition, and publish robust and transparent green finance targets and disclosures.

**Our banks engagement in 2023**

We engaged with five banks and sent letters to each one. We held four investor preparatory calls with our investor group and ShareAction, a responsible investor NGO.

**We also:**
- Engaged with **Société Générale**;
- Accelerated **Barclays'** engagement by co-filing a shareholder resolution, which resulted in a constructive dialogue. Given Barclays' progress in updating its Energy Policy in February 2024, the investor group withdrew the resolution co-filed at the end of 2023; and
- Tried to organise a follow-up dialogue with **HSBC** in 2023, following discussions in 2022.

**Outcomes:**
- **Société Générale** updated its Climate Strategy in September 2023. The bank will stop financing new oil and gas fields and will no longer finance pure-play companies in the exploration and production of oil and gas (with the exception of companies that are state-owned).
- **Barclays** showed little progress over 2023, but the escalation process resulted in a constructive engagement dialogue. The bank committed to fully implement one of the three key asks of the resolution and made progress on the other two.
- Our efforts to speak to **HSBC** were unsuccessful in 2023 but discussions are confirmed for 2024.

## Engagement on biodiversity

To reverse the trend of biodiversity loss, we aim to become climate neutral, halt deforestation, become water neutral and reduce waste and pollution. We engage in stewardship activities as part of our approach to implementing our biodiversity strategies.

Investor Initiative on Hazardous Chemicals (IIHC)
The majority of products rely on industrial chemical processes for manufacture. However, chemicals that are used, such as PFAS[16], are hazardous to biodiversity and human health, and a major cause of the decline in animal species and global biodiversity. Yet chemical companies continue to use them.

Hazardous chemicals also pose systemic risks to institutional investors such as Cardano because their use and distribution lead to widespread externalities. To reduce the negative effects of these chemicals and the financial risks to our portfolio, we joined the Investor Initiative on Hazardous Chemicals (IIHC) in 2023, which is coordinated by the NGO ChemSec. The IIHC has since initiated engagement with 16 companies, asking them to commit to:

- Improving transparency by publishing both the turnover share and production volume of products that are or contain hazardous chemicals;
- Publishing a time-bound phase-out plan for products that contain hazardous chemicals; and
- Developing safer alternatives to these harmful chemicals.

Cardano contributed to discussions with **Dupont** and **Solvay**. During the meetings, both companies presented their plans to develop safer alternatives and the IIHC encouraged the companies to be more transparent about their hazardous chemical use and phase-out plans. Dupont and Solvay acknowledge that investors need more transparency, although this has not yet led to concrete outcomes beyond our engagement meetings. In November 2023, the IIHC wrote to all 16 companies involved to reiterate a commitment to the objectives above. Discussions are ongoing, and in 2024 we will delve deeper into the implementation of phase-out strategies and the development of substitutions.

**Satellite-based engagement towards zero deforestation**
Deforestation is a systemic risk involving many sectors. Forest degradation driven by agricultural commodity production is one of the largest drivers of biodiversity loss, with cascading impacts on climate. We encourage our investee companies to prevent forest loss and achieve sustainable, zero-deforestation supply chains.

The Cardano-led 'Satellite-based Engagement towards Zero Deforestation Programme' is an essential part of our stewardship. By combining satellite images and Artificial Intelligence, Satelligence provides us with up-to-date information on deforestation incidents triggered by palm oil production. We then incorporate this data into our investment decisions and engagement conversations to detect and quantify loss in vegetation and forest cover caused by plantation expansion or other incidents linked to palm oil commodity production.

In 2023, we introduced new data for more context on deforestation risks and insights for commodities including soy and cocoa. For example, deforestation linked to palm oil in Indonesia (the world's largest producer) is declining, but this does not hold true for other countries; while other commodities such as soy and cocoa remain problematic as they lack traceability. Updated reporting will help us increase our impact and address systemic risks associated with wider commodities.

We tailor our stewardship programme based on where a company sits in the supply chain (producer, trader, consumer packaged goods or retailer) and its progress on implementing policies and reaching zero-deforestation targets.

In 2023, we continued to progress on coordinating our stewardship programme:

- Leading company engagements with **Carrefour**, **Danone** and **Pepsi**;
- Receiving feedback from companies detailing how they are tackling deforestation incidents linked to their suppliers;
- Progressing conversations towards more solutions-oriented discussions, including:
  - Regenerative agriculture techniques
  - Scaling landscape programmes
  - Increasing plant-based offerings to tackle the beef supply chain
  - Target-setting for financing projects with a measurable, positive impact on biodiversity;
- Convening the investor group for quarterly meetings to discuss progress on engagement and topical developments, including the EU Deforestation Regulation; and

16 Per- and polyfluoroalkyl substances (PFAS) are a large, complex group of synthetic chemicals.

- Ensuring investors continue their own engagements with targeted companies, including food retailers, food producers, household good producers and commodity traders.

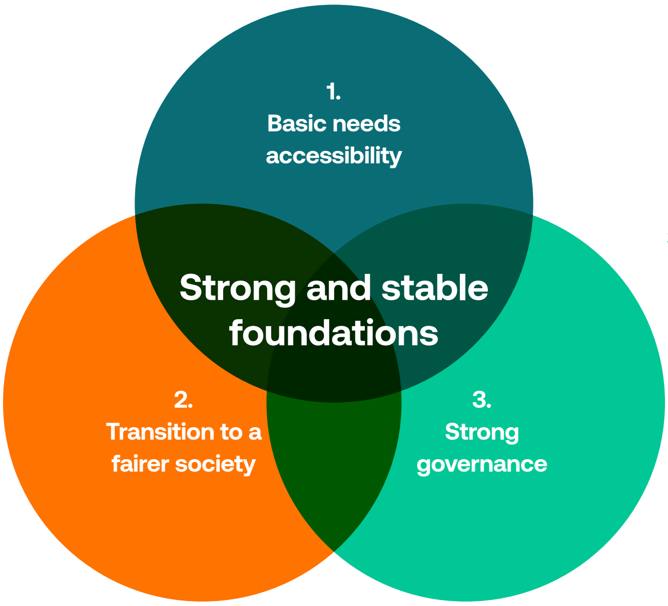
In the future, the investor group involved in the satellite-based engagement will engage on topics including:

- Moving from deforestation-free supply chains to contributing to forest and nature-positive goals;
- Making investments into regenerative agriculture techniques and scaling these throughout the supply chain. (These methods are key to building sustainable supply chains and investments will pay off by creating long-term operational efficiencies and healthier growing environments bringing stable long-term yields);
- Providing evidence that remediation efforts are successful;
- Increasing traceability in the soy and cocoa commodity supply chains;
- Engaging with smallholders to address the root cause of deforestation; and
- Companies' joint efforts with governments and industry groups.

