

cardano

Fifty shades of grey: investing in arms and defence

Quarterly report sustainable investing | Second quarter 2024



Introduction

All is fair in love and war?



Dennis van der Putten

Chief Sustainability Officer

Research indicates that the farther away an event occurs, the less impact it has on us. For years, wars have raged in distant parts of the world, seldom making the news, or becoming topics of conversation around the coffee machine. That changed dramatically on February 24, 2022, when Russia invaded Ukraine in a "special operation." Suddenly, a war was closer to home than ever before.

The same applies to investors' views on weapons. Five years ago, investing in controversial weapons was unthinkable. For financial firms based in the Netherlands, it is prohibited to invest in companies that produce, sell, or distribute cluster munitions or their crucial components. Conventional weapons were also a subject of debate. Is it ethical to invest in something that contributes to wounding or killing people? It seems like an almost rhetorical question.

But what do you do when "they" are at your own borders or worse, cross them? What is permissible then? We have international agreements on what is allowed and what is not. These agreements have been broken, not only by Russia. U.S. support for Ukraine included cluster munitions necessary to stop Russian tanks. Notably, all three countries involved have not signed the relevant treaty [Convention on Cluster Munition, 2008]. The U.S. government guaranteed that these are modern cluster munitions, with relatively few unexploded explosives remaining.

This presents a difficult dilemma for sustainable investors. Is self-defence a right and even a constitutional duty of a government (protecting citizens) and therefore the "social" aspect of ESG? Or should one avoid anything harmful to human well-being?

Table of contents

News and trends: Developments in the second quarter	3
Theme in focus: Fifty shades of grey: investing in arms and defence	5
Stewardship: Cases and progress in engagement dialogues	8
Investment universe: New inclusions and exclusions	13

News and trends

Developments in the second quarter

In this chapter we describe the latest news and developments in the field of sustainable investing.



Photo by: Green Praxis

We are currently doing a follow-up study, jointly with a Malaysian palm oil producer. A team of researchers from Green Praxis did a new field study at three locations in Malaysia. They conducted sound tests at various locations: in the plantation, in a reforested area and in a nature reserve in northern Malaysia. This allows us to analyse the difference in biodiversity as a function of land use intensity. It allows us to show how palm oil plantations affect biodiversity and whether alternative agricultural methods lead to a lower negative impact. It also gives information about how fast reforestation can restore biodiversity.



Photo by: Green Praxis

Bio-acoustics – phase two

In 2023, Cardano initiated a pilot to measure biodiversity change using bio-acoustics methods. The results¹ showed that the method offers potential for biodiversity measurements.

We expect to report about the results of the study in autumn 2024. The results help us in our engagements: to encourage soft commodity companies to reverse biodiversity loss or to provide food processors information about how to make their supply chain more sustainable.

1. <https://www.cardano.co.uk/industry-insights/bioacoustics-study/>

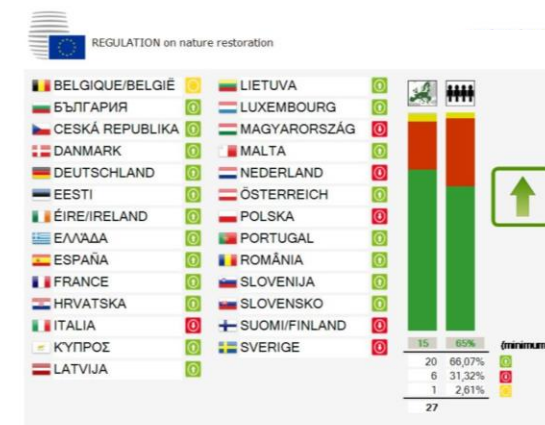


Arjan Ruijs
Head of Sustainability Policy & Methodology

EU countries vote in favour of nature restoration law

In June, the majority of the European Council voted in favour of the European regulation on nature restoration. The European Parliament previously voted on this new regulation, but with several member states voting against, it was feared that the regulation would not reach the required majority from the European Environment ministers.

Voting result



The regulation aims to put measures in place to restore at least 30% of the European degraded ecosystems by 2030, in line with the Global Biodiversity Framework. In 2050, 90% of the degraded nature areas should have a restoration plan. This is the first time that regulation is adopted that not only preserves nature, but especially focusses on restoration. Better nature quality is said to have many benefits for European citizens. It leads to cleaner water and air and makes countries more resilient to climate extremes. Biodiversity restoration is also necessary for the agricultural sector who depend on healthy soils and well-functioning ecosystems.

The regulation faced fierce opposition earlier this year, especially from farmers. They fear that stricter nature regulations threaten their business. It remains uncertain whether the European court will not put an end to the regulation as the Austrian Prime Minister claims that the Austrian Minister of Environment did not have the authority to vote in favour of the regulation.

News and trends

Developments in the second quarter



14 May 2024
ESMA/34/472-440

ESMA fund naming guidelines

On 14 May 2024, the European supervisor ESMA published its “Guidelines on funds’ names using ESG or sustainability-related terms”.

Final Report

Guidelines on funds’ names using ESG or sustainability-related terms



The investor demand for investment funds that incorporate ESG factors is increasing. The name of a fund is an instrument to communicate information about the fund’s strategy to

investors, as it is usually the first attribute investors see. Fund names are therefore particularly powerful to attract interest of investors seeking to invest in sustainability strategies by using ESG-related terms in their name.

To address greenwashing risk stemming from ESG-related terms in investment fund names, the Guidelines specify criteria that cater for alignment of ESG-related fund names with the actual sustainability characteristics or objectives of the funds. Investment requirements and mandatory exclusions are imposed on investments funds using ESG-related terms in their name. For the details, please see Final Report on the Guidelines on funds’ names using ESG or sustainability-related terms (europa.eu)¹.

The Guidelines are now translated into the official languages of the EU before being formally published on ESMA’s website. Following that publication, the Guidelines will apply after three months for new funds, and after nine months for funds existing before publication. Funds must either comply or change their name to remove any sustainability references.

According to ESMA, 6,490 EU-domiciled funds have ESG-related terms in their name. ESMA indicates that the 287 funds disclosed under Article 6 SFDR will be particularly affected by the Guidelines, as these funds should neither promote environmental or social characteristics nor have a sustainable objective. If they do, they should instead disclose under SFDR Article 8 or Article 9. Additionally, the 3,654 funds under Article 8 and the 847 funds under Article 9 SFDR



Maureen Luijk
Sustainable Finance Regulation
Expert

will be impacted if the minimum proportion of their assets does not meet the specified thresholds and/or exclusions.

WHO study on non-communicable diseases

In June 2024, the World Health Organisation (WHO) released its Commercial Determinants of Non-communicable Diseases in the WHO European Region² publication, highlighting activities and trends by commercial, private sector actors that affect population health. According to the report, non-communicable diseases (NCDs) are responsible for 90% of deaths in the WHO European Region, where nearly two thirds of these deaths are directly attributed to preventable risk factors. Only four major commercial products, namely alcohol, tobacco, ultra-processed foods, and fossil fuels, as well as occupational practices involving exposure to harsh substances and injuries, are together responsible for 2,7 million deaths each year (nearly 25% of all deaths on average), or almost 7,500 deaths per day, in the European region. Not a single European country is projected to reach the UN’s sustainable development goals of halting the rise in obesity or cutting smoking by 30% by 2025 among those aged 15 and over. According to the WHO, commercial actors, with their shared corporate strategies that harm public and planetary health, are largely able to externalise the costs of the harm they cause, incentivising further harm: a system problem. This needs to be urgently addressed if health is to be improved in the long term.

Cardano’s vision, sustainability policy and investment strategy are to encourage entities to contribute to the transition towards a just and sustainable society. Companies’ contributing to these noncommunicable diseases are increasingly held accountable to this, which creates risks to them. In addition, more countries define policies to deal with these problems, causing transition-related risks. The Cardano Sustainability Policy emphasizes addressing health, safety, and environmental pollution, and promotes the basis of a stable society that fulfils a set of social foundations of basic needs, such as accessible and affordable nutritious food and healthcare. This is supplemented by engaging relevant companies on the topic of health.

1. <https://www.esma.europa.eu/document/final-report-guidelines-funds-names-using-esg-or-sustainability-related-terms>

2. <https://www.who.int/europe/teams/special-initiative-on-ncds-and-innovation/commercial-determinants-of-ncds>

Theme in focus

Fifty shades of grey: investing in arms and defence

‘Geopolitical tensions fuel Dutch defence industry’, Dutch news channel NOS reported on 28 May 2024. Many institutional investors typically excluded arms manufacturers in their sustainability policies. Has that changed since the moment aggressor Russia invaded Ukraine in early 2022? Investing in arms and/or the defence sector has always been a sensitive issue. And raises moral questions and emotions. In this article, we explain the dilemmas in the thought process. Spoiler alert: this is not a black-and-white story, but an article with a wide range of shades of grey. Should pension funds invest in arms and/or defence or not? And will defence fall under the S of ESG?