### Engagement on social foundations

We believe a sustainable economy should operate within planetary boundaries and have strong and stable social foundations. We have stated expectations of company behaviour, and we engage with companies to encourage all of them to meet these expectations. In addition, we have three priority themes related to social foundations:

1. We expect companies to contribute to access to clean water, nutritious food, and affordable housing, energy and financial services.




2. We expect companies to provide transparency about how they secure the wellbeing of their employees and follow good human capital management, including improved diversity and equality in the workplace.
3. We consider the actions companies takes to create an ethical business environment, and the treatment of stakeholders up- and downstream their value chains.

**Fairer Society: real Living Wage**
The payment of a real Living Wage in the UK is a core component of good human capital management and a key topic in our engagement. Companies that pay a real Living Wage – one that is based on actual living costs – can mitigate legal risks, enhance business performance and foster social stability, reducing long-term systemic risk.

We are an active and contributing member to the ShareAction Good Work Coalition. The collaboration engages the UK retail sector on good working practices, with a focus on insecure work, workforce disclosure, real Living Wage, and diversity and inclusion.

As part of our engagement with companies on paying a real Living Wage, we encourage them to:

- Go beyond legal minimum wage requirements and pay a real Living Wage to all direct employees;
- Improve oversight of regular third-party contracted worker staff pay levels and work towards implementing the real Living Wage for these workers; and
- Become accredited as a Real Living Wage Employer with the Living Wage Foundation.

**Engaging with Sainsbury's on a real Living Wage**
Over the past two years, we have engaged with **Sainsbury's** on paying a real Living Wage to different levels of employees and achieved significant progress.

- **2022:** Sainsbury's updated its wage rates so that all direct employees received at least the 2022 real Living Wage rates, after several dialogues and co-filing a shareholder resolution by the ShareAction Good Work coalition, including Cardano.
- **2023:** Sainsbury's informed the ShareAction Good Work coalition that third-party security employees were now also receiving real Living Wage rates after dialogue with senior executives including the CEO.
- **December 2023:** the ShareAction Good Work coalition sent a letter to Sainsbury's, signed by Cardano, asking Sainsbury's to continue the dialogue on paying the real Living Wage to direct and third-party employees.
- **January 2024:** Sainsbury's raised rates for direct employees in line with 2024 real Living Wage rates.

**Basic Needs: Health**
Good health is necessary to support individuals, workforces, communities and economies to thrive. Our engagements on health link to basic needs accessibility (as outlined above) and in our Sustainable Investment Policy. When applying these to our portfolio, we have considered how we can respond with tangible action to implement our goals.

We believe food manufacturers and retailers should ensure the healthiness of their product offering and contribute towards tackling obesity, a condition affecting more than one billion people worldwide. Excess weight and obesity reduce quality of life, impact mental health and many non-communicable diseases are linked. The topic represents a business, legal and systemic risk for our investments. Rising obesity[17] has business impacts such as higher sick leave and lower productivity. Legislators are introducing sugar taxes and/or mandatory food labelling in many countries to support more people in making healthy food choices.

To increase availability and a wider choice of affordable, healthier food and to reduce systemic risks related to a lack of affordable nutritious food, Cardano collaborates with companies in the food industry (food retailers and manufacturers) via the Access to Nutrition Initiative (ATNI) and the ShareAction Healthy Markets Initiative.

## Healthy food and lifestyle initiatives

**Engagement with Nestlé**
In 2023, Cardano was part of engagement discussions held with **Nestlé**, aiming to:

1. Encourage Nestlé to disclose the healthiness of its portfolio; and
2. Ask Nestlé to set a target to increase the proportion of sales linked to healthier products.

In March 2023, Nestlé started to disclose the healthiness of its portfolio against the Health Star rating, a recognised government-endorsed nutrient-profiling mode. The disclosure showed that Nestlé heavily relies on the sale of less healthy food products. We continued to engage with Nestlé and asked for a stretch target to increase the healthiness of its food portfolio.

In September 2023, Nestlé announced a target to grow the sale of products within its nutritious category by 50% by 2030. However, this target was not a proportional growth. Indeed, Nestlé could reach that target and also grow the unhealthy part of its business at a higher pace. Nestlé had chosen to count as 'nutritious' products to its target, plain coffee, commercial baby foods (for over 12 months), vitamin and mineral supplements and medical nutrition, which is not best practice. These categories of products should not be included in disclosures as it is against public health guidelines. Nestlé remains a focus for our engagement on health in 2024.

**Better understanding health in investment**
We participated in the 2023 ShareAction LIPH (Long-term Investment in People's Health) Survey, which analyses how its members integrate health into their investment and stewardship activities, identifies areas for progress (for members and the investment sector) and evaluates ShareAction's work on health. The findings will assist ShareAction in directing the LIPH programme in 2024 and beyond.

17 https://www.who.int/news-room/fact-sheets/detail/obesity-and-overweight

### Measuring healthiness

We have taken part in an ongoing initiative led by a UK Research Fellow in collaboration with health-linked NGOs, including Nesta. Participants are working to determine the most appropriate metric to measure the healthiness of products sold by companies in the quick service restaurant sector in the UK.

### Forming HEAL

In 2023, we joined forces with Dutch investors to consider other engagement and investor actions and formed the Health Engagement Alliance (HEAL). We have discussed objectives, identified areas of engagement (sectors and companies), invited outside presenters to inform us of ongoing initiatives, drafted an investor statement and started reaching out to companies, including quick-service restaurants. HEAL's objectives are for companies to make progress on the below topics:

- Governance: have a lobbying policy and code of conduct, ensuring companies do not lobby against their own commitments on health and nutrition
- Accountability: have a policy on healthy diets, which includes targets
- Healthy menus: commit to offering affordable healthy options
- Implementation: report on progress
- Responsible marketing: in line with the above commitments, progress labelling and accessibility of nutrition information

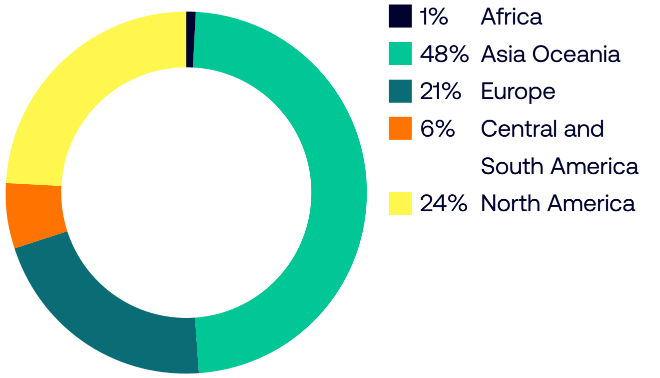
## Our voting activities

We see the exercise of voting rights as essential to our stewardship activities. We vote at shareholder meetings to communicate our sustainability views to companies. Our standalone Voting Policy provides clear guidelines on how we use our voting rights connected to our holdings and clients' capital. It details how we will vote to promote better oversight of sustainability issues. The views in our policy are based on international best practice guidelines for sustainability and corporate governance, and shaped by our Sustainable Investment Framework and how we want to communicate our views and expectations to investees. If needed, we initiate or support shareholder resolutions on actions necessary for a company's transition.