Investing in weapons and/or defence is controversial for many investors. Of course, investments in controversial weapons or ammunition are out of the question. Weapons or munitions that have a disproportionate and indiscriminate impact on civilian populations: nuclear weapons, anti-personnel mines, biological weapons, chemical weapons, cluster munitions and white phosphorus weapons. Producing, selling, or distributing these has been prohibited by law in the Netherlands since 2013. Financial companies based in the Netherlands have been prohibited since 2013 from investing in companies that produce, sell, or distribute cluster munitions, or crucial components thereof.

So much for controversial weapons. This leaves conventional weapons, and this is where the dilemmas immediately begin.

Application of the ‘dual use’ criterion

Therefore, first some definitions. Most companies are not just engaged in the production of weapons or ammunition. Many are large ‘dual use’ companies that make both civilian and military products. Crucial here is whether application is possible in different ways. Is the application of a product, service or technology linked to a controversial product? The ‘classic’ example is General Electric, the giant in power generation, aircraft engines and medical equipment and where 3%-5% of sales come from products with military applications.



Dennis van der Putten
Chief Sustainability Officer

As an institutional investor, you need to ask yourself the question: what do I do with companies that make both conventional weapons and controversial weapons? What do I do with companies that provide software as a defence tool? Or companies that do not make weapons themselves, but produce (essential) components?

Right or wrong: investing in weapons and/or defence?

Which brings us to the central questions of this article: is it right or wrong to invest in weapons and/or defence? And should institutional investors contribute to strengthening national security by investing in arms and/or the defence sector?

Since the start of the war in Ukraine, the Dutch government has been calling on pension funds to invest more in weapons. They are badly needed to increase defence production capacity, according to then outgoing minister Ollongren. However, there is hardly any increase in pension funds' investments in arms manufacturers, Dutch business news radio BNR's February 2024 survey showed. With this, the pension funds are ignoring the wishes of national politicians. The Russian invasion of Ukraine had a direct impact on the defence budget in many countries. Global military spending reached a new record in 2023 for the ninth year in a row. The Stockholm International Peace Research Institute (SIPRI) reported a 6.8% increase in spending that year, to more than 2,290 billion. In Europe, defence spending rose 13% in 2022.

Government largest customer of defence

The survey shows that the total turnover of NLDTIB companies related to defence and security in the Netherlands rose sharply: from €4.7 billion in 2021 to €7.7 billion in 2023, an increase of 62%. The share of defence- and security-related turnover in the total turnover of companies is also increasing. The NLDTIB is the Dutch Security and Technology Industry Foundation. The sector is knowledge-intensive and thus, important for the Dutch economy.

(article continues on the next page)

Theme in focus

Fifty shades of grey: investing in arms and defence

There are producers of defence equipment, shipyards that build submarines and naval vessels in addition to civilian vessels, aircraft manufacturers that also produce weapons and there are producers of space technology with military applications. And there are thousands of suppliers in the chain that make specialised parts for large arms companies, but also non-military products. And at a Dutch company like TNO, a lot of military research is done. But there are also cyber security providers that protect governments, companies, public organisations, and civilians from attacks by criminal groups and countries like Russia, North Korea, and Iran. Often, the Dutch armed forces (the government) are the biggest customer of these companies.

Exclusion

So much for producers. Further down the value chain we find US supermarket chain Walmart, which has sold handguns and ammunition for military assault weapons for years. After several 'school shootings' in the United States, this prompted Cardano, then ACTIAM, to exclude producers and sellers of small arms. This happened before other Dutch investors did so. Incidentally, a number of Dutch pension funds already exited Walmart in 2013, because they thought the working conditions were too bad and the Walmart board was not open to dialogue with shareholders.

Investing in autonomous drones...?

This brings us to applying the exclusion approach within ESG policy. Every pension fund naturally applies its own ESG criteria. But what about investing in new cybersecurity solution providers now that DDoS attacks, ransomware attacks and data theft are a serious and real danger? And what about autonomous, armed drones? Autonomous weapons decide life or death without human intervention. These drones are not considered prohibited weapons, but in an armed conflict, their deployment must meet all the requirements (discrimination and proportionality) set by international law.

The Dutch Rutte II cabinet wrote in a parliamentary letter in 2016 that autonomous offensive weapons are part of 'permanently technologically advanced Dutch armed forces'. In other words, defence companies often invest heavily in R&D to create advanced technology and products. With this focus on innovation, these technological advantages can also be used for civilian purposes. This sounds logical because the government has the monopoly on violence (so-called sword law); one of the foundations of the democratic rule of law. The military, police, courts, and prosecutors are allowed to use forms of force to enforce laws and regulations. Moreover, NATO allies have agreed to commit to the so-called NATO norm of 2% of GNP (Gross National Product) that would be needed to defend the NATO treaty area.

Will 'war bonds' return in 2024?

Governments can issue government bonds themselves ('defence bonds') in which pension funds and other institutional investors can invest. One of the first defence bonds ('war bonds') were issued by the United States during the War of 1812. This earned Congress the then gargantuan sum of USD 11 million used to finance the war.

Fast forward to 2024. In a diplomatic letter from the French government (14 March 2024) to various foreign ministries in Europe, France stated that 'the EU must make up for decades of under-investment in its defence and its defence industry. ... There are several avenues worth exploring, individually or combined to each other.' One of the suggestions in the letter was to establish 'war bonds'; something that Germany, the Netherlands and the Nordic countries opposed.

(article continues on the next page)

Theme in focus

Fifty shades of grey: investing in arms and defence

What is wise for institutional investors?

What should institutional investors do? Do they prefer to be doves of peace or opt for Realpolitik? When geopolitical tensions increase, investing in defence stocks can be very attractive financially. But like all other investments, these investments must also meet certain conditions. Some investors cite their ESG policy as a reason not to invest more in defence. Wrongly so, stated Admiral Rob Bauer, NATO's top military officer, in early March 2024. He therefore expects defence to come under the S (Social) of ESG. 'As long as it doesn't supply regimes that violate human rights' is a common and understandable fear among institutional investors. And that while nine of the 10 largest Dutch pension funds invest in arms manufacturers that supply systems to countries that violate human rights. So says a survey by peace organisation PAX (PAX Fair Pension Guide) on pension fund investments in 2019. More updated data is not shared. With that, PAX argued that pension money still ends up with arms companies that keep Saudi Arabia's fighter planes in the air, according to the PAX research; 'planes used in bombings that cause many civilian casualties in Yemen. This argues in favour of issuing government-issued 'defence bonds', where bondholders have guarantees that their investment will not be used for such purposes.

Conclusion

Wars and armed conflicts will always exist, with weapons being used either as a means of attack or defence. An institutional investor can choose to be part of this directly or indirectly. Supporters will say that weapons serve to defend freedom and democracy. Opponents see weapons as a threat to peace and stability. The more weapons, the greater the risk of a conflict escalating. Yet peace organisation PAX argues that national defence allows investment in weapons factories. Cardano is in regular dialogue with PAX on this important and multifaceted issue and reports on these ongoing discussions. At this stage, we see the complexity of the issue in its entirety and acknowledge the many perspectives and the diversity of 'shades of grey' it encompasses.

Stewardship in practice

Decarbonising the European chemical sector

The chemical sector is responsible for about 6% of the global greenhouse gas emissions¹. Reducing emissions in this sector can therefore make a significant contribution to achieving the Paris climate goals.

To accelerate decarbonising the chemical sector, Cardano has been participating in a ShareAction (a responsible investment NGO) coordinated collaborative engagement since early 2023. The goal of this initiative is to encourage European chemical companies to implement a 1.5°C aligned climate transition plan with short-, medium- and long-term goals. The underlying key objectives for these companies are to fully electrify their chemicals production processes, transition to renewable energy before 2050 and substitute petrochemical feedstocks by carbon neutral feedstocks before 2050.

In the first half of 2024 engagement dialogues took place with Croda, Covestro and Evonik Industries. These companies have demonstrated progress on their decarbonisation strategies within the past two years. For example, all three have set comprehensive scope 3 reduction targets and renewable energy targets. Although they have progressed, each company still has at least one issue of concern, which triggered the recent dialogues. For Evonik and Covestro the main areas for improvement are to provide more detail on their feedstock substitution strategies and related targets. For Croda, a company less reliant on fossil fuels for feedstocks, the focus of the recent engagement dialogue was about setting and disclosing a more ambitious renewable target. Cardano actively participated in these meetings by asking questions and encouraging the companies to implement the key recommendations.



Mariët Druif
Responsible Investment Officer

Escalating the engagement with Yara

Yara, a Norwegian chemical company and producer of fertilizers and related industrial products, has been one of the companies in the program where progress has been lagging, particularly on setting a comprehensive scope 3 target. Scope 3 emissions account for about 75% of Yara's total emissions, primarily from the production and application of fertilizers to agricultural fields, but Yara does not have a comprehensive 1.5°C aligned scope 3 target.