Our default is to vote at all shareholder meetings. To increase the number of markets where we vote, we put a Power of Attorney in place in all jurisdictions required – the exception is if we hold only a minimal number of positions in a market.

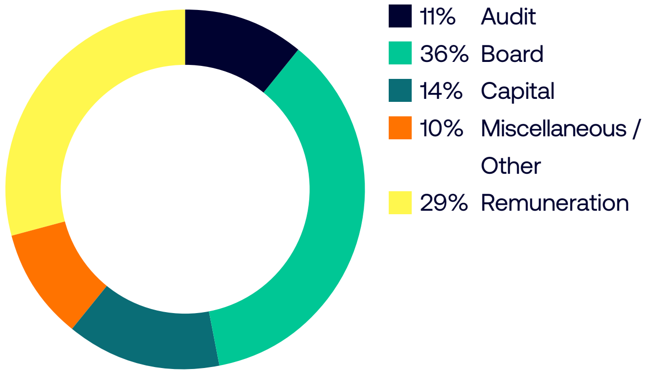
In 2023, we voted at 2,463 meetings in the following regions:

**Meetings per region**



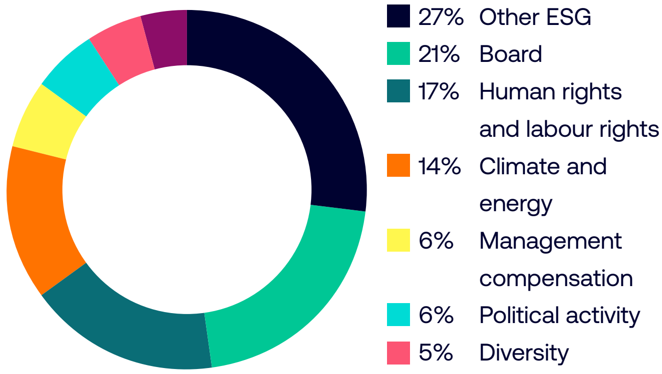

We voted against 12% of management resolutions in the below categories:

**Categories of votes against management**




In 2023, we supported 67% of shareholder resolutions in the below categories:

**Categories of shareholder resolutions supported**



**Voting Activity [over 2023]**

# Europe

**Executive remuneration**
With concerns linked to increased inequalities and the cost-of-living crisis, our 2023 Voting Policy updates included stricter criteria on pay for performance, ESG metrics, CEO: general workforce pay ratio and remuneration plans at companies with a history of low shareholder support on remuneration proposals. We voted against executive remuneration at:

- **Fresenius Medical Care AG:** identified issues in the remuneration package granted to the outgoing CEO, who remained in the role for only two months while earning c. EUR 5.7 mln. We consider this remuneration particularly contentious and expect safeguards to ensure appropriate termination packages going forward.

- **Publicis Groupe SA:** voted against the approval of the Supervisory Board Chair's remuneration due to concerns over the level of pay. The Chair's total pay significantly exceeds its peer group, representing around four times the average of the French CAC 40 index.

- **Universal Music Group N.V.:** voted against the remuneration plan due to significant concerns over Universal's executive remuneration arrangements, including:

  - Poor disclosure;
  - A lack of ESG metrics;
  - Weak performance metrics under the annual incentive plan;
  - Granting discretionary awards to the CEO and Deputy CEO;
  - Excessive total compensation for the CEO; and
  - A lack of sufficient response to large shareholder dissent last year. Due to the severity of the concerns, we voted against the remuneration plan and against the re-election of the Remuneration Committee Chair, who did not get re-elected as the majority of shareholders did not support her re-election.

We also voted against remuneration arrangements at **Carl Zeiss Meditec AG**, **Shurgard Self Storage Limited**, and **Catena AB** due to lack of ESG metrics in executive incentive plans.

# North America

Despite a general market trend of lower shareholder support for shareholder resolutions[18], we use proxy voting to enhance long-term shareholder value, with 67% of shareholder resolutions supported in 2023.

**Climate:**

- **United Parcel Service (UPS):** supported resolutions asking UPS to adopt independently verified science-based GHG emissions reduction targets; and to prepare a climate transition planning report.

- **JPMorgan Chase & Co:** supported three climate-related resolutions: fossil fuel phase-out; a climate transition planning report; and asking for absolute GHG reduction goals.

**Diversity and Inclusion:**

- **Nike:** supported a resolution requesting the company to report on median pay gaps across race and gender. Although Nike has equity-related policies and procedures, the additional level of reporting will strengthen Nike's existing diversity and inclusion, mitigating potential reputational, regulatory, litigation and operational risks.

**Antimicrobial resistance:**

- **Hormel Foods Corp.:** supported the resolution requesting a policy to comply with World Health Organisation Guidelines on the use of medically important antimicrobials in food-producing animals throughout Hormel's supply chains. Hormel has committed to reduce its use of antibiotics, but these commitments only cover its own farms. Given the importance of antimicrobial resistance as a global health and development threat, extending this commitment to the whole supply chain is essential.

**Worker's rights:**

- **Amazon**
  and **CVS Health Corporation:** voted in favour of shareholder resolutions to address concerns linked to freedom of association.

18 https://insights.issgovernance.com/posts/in-focus-shareholder-proposal-in-the-2023-us-proxy-season/

## Asia-Pacific

**Remuneration:**

- **UOL Group Limited** (Singapore-based property development and hotel company): we voted against remuneration proposals, we found serious concerns about the structure of the executive incentive plans, including:
  - a lack of performance targets under the company's 2022 share option scheme;
  - a vesting period below two years; and
  - the provisions for accelerated vesting of awards upon a change of control.
- **Budweiser Brewing Company:** voted against remuneration proposals, where the grant of equity awards had a vesting period of just one year. The lack of ESG metrics attached to the plan was also a concern.