The engagement group has appreciated Yara's willingness to engage with investors. However, after two years of engagement Yara has not provided a credible reason for not setting an ambitious scope 3 target and could not provide assurance that it will be operating in line with a 1.5°C degree pathway, despite investors raising this concern repeatedly in meetings.

Cardano alongside other investors, therefore decided to escalate the engagement through a multifold strategy; filing a shareholder resolution asking the company to set a scope 3 target, undersigning the AGM statement in support of the resolution, engaging the Norwegian government² and sending a letter to the CEO to address the group's concerns. The resolution received support of around 17% from non-state votes, which is a minority but still significant³. Cardano believes this is a good result for a sector which to date has received little attention for its sizeable contribution to climate change.

Yara responded to the resolution noting it has been setting climate targets in accordance with best practice and that it is developing more comprehensive scope 3 targets by 2027 at the latest. But this is too late to enact ambitious emissions reductions within this decade and limits the chance to operate in line with a 1.5°C pathway. Therefore, the group continues to engage with Yara and is currently considering appropriate next steps, such as requesting a meeting with the CEO and continue engaging the Norwegian government.

1. Our world in data (<https://ourworldindata.org/ghg-emissions-by-sector> 2023)

2. The Norwegian government is the largest shareholder, holding about 35% of the shares

3. <https://shareaction.org/news/yara-international-agm-results>



Stewardship in practice

Engagement updates

We will be participating in the following engagement which has been initiated by Sustainalytics in May 2024:

UnitedHealth Group, Inc., one of the largest private health insurers in the United States, was a target of a cybercriminal ransomware attack in February 2024 which led to a major cybersecurity data breach, impacting around a third of U.S. citizens. Weaknesses in the security system and the failure to identify major data security vulnerabilities demonstrate weak implementation and compliance with the company's own policies.

Therefore, the company has been flagged for the potential violation of Principle 1 of the UN Global Compact and Chapter VIII of the OECD Guidelines for Multinational Enterprises, and it faces allegations of human rights violations stemming from a failure in its data security system. The engagement objective is to ensure that the company establishes the appropriate governance and processes to support existing data privacy and security sufficiently, and that there is adequate disclosure on it. The next step to be taken by Sustainalytics is to set up a conference call to discuss the implementation of UnitedHealth Group's data privacy and data security policies.

The below engagement case was closed in Q1 2024 by our provider Sustainalytics:

BRF SA, a Brazilian food products company, has faced several significant controversies regarding product and climate change related incidents, particularly regarding product quality and safety, as well as



Ivana Sabbatini
Stewardship Reporting Specialist

supply chain issues. The objective of the engagement, which began in 2013, was for the company to build a stronger audit and reporting system to manage ESG risks in the supply chain, including the mitigation of climate-related impacts. BRF SA showed commitment to continuing the dialogue and worked in a structured way to mitigate its most material ESG risks. In 2015, BRF raised EUR 500 million through a green bond, and committed to investing in sustainable projects.

Over the past years, it began reaching out proactively to Sustainalytics for input from investors. By 2023, BRF was tracking the production of food manufactured at its operational units, ensuring to follow internationally recognized food safety management regulations through an independent organization. BRF also began providing disclosure about fines and penalties it had received for noncompliance relating to health and safety impacts caused by its products and services.

The company's ESG metrics have improved, due to developing a more consistent ESG risk management structure, where ESG performance is fully integrated into its business performance management system. BRF has also made improvements to its product quality and safety management, anti-corruption, and environmental management.

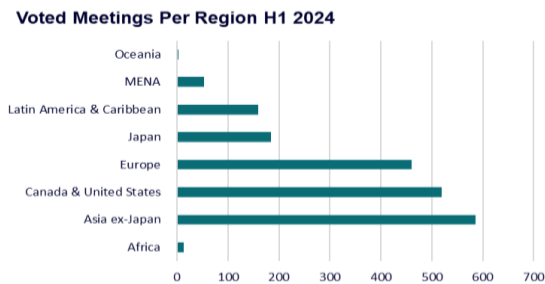
Due to the actions taken by BRF SA, the engagement was closed successfully in January 2024.

Stewardship in practice

First half 2024 voting case studies

In the first half of 2024 the proxy season was marked by the annual shareholder meetings of most publicly traded companies. These meetings provide a crucial opportunity for shareholders to actively engage with corporate leadership, promote positive change and hold companies accountable on prominent issues.

Between January and the end of June 2024, Cardano voted at 1,979 meetings across all regions. The spread over the different regions is shown in the below graph.