**Board composition, structure and oversight of ESG issues:**

- **Budweiser Brewing Company:** voted against the election of the Nomination Committee Chair, as the Chair and CEO positions are combined, and the company does not have an Independent Director.
- **Sharp Corporation:** voted against Nomination Committee members due to the absence of female directors and an ESG Committee (responsible for Board oversight on ESG matters).
- **Sino Land** and **Sun Hung Kai Properties**, Japanese company GMO Payment Gateway, and Australian company **Reece Limited:** voted against Directors at these Hong Kong-headquartered companies due to lack of independence.
- **Hakuhodo DY Holdings Inc:** voted against three Directors due to cross-shareholding concerns, (it holds approximately JPY 82,516 million shares of other public companies representing 21.29% of Hakuhodo's net assets as of 31 March 2022), as well as ongoing controversies that raise questions about the effectiveness of the group's internal control and risk management.
- **Westpac Banking** and **National Australia Bank:** voted in favour of Westpac's Climate Change Position Statement and Action Plan (management proposal) as it provided satisfactory disclosure on its Climate Transition Plan, including absolute scope 3 emission reduction targets for its lending activities linked to oil, gas and thermal coal mining. We also voted in favour of the shareholder resolution requesting Westpac to further disclose on whether all fossil fuel companies – beyond upstream oil and gas companies, i.e. metallurgical coal and power generation companies – will need credible climate action plans for Westpac to continue with lending and bond facilitation activities.
- **National Australia Bank:** voted at shareholder resolution asking for additional information concerning the requirement that oil and gas customers have a Climate Transition Plan in place to receive new lending and renewals from 1 October 2025.

## Emerging Markets

- **Cheil Worldwide** (Korean marketing solutions company): voted against a bundled proposal to distribute profits and approve its financial statements. Cheil did not confirm that an independent auditor had received the reports. We also voted against items relating to remuneration: relative to its peers, Cheil paid excessive fees to its Directors and auditor without a clear rationale.
- **Terna Energy** S.A (Greece): voted against Remuneration Report. During our analysis of its Compensation Framework, we noted that approximately 31% of minority shareholders in Terna voted against management compensation at the 2022 AGM, but the company did not provide reasons behind the significant dissent or detail on how they intend to address it. We were concerned about the salary increase for the Chair, and the lack of disclosure on the equity award to the CEO, who is a major company shareholder.
- **Ningbo Deye Technology** and **Zhejiang Jiuzhou Pharmaceutical** (China): voted against directors regarding Board elections, with concerns over lack of overall independence and committee composition.

While we support many shareholder resolutions, we critically assess all ballot items. We are voting against a rising number of resolutions by anti-ESG proponents, which have more than doubled in three years between 2020 and 2023, and often question corporate DEI practices and racial and ethnic board diversity[19]. On the surface, these types of resolutions may address ESG topics, but their actual purpose is to argue that integrating ESG is detrimental to a company.

For example, in 2023 the National Centre for Public Policy Research, a self-described US conservative think tank, requested that **Apple** conducted an audit to assess its impact on civil rights and non-discrimination. Their argument was that DEI policies implemented by Apple were discriminatory against 'non- diverse' employees. Cardano voted against such resolutions: we believe that the integration of material ESG topics including DEI is beneficial to long- term shareholder value creation and is essential to the environmental and social transition.

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**We are voting against a rising number of resolutions by anti-ESG proponents, which have more than doubled in three years.**

19 https://corpgov.law.harvard.edu/2024/06/03/pro-esg-shareholder-proposals-regaining-momentum-in-2024/#:~:text=Anti%2DESG%20proposals%20continue%20to,GHG%20emissions%2C%20and%20political%20spending.

# 6. Engaging with external investment managers

We help our clients invest with more than 100 external investment managers and monitor over 180 external managers across most major markets, asset classes (public and private) and geographies. Our flexible approach accounts for different strategies, underlying asset classes and geographies. We integrate sustainability issues at every investment stage when assessing external investment managers. Our detailed third-party ESG Assessment Framework assesses external managers across people and policies, investment integration, stewardship, engagement, and reporting.

We are passionate about actively engaging with external investment managers, as we believe it is one of our most powerful forms of influence in the industry. We regularly engage across strategy, geography and size, and discuss sustainability topics such as challenging individual stocks and stewardship activity.

How we engage:

**1) Annual Manager letter**
We send a letter each year identifying the key issues where we want to see progress. In our 2023 letter, we encouraged managers to:

- Disclose ESG-related metrics, engagement activity and voting statistics as part of regular reporting;
- Share corporate engagement examples that align to our clients' priority areas;
- Think beyond GHG and consider other factors such as biodiversity and water usage; and
- Consider collaborative engagement to amplify influence.

Over the past five years, we have encouraged external investment managers to become UN PRI signatories and provide carbon footprint reporting: 82% of managers we work with have signed up to UN PRI and 51% now provide carbon footprint reporting.

## Case-study: Engaging on UN Global Compact (UNGC) screening

**What?**
We have minimum standards for our 'high focus' external investment managers: those with a substantial influence on their portfolio companies. We expect these managers to exclude persistent UNGC (or equivalent principles) violators. In 2023, one manager did not have this screen in their process.

**How?**
We engaged with the manager through regular interaction.

**Outcome**
The manager implemented a portfolio screen for violators against two ESG minimum standards: the UNGC Principles and the OECD Guidelines. The manager used data from S&P Capital IQ. Following the introduction of this screen, we receive a monthly exclusions confirmation report from the manager.

**2) Setting milestones**
For external managers who score less favourably in our rating methodology, we highlight specific aspects where we want to see improvement, with clear milestones that we closely monitor for progress.

- In 2022, we set milestones for two funds that scored 'Poor' in our ESG rating process.
- In 2023, we set milestones for all managers (84 funds) that we recommend to our clients.

**3) Targeted engagement**
In 2023, our Manager Research Team engaged with 34 managers on a variety of topics. This led to positive outcomes in 24 cases. An example of an engagement that led to a positive outcome is the following:

## Case-study: Improving Transparency and Reporting

**What?**
One of our systematic managers was neither providing a carbon footprint report nor transparency to clients on the integration of ESG into their investment process. While this is a 'low focus' strategy (E, S or G factors are unlikely to meaningfully impact financial returns), we aim for all our managers to continually improve their ESG process and integration.

**How?**
Through regular interaction with the manager's investment and support functions, we pushed for more granularity around transparency in their process and ESG reporting.

**Outcome?**
The manager now produces a carbon footprint report for our clients on a semi-annual basis. While we believe the approach to policies has improved (for example, the manager now shares their proxy Voting Policy), we continue to engage and seek improvement with the manager.

# 7. Sustainability Advisory Services

For many investors, sustainability can be overwhelming to fully grasp, translate into practice or understand where to focus their action. With demands rising from regulators and society at large, investors need guidance, additional capacity and more relevant data.

Our offering covers the full spectrum of our clients' needs, and we support them in setting sustainability-related policies, strategies and targets, implementing those via screening and stewardship, monitoring progress and tracking new sustainability-related risks and (regulatory) reporting. We also provide our clients with an interactive, customised ESG dashboard.

### Continental Europe

In 2023, our client base in continental Europe grew to 17, including Europe's largest pension funds. The client base is a combination of pension funds, insurance companies and non-financials. Altogether they represent over EUR 100bn in assets. The retention rate for our Sustainability Advisory Services in Continental Europe was 100%.

During 2023, we extended our reporting offering, adding CSRD-related advisory including double materiality assessment, implementation and reporting. On the climate related part of our interactive dashboard, we added new indicators to show SBTi-alignment, the number of companies with carbon reduction plans and information on the quality of the data used.

Our biodiversity initiatives have led to new ways of providing insights on exposure and risks at a company level, supporting both Cardano and our clients on the pathway to compliance with TNFD[20] recommendations.

Cardano's new interactive dashboard below.

### UK | Trustee boards and corporates

We provide strategic sustainability advice to UK trustee boards and corporate management teams. In 2023, we supported around 40 clients (representing c. GBP 80bn assets under management) in understanding and resolving their sustainability issues, including:

- Assessing the impact of sustainability risk on the employer covenant supporting their pension scheme;
- Climate scenario analysis, focusing on the impact of a changing climate and regulatory responses on individual businesses (as opposed to investment portfolios);
- TCFD[21] reporting, helping to ensure that reports effectively integrate covenant risks and highlight effective risk management actions;
- Preparing for CSRD reporting, including double materiality assessment; and
- Assessing sustainability policies and corresponding exposure to risk of insurer counterparties.


20 UK Taskforce on Nature-related Financial Disclosures.
21 UK Task Force on Climate-related Financial Disclosures.

Through our advisory services, we aim to drive real-world change and value, helping clients to:

- Improve their climate scenario analysis;
- Develop a plan for their pension scheme, avoiding key periods of sustainability risk to their sponsor;
- Negotiate increased contributions and covenant protections for their pension schemes to mitigate increased mid-term covenant risk;
- Put in place monitoring frameworks to provide early warning of key risks; and
- Set up robust strategies that explicitly consider sustainability risk and opportunity.

**UK | Investment fiduciary and investment advisory clients**
For our larger fiduciary clients, 2023 was their second year of producing TCFD reports, which brings the need for additional metrics and the inclusion of scope 3 emissions data.

We support clients to reflect on their first reports and lessons learnt, which has led to changes in measurement approaches in pursuit of the most relevant data to support decision making. For example, enhancing alignment metrics to measure the percentage of companies held that comply with the SBTi, rather than relying on unverified assessments by different data providers.

**Refining requirements**
Measuring sustainability progress will continue to evolve, while additional reporting has led to a fuller consideration of how sustainability could impact investments and scheme funding plans. While we work with clients to interrogate the story behind their data, and what it means, we are encouraging clients to focus less on year-to-year quantitative changes in headline carbon metrics, and to instead consider longer-term evolution and how to ensure their schemes can practically adapt to a changing landscape. We have started to develop qualitative scenarios for clients and believe a more considered approach is more decision-useful for trustees and reduces the risk of drawing unhelpful conclusions.

### Case-study:
### Measuring portfolio alignment through science-based targets.

Our clients like to see how much of their portfolio has science-based targets for a prospective view on how well companies are aligning to future emissions paths. While this metric varies, the share of companies with SBTi-approved or committed targets across our asset management clients has increased to 45% (2022: 42%). In number of companies, the increase was from 28% to 34% as more companies are asking SBTi to approve their climate targets.

> **Stewardship is a key mechanism for driving real world change and to limit systemic risks in the best long-term interests of our clients' pension fund members.**

**Stewardship support**
In 2023, we supported our clients to improve the level and quality of stewardship in their investments. Stewardship is a key mechanism for driving real world change and to limit systemic risks in the best long-term interests of our clients' pension fund members.

In line with the EU Shareholder Rights Directive, we are working with our clients to introduce more specification in significant areas for voting and engagement.

Many of our clients recognise the systemic nature of a variety of sustainability challenges. We encourage our clients to focus on systemic environmental issues, such as climate change, biodiversity loss, water and materials use and social needs such as human rights, provision for basic needs and a fairer society.

We support our clients in collecting data from their asset managers around significant vote issues. For example, we have added more detail to voting and engagement data and examples we collect for clients to review and compile their Implementation Statements, allowing them to monitor voting that corresponds with specific sustainability themes.

We also encourage trustees to consider aligning their asset manager's beliefs, approach to engagement, voting escalation and portfolio implications. This has become increasingly important when appointing and reviewing managers.

**Turning plans into action**

During 2023, we introduced a new in-house managed physical equity portfolio for 20 of our fiduciary management clients with exposure to multi-asset portfolios or direct equity allocations. This portfolio aims to track the MSCI World index with low tracking error, incorporates all our priority sustainability themes, including climate change aligned with net zero, deforestation and water neutrality, and adopts an integrated approach to stewardship on these systemic themes. Our inhouse Cashflow Driven Investment programmes used by 15 fiduciary clients follow the same investment framework when allocating to bonds in the investment grade universe and benefiting from the same stewardship team engagements.

We wrote to all third-party managers used by our clients to emphasise agreed stewardship priorities and set out our expectations.

Developing funds and collaborating closely with third-party managers has improved the depth and breadth of detail we now provide to clients on different sustainability measures, ranging from carbon intensity to female board representation.

# 8. Key themes in 2023

A golden-browed chlorophonia (Chlorophonia callophrys) in Costa Rica.

For 2023, the following themes have been of big importance in our efforts to improve on our journey towards influencing the transition and contributing to achieve a more sustainable society: biodiversity, sustainability data, the importance of a real living wage, and sustainable finance regulation.

## Biodiversity

### Using AI to measure biodiversity

There is a growing demand for ways to measure progress towards stated biodiversity goals. One of the biggest hurdles is obtaining reliable data that provides real time insights into the effectiveness of different approaches to managing biodiversity impact. Traditional methods for measuring biodiversity, including going into the field to count species types (richness) and number of individuals of each (abundance), are resource intensive and tend to be invasive to the local ecosystem.