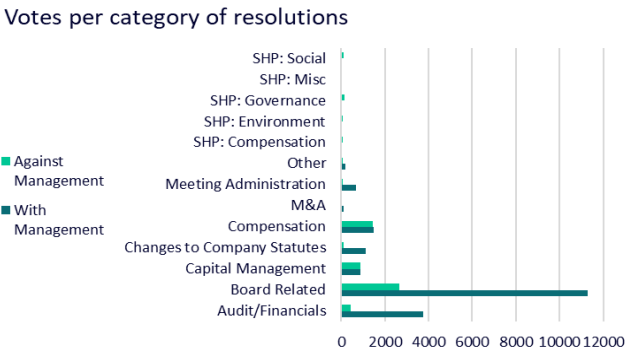


Across all Cardano funds, votes were cast on 26,206 management and shareholder proposals. The following graph shows the main categories of resolutions that were voted on, highlighting where votes were cast against management recommendations.

Board-related resolutions appeared the most frequently on the agendas and represented most votes against management. This trend is attributed to various concerns, including independence concerns, board members holding multiple external board positions, lack of attendance at board meetings without sufficient justification, and where the auditor has found an area of uncertainty in a company's financial statements.



Marie Payne
Responsible Investment Officer



- Some of these are highlighted below:
- Lack of independence was one of the primary reasons the funds voted against directors (844 for the period). Independence concerns can arise at various levels: across the entire board (lack of a market specific percentage of independence), specifically involving the chairperson, or at the committee level, for example where the nominee is not independent and sits in the audit, compensation and/or nomination committee and these are not majority independent. These votes were cast across 32 markets, in all regions, including China, Thailand, the USA, Canada, Japan, Poland, Norway, France or the United Kingdom.
 - Following the Cardano policy, a vote against members of the nominating committee was cast in cases where the company has insufficient oversight of ESG issues. This was the case at 39 companies, including Korean company Hyundai Glovis Co Ltd, U.S. companies Keysight Technologies, West Pharmaceutical Services, CBRE Group, French company Sartorius Stedim Biotech, and Dutch company Koninklijke Philips N.V.

(continues on the next page)



Stewardship in practice

First half 2024 voting case studies

- Voting against board members as an escalation: the Cardano voting policy closely links voting decisions to engagement progress. Where a company is lagging peers and not responding in a satisfactory way to engagement efforts, a vote against can be cast as an escalation. In the first part of the year, this was done at several meetings, including:
 - American headquartered company Yum Brands International, the restaurant company that owns brands like KFC, Pizza Hut, and Taco Bell: a vote against the re-election of the members of the Nominating & Governance Committee was cast as they oversee the Planet pillar of the company's sustainability strategy. The decision was made because of the environmental supply chain challenges the company faces, related to climate change, water use, and biodiversity. These environmental supply chain issues are crucial to their operations and long-term sustainability and Yum Brands lags peers in terms of their practices on the topic and have been reluctant to meet again and respond to our concerns.
 - Costco, an American headquartered global retailer, faces similar material risks linked to deforestation and biodiversity loss in its supply chain and the company has not sufficiently addressed these supply chain risks. Indeed, our analysis shows the company lacks robust programs and transparent reporting mechanisms to track and mitigate deforestation impacts and it has been slow to adopt comprehensive strategies that ensure sustainable sourcing of high-risk commodities. Unfortunately, our engagement efforts with Costco on this issue have not yielded adequate results as our repeated attempts to discuss and encourage the implementation of stronger deforestation policies have been met with limited

transparency. Cardano therefore voted against the re-election of the Nominating and Corporate Governance Committee members.

- At American multinational technology company Amazon, we voted against the members of the Nominating and Corporate Governance Committee, which has oversight of environmental and social issues. Cardano has been engaging with Amazon for several years on concerns relating to their practices on freedom of association with controversies relating to unfair dismissals, use of captive audience meetings to deter employees from unionising, and the use of anti-union consultants. These concerns represent legal, financial, and reputational risks to the company. Despite several investor letters to the board, co-filing of a shareholder resolution on the topic, we are not getting a satisfactory response from Amazon. They have improved in the past couple of years on disclosure relating to human rights policies, but the continued controversies remain a concern, and we have asked Amazon to commission an independent report looking at their practices in relation to their commitments in their human rights policies.

Shareholder proposals continue to be a valuable tool to express our views on a company's ESG practices and highlight the areas we believe require more attention. During the first half of the year, we supported 70% of shareholder resolutions. The resolutions we do not support are typically because of the quality of the proponent, the wording of the resolution (including anti-ESG resolutions), or if the resolution is overly prescriptive and the company is already addressing the concerns raised by the resolution.