In 2022, we sponsored Green Praxis, a nature-based solution provider, to conduct a bio-acoustic study.

Bioacoustics offer a low-cost, non-invasive, scalable technology, which combines sound recordings with artificial intelligence to gain insight into biodiversity levels.

Cardano coordinated the project and sponsored the Green Praxis team to analyse sound recording data gathered in six recording days over nine locations in West Kalimantan, Indonesia on land owned by a palm oil producer across three plots:

- forested area: as close to pristine as available;
- secondary forest resulting from conservation efforts: conservation plots; and
- active palm oil plantations: production plots.

Initial results showed detailed biodiversity findings, and that conservation efforts by companies are valuable and effective in restoring biodiversity richness, including:

- both production and conservation plots produce acoustic events demonstrating species variation, but conservation areas are not as high in terms of abundance;
- conservation areas and production plots produce notably different acoustic landscapes;
- monotonous activity of insects in production plots;
- no mammals detected; and
- conservation and production plots are populated by varying bird species, frogs and mammals – including primates.

However, conversation efforts not yet replace the abundance of biodiversity found in natural extensive forests. We are planning a second study at another palm oil producer's sites and a national park in Malaysia to help substantiate our initial findings. We intend to encourage more companies to incorporate bioacoustics technology into biodiversity monitoring processes.

As biodiversity loss becomes one of the largest and most urgent systemic risks facing portfolios, we will continue to push for innovation to scale methods for quantifying biodiversity impacts and to assess whether claims of achieving 'nature-positive' and 'net-positive biodiversity' are credible and valid.

## Turning data into insight

The financial sector has a responsibility to encourage investees to contribute to the transition. We like to express our sustainability targets, efforts, opportunities and risks with data to increase understanding of our journey and the challenges we face, as well as meet evolving reporting needs. We continue to invest in our data expertise and add new data sources, always aiming to turn this into actionable information.

We believe it is crucial to consider both the impact of sustainability risks on our investments and the impact of our investments on the real world and on the systemic risks to the economy – in other words, to follow a 'double materiality' approach to our investments, our stewardship activities and the advice we give.

After the financial sector agreed upon standardised methodologies Climate Value at Risk (CVAR) and carbon footprint to capture climate risks, the number of investors willing to report consistently and act towards climate mitigation has grown steeply.

While there has been a lack of consistent, high-quality data for (private) investments, we believe:

- data availability is improving rapidly. The control-orientated governance structure of private investments allows for faster innovation;
- the information is there, but we need a systemised approach to data capture;
- the pursuit of perfection should not prevent progress. Models or narratives that describe impact outcomes, although data may be incomplete, are preferable to nothing at all; and
- measurability is a delicate balance between the ability to collect high-quality data and being pragmatic about the data available.

**Pioneering geospatial data to identify physical environmental risks**

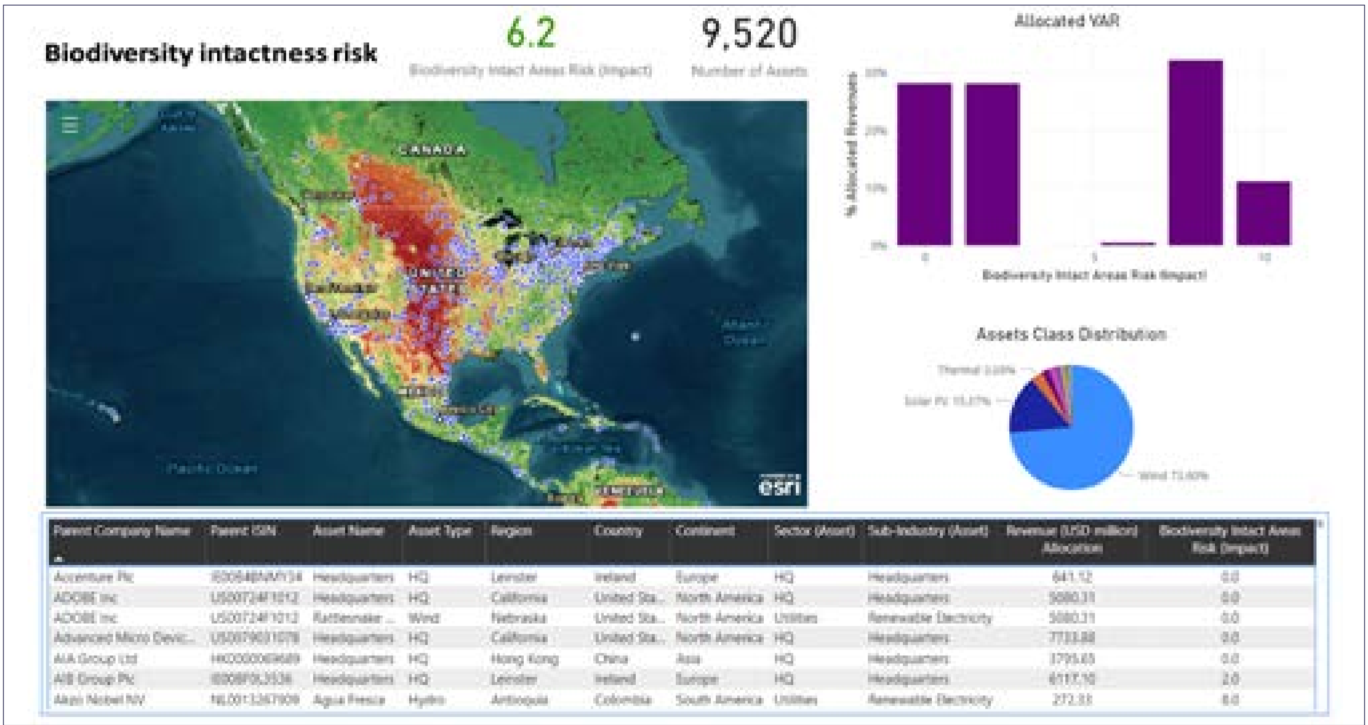
We aim to optimise financial returns of our investments by mitigating the most pressing risks through the lens of sustainability. According to multiple sources, including the World Economic Forum, the biggest economical risks are related to sustainability. Part of the challenge of addressing systemic and market-wide risks is gaining insights into physical risks and impacts, and then acting to mitigate them either through exclusions or stewardship. To identify entities involved, we need additional and forward-looking data.

Our geospatial data model is a pioneering new approach that uses remote sensing, based on innovative satellite imagery, to provide a vivid picture of the environmental risks to which a particular investee company may be exposed – or to highlight situations where its operations may be at risk of doing harm to the environment: double materiality. This new model optimises the risk-return profiles of investment portfolios using inhouse developed views, based upon real world and objectified data.

The geospatial data model provides information about a company's geographical locations, its plants, operations and activities, and where it generates revenues. This information is then overlayed with heat maps to answer key questions regarding elements of risk. Risks identified from space range from hurricanes, droughts, wildfires, coastal flooding and heat stress or cold stress, to water depletion, untreated connected wastewater, deforestation and diminished air or soil quality. For example, the model can identify whether a company's production facilities are water dependent or if an agricultural business faces an increased likelihood of extreme heat.

Our geospatial-related dashboard displays information (mostly on dependencies) on climate, biodiversity, water, pollution and social (Indigenous lands), as well as insights on portfolio-, sector-, company- and asset-level and revenue stream. In 2024, we will add detail on the impact of companies on the environment, to enforce the assessment on double materiality.

Example of the Geospatial dashboard on biodiversity intactness

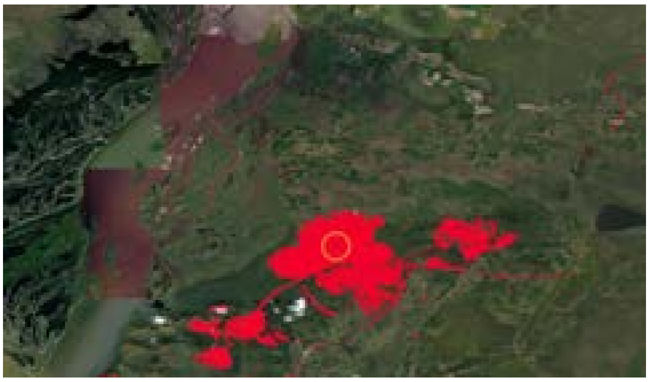


The geospatial research can discover where human operations lead to deforestation.

**Picture #1**

The red point on Picture #1 indicates the specific geographical coordinates of the location of the mine as a reference point. The yellow circle is the radius around the reference point that constitutes of the footprint of the mine. The picture shows how the ecosystem was before the mine was constructed. The satellite image shows the presence of primary forest.

**Picture #2**



The red pixels in Picture #2 show the deforested area around the mine, measured with the remote sensing that leverages the unique spectral signatures of various surface materials. These are distinct patterns of reflectance or emittance across different wavelengths of the electromagnetic spectrum.

In this case, our model will score this asset at the highest risk level, providing relevant information investment decisions and stewardship activities in the supply chain.

### Real Living Wage financials

Companies have an ethical responsibility to pay a living wage to their employees. If companies cannot pass on the higher costs to the end customer, this will be at the expense of its profitability in the short term, over the longer term however, it should contribute to a company's success.

Providing a living wage has also shown to create a more stable workforce and more resilient value chains Research from Cambridge University[22] shows that employees with a living wage are more productive, more satisfied and they stay employed longer. Of course, many factors contribute to employee wellbeing, but salary is an important component.

> **We engage with companies and encourage them to address the failure to pay living wages and income in their global supply chains.**

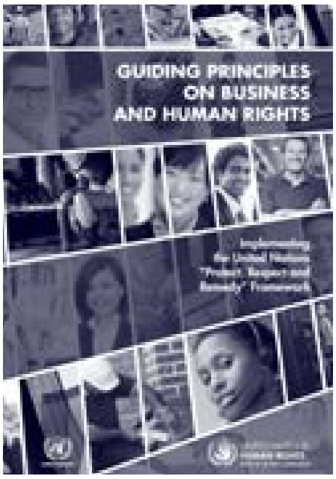
**Cardano engages for a Living Wage**
We are part of the Platform Living Wage Financials (PLWF), a group of financial institutions who have united to advocate a living wage for all workers. We engage with companies and encourage them to address the failure to pay living wages and income in their global supply chains, ranking companies based on the UN Guiding Principles on Business and Human Rights (UNGPs).

In addition to the engagement initiatives with companies in the sector, the PLWF has called on the International Labor Organization (ILO) to accelerate its work in living wages and living income. The letter, coordinated by the Sustainable Trade Initiative (IDH), asks the ILO to help harmonise a globally accepted definition of living wage and income.

Within the PLWF, Cardano leads certain company engagements in the clothing and footwear sector. One company has offered further insight into how it is making progress in implementing a living wage for workers in its supply chain. By working with the Fair Labor Association (FLA), which collects salary data from factories and suppliers, and partnering with the Fair Wage Network, the company provided an in-depth and holistic wage analysis, and shared results and proposed actions with its Manufacturing Executive Team. The company now plans to establish a multi-disciplinary committee to oversee the implementation of the recommendations.

22 The case for living wages: How paying living wages can improve business performance and tackle poverty and inequality | Cambridge Institute for Sustainability Leadership (CISL)

**The ethical and legal basis for a living wage**




"A living wage is a human right. Although the human right to a living wage can primarily be upheld before governments that have signed the Universal Declaration of Human Rights, the pressure on companies to conform to universal human rights is increasing. An important step towards this is the Ruggie Principles, adopted in 2011, named after the Chair of the committee that proposed the principles. It calls on states to protect human rights and companies to respect them."

**Prof. Dr. Harry Hummels**, Professor of Ethics, Organizations and Society at Maastricht University, external advisor to Cardano

The fact that a living wage is a human right does not mean that employees in sectors such as textiles, food or retail can also claim such a wage. While the ethical case is obvious, companies are less convinced of the business case. However, recent studies from the universities of Berkeley and Cambridge show that productivity increased by a percentage between seven and twelve percent with the payment of a living wage. In addition, higher wages lead to healthier employees – and therefore lower absenteeism costs – and positive spillover effects in the local economy. The employees themselves also experience clear benefits, which extend beyond just the level of the salary. When asked, four-fifths of employees indicated that the quality of work increased after the introduction of the living wage. This in turn led to a reduction in costs associated with labour management.

## Sustainable finance regulation

A few years ago, leading authorities embarked on regulatory initiatives for sustainable finance to achieve their climate and other sustainability objectives. Market-leading regulations now include various sustainability reporting requirements for the financial sector and large companies: the Sustainable Finance Disclosure Regulation (SFDR), Taxonomy Regulation, and Corporate Sustainability Reporting Directive (CSRD) in Europe, and the Task Force on Climate-related Financial Disclosures (TCFD), Taskforce on Nature-related Financial Disclosure (TNFD), and Sustainability Disclosure Requirements (SDR) in the UK. Many parties have already gone through their first reporting cycles and/or are preparing to provide more information about their sustainability objectives and progress.