(continues on the next page)



Stewardship in practice

First half 2024 voting case studies

Shareholder resolutions cover a wide range of themes and include for example racial equity audits, proposals relating to setting targets in line with the Paris agreement, request for additional reporting relating to human rights, resolutions relating to lobbying and political donations, health, and animal welfare.

One which is worth highlighting is the shareholder proposal at Nestlé, the Switzerland based food manufacturer. A coalition of Nestlé shareholders, coordinated by ShareAction (a responsible investment NGO) filed a resolution challenging the company to improve its impact on people's health. The resolution urged Nestlé to set a target for increasing sales from healthier products due to concerns about regulatory, reputational, and legal risks associated with an over-reliance on less healthy foods. The resolution was introduced after the coalition's attempts to engage Nestlé on the topic of health brought disappointing results. Cardano is part of the coalition and supported the shareholder resolution by voting in favour and pre-disclosing the vote decision on the PRI resolution database. The resolution gathered 11% of shareholder support. Although the percentage of support is disappointing, it brought this important topic to the attention of shareholders and the public.



Investment universe

New inclusions and exclusions

All investments are examined for environmental, social, and governance (ESG) issues. The assessment criteria for these topics are laid down in the investment policy based on principles related to human rights, fundamental labour rights, corruption, environmental pollution, weapons, animal welfare, and integrity, among others. These principles derive from international treaties, agreements, and best practices. It also assesses whether companies have the capacity to adapt to ongoing transitions toward a more sustainable society. Companies that lack this capacity create financial risks for the investment portfolio and can be excluded from investments.

Countries

The following countries were excluded this quarter by the Sustainability Categorization Committee based on periodic screening:

Malawi, Sierra Leone, and Madagascar: these sovereigns are long-time laggards from a social pillar perspective.

Companies

The following companies were excluded this quarter by the Sustainability Categorisation Committee based on periodic screening:

- **Aker Bp Asa:** Oil and gas company. The business model is not focused on transitioning away from fossil fuels.
- **Arcam Aktiebolag:** Subsidiary of General Electric, which is excluded for involvement in conventional weapon delivery to controversial regimes.
- **Earthstone Energy, Inc.:** Subsidiary of Permian Resources Corporation, which is excluded for deriving 95.5% of its revenue from shale oil, with no evidence of transition plans, and performing poorly on community relations, biodiversity and land use, and toxic emissions and waste.
- **General Electric Company:** Company active in the aerospace sector. It is involved in the conventional weapon delivery to controversial regimes.
- **Permian Resources Corporation:** Oil and gas exploration company, which derives 95.5% of its revenue from shale oil, with no evidence of transition plans, and performs poorly on community relations, biodiversity and land use, and toxic emissions and waste.



Nadja Franssen
Sustainability Research Team Lead

- **Saudi Aramco Base Oil Company JSC:** Oil producer company which does not disclose any GHG emissions data and does not present any climate targets.
- **The Canara Bank Limited:** Public sector bank. It does not present any climate targets nor ESG risk assessment for lending activities.
- **Trip.com International Ltd:** Travel agency. It offers trips to venues involved in animal entertainment with no animal welfare policy or restrictions on trips offered.

In addition to the exclusions that apply to all of Cardano's funds, there are also companies excluded from Cardano's sustainable funds:

- **Franco-Nevada Corporation**
- **Louis Dreyfus Company B.V.**
- **Meituan Dianping**
- **MMG**
- **MRF Limited**
- **Shanghai Shimao Construction Co., Ltd.**
- **Shimao Property Holdings Limited**
- **Talaat Mostafa Group Holding Co Sae**

The following companies have recently been added to the benchmark but are being cautiously excluded from Cardano's sustainable funds. There is currently insufficient information available about these companies to assess their sustainability strategy. Once this information becomes available, we will reassess the companies.

- **CITIC Pacific Special Steel Group Co., Ltd**
- **CNOOC Energy Technology & Services Limited**
- **Jindal Stainless Limited**
- **Mankind Pharma Ltd**
- **Sal Saudi Logistics Services**

(continues on the next page)

Investment universe

New inclusions and exclusions

The following companies have been (re)included to the investment universe and classified as 'Adapting':

- **Bangkok Bank Public Company Limited (Hong Kong Branch):** Subsidiary of Bangkok Bank Public Company Limited, a commercial bank. It makes a substantial and convincing effort to introduce ESG due diligence into its procedures.
- **Kbr, Inc.:** Company delivering science, technology and engineering solutions to governments and companies. It is no longer involved with nuclear weapons and is perceived to perform highly in other material areas.
- **Kommuninvest i Sverige Aktiebolag:** Company servicing municipalities and other governmental actors. It has a climate plan and applies criteria to its lending with a positive impact angle.
- **Road Management Consolidated PLC:** Subsidiary of Kbr, Inc., which is no longer involved with nuclear weapons and is perceived to perform highly in other material areas.