These are no 'tick-the-box' exercises – the regulatory sustainability requirements are an important catalyst to making financial markets participants aware of sustainability drivers and how to not only 'greenify' portfolios, but also to move towards a more sustainable society: how to incorporate a 'double materiality' approach. The onus is on companies to focus more on sustainability and to communicate more transparently to avoid accusations of 'greenwashing' or, conversely, 'greenhushing.'

The regulatory rules often include open concepts that parties themselves must fill in with policies and processes. These rules and concepts force parties to think about sustainability in terms of their policy, strategy, governance, risk and impact management, and opportunities, and compliance with sustainability regulations requires clear communication of details. However, sustainability 'terminology' and regulatory meaning of those same terms is often misaligned, creating confusion for compliance with the disclosure requirements (which have to be 'fair, clear and not misleading'). For example, the notion of 'sustainability' and 'sustainable investing' as envisioned by investors and institutions is not the same as a 'sustainable investment' with the meaning of the SFDR. The latter differs again from an 'environmentally sustainable economic activity', according to the Taxonomy.

**CSRD; the right sustainability assessment**
Many asset managers and asset owners have to deal with a lack of sufficient and reliable data to pursue a multi-focus sustainability policy (for example, focused on climate and biodiversity, or on Taxonomy alignment), while grappling with the overwhelming number of data points. We welcome CSRD as it prescribes a materiality assessment that guides companies on where to focus on their predominant risks and world impacts.

**What we are doing**
We support our clients and guide them through sustainability matters; working together to form policies, set up reports including data under SFDR and Taxonomy, conduct and implement double materiality assessments and related indicators and data, and report under the CSRD. This is relevant for our European and UK clients with a substantial European presence. Through our quarterly reports, we keep our clients informed of the latest news and regulatory developments.

# 9. Sustainability governance

Our approach to sustainability governance reflects our new corporate structure and clarifies roles and responsibilities. Due to the Group-wide relevance of sustainability issues, we manage several committees at Cardano Group level.

Within the Management Board of Cardano Holding Limited (parent company of the Cardano Group), Kerrin Rosenberg is responsible for sustainability, while different departments and committees form and implement our Sustainable Investment Policy.

**Group Head of Sustainability**

Lead by **Martine Snoek** as Group Head of Sustainability for Cardano, the Cardano Sustainability Group (CSG) consists of over 25 sustainability professionals with diverse backgrounds and subject matter expertises. Part of CSG are Stewardship, Research, Policy & Methodology, Sustainability Solutions and ESG Advisory domains.

**Head of Sustainability UK**

**Keith Guthrie** is Cardano's head of Sustainability in UK as well as Head of Sustainability for NOW: Pensions.

**Chief Sustainability Officer**

**Dennis van der Putten** is Cardano's Chief Sustainability Officer, responsible for our Sustainability vision and thought leadership.

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All Cardano's investment teams integrate sustainability into their investment decision-making procedures and work closely with the Cardano Sustainability Group and the Investment Committee Sustainability (ICS).

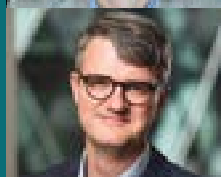
**Sustainability Policy Committee (SPC)**

Chaired by **Kerrin Rosenberg**, CEO of Cardano UK and Member of the Management Board, the SPC is responsible for setting overall sustainability strategy and approving sustainability policies and frameworks, prepared by Cardano Sustainability Group.

**Sustainability Categorisation Committee (SCC)**

Chaired by **Arjan Ruijs**, Head of Sustainability Policy & Methodology, the SCC is responsible for determining how entities are classified under our sustainability policies and frameworks, as well as the detailed methodologies that determine ESG scores, exclusions and our approach to stewardship.

**Investment Committee Sustainability (ICS)**



Co-chaired by **Hilde Veelaert**, CIO of listed markets and **Keith Guthrie**, Head of Sustainability UK, the ICS, a part of the Investment Committee, is responsible for implementation of sustainability policies and frameworks into investment strategies and decision-making.

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Cardano Group's Boards and its subsidiaries are kept up-to-date about developments and decisions of its committees. The Boards are also informed about the results from our climate scenario analyses and progress in achieving our sustainability targets. We have agreed KPIs for our Boards, portfolio managers and CSG team, aligned with achieving and increasing the level of sustainability in the investment solutions and developing our Sustainable Investment Policy.

# 10. Creating real-world impact today

# Looking ahead

**The definition of 'sustainable' is not fixed. The regulator gives guidance through regulations and directives on the requirements of what is a 'sustainable activity' and what is not. For the EU, this focuses on what is a sustainable company today.**

Over 2024, companies and investors have stepped back from their commitments regarding their sustainable ambitions and targets. Partly to do with the context, such as a changing view on 'defence' stocks due to geopolitical tensions, and partly to do with the value allocated to sustainability and the knock-on effect on stock prices and revenue streams.

**Cardano has a different approach.**
Simply selling and buying entities (even from a sustainability perspective) has the least real-world impact. Our aim is to achieve impact in the real world and to influence the real economy. We believe we can do this in various ways: we remain invested where the biggest changes can be made and where often deep pockets can support much-needed radical innovations; we encourage companies to change their behaviour; and we support activities to contribute towards achieving a sustainable society; and we prefer active stewardship including collective engagements and co-filing.

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## Our view is forward-looking and focused on transition in the real world – not just to 'greenify' single investment portfolios.

To select the right companies to engage with, we need information and especially data. We work tirelessly on finding new data sources to help us identify actionable information. Our view is forward-looking and focused on transition in the real world – not just to 'greenify' single investment portfolios. We need a clear-cut vision on longer-term movements and needs of society, supported by data that highlights real actions and developments. Our efforts on bio-acoustics and geospatial data are a great example of our innovative approach. We also recently entered into a new partnership on displaying the impact coming from the use of proceeds of our book of green bonds.

We need multiple transitions (systemic changes) to achieve a sustainable society. We are dedicated to making a positive impact for a fairer society and for our planet. We support investing in these transitions (direct and via advisory) to make our clients' portfolios more resilient to uncertainty and realise better returns, while aiming to achieve sustainable results in the real world.

It is our conviction that providing investors with clear ambitions, intelligent methodologies, actionable data on double materiality and active stewardship helps the financial industry contribute to the overall sustainability journey of the real economy.

**Dennis van der Putten**
Chief Sustainability Officer

cardano

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