In addition to the aforementioned (re)inclusions that apply to all Cardano's funds, there are also companies re-included to Cardano's sustainable funds:

- **Anglo American PLC**
- **Anglo American Capital PLC**
- **Bausch Health Cos Inc.**
- **China Medical System Holdings Ltd.**
- **Gamuda Bhd**
- **Greentown China Holdings Ltd.**
- **Haitian International Holdings Ltd.**
- **Hanwha Solutions Corporation**
- **Kinross Gold**
- **Korean Air Lines**
- **Lingyi Itech (Guangdong) Co Ltd.**

- **Miniso Group Holding Ltd.**
- **Novatek Microelectronics Corp.**
- **Risen Energy Co., Ltd.**
- **Shanghai Putailai New Energy Technology Co., Ltd.**
- **Sino Biopharmaceutical Ltd.**
- **SKC Co., Ltd.**
- **Suzhou Maxwell Technologies Co Ltd.**
- **Tata Consumer Products Limited**
- **Yihai Kerry Arawana Holdings Co Ltd.**
- **Zimmer Biomet Holdings Inc.**



cardano

Cardano | Weena 690, 21e etage, Postbus 19293, 3001 BG Rotterdam The Netherlands

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

Cardano Asset Management N.V. is part of the Cardano Group
and statutory seated in Rotterdam with the Dutch Chamber of Commerce under number 30143634

Disclaimer

The information contained in this presentation is for discussion purposes and under no circumstances may any information contained in this presentation be construed as investment advice.

The information contained in this presentation reflects, as of the date of issue, the views of Cardano Risk Management Limited ("Cardano") and sources believed by Cardano to be reliable. No representation or warranty is made concerning the accuracy or completeness of any data contained in this presentation. In addition, there can be no guarantee that any projection, forecast or opinion in this presentation will be realised. Past investment performance is not a reliable indicator of future results; no guarantees of future performance are provided.

The views expressed in this presentation, or any factual information contained in this presentation, may change at any time subsequent to the date of its issue.

No information contained in this presentation shall be construed as any sales or marketing materials in respect of any financial instrument, product or service sponsored or provided by Cardano or any of its affiliates or agents.

Cardano accepts no liability to any person for any information contained in this presentation. Any person wishing to invest in any financial instrument identified in this presentation must make their own assessment of the merits of doing so or should seek financial advice from a third party.

References to specific securities are presented solely in the context of industry analysis and are not to be considered recommendations by Cardano.

Cardano and its affiliates may have positions in, and may effect transactions in the markets, industry sectors and companies described in this presentation.

This presentation is not an advertisement and is not intended for public use or additional distribution. Nothing in this presentation shall be construed as tax advice or legal advice.

Cardano only provides services to professional clients (as defined in the Conduct of Business Rules issued by the Financial Conduct Authority).

© Cardano 2024

Cardano Asset Management N.V. and Cardano Risk Management B.V. (collectively Cardano) strive to provide accurate and actual information from reliable sources. However, Cardano cannot guarantee the accuracy and completeness of the information that is given in this presentation (hereinafter called: the Information). The Information can contain technical or editorial inaccuracies or typographic errors. Cardano does not give guarantees, explicitly or implicitly, with regard to the question if the Information is accurate, complete or up-to-date. Cardano is not obliged to adjust the Information or to correct inaccuracies or errors.

The recipients of this Information cannot derive rights from this Information. The Information provided in this presentation is based on historical data and is no reliable source for predicting future values or rates. The Information is comparable with, but possibly not identical to the information that is used by Cardano for internal purposes. Cardano does not guarantee that the quantitative yields/profits or other results with regard to the provided Information will be the same as the potential profits and results according to the price models of Cardano.

It is not permitted to duplicate, reproduce, distribute, distribute or make the Information available to third parties for a fee, or to use it for commercial purposes without the prior express written permission of Cardano.

The discussion of risks with regard to any Information cannot be considered as a complete enumeration of all recurring risks. The here mentioned Information shall not be interpreted by the recipient as business, financial, investment, hedging, trade, legal, regulating, tax or accounting advice. The recipient of the Information himself is responsible for using the Information. The decisions based on the Information are for the recipient's expense and risk.

The Information is exclusively intended for professional and institutional investors within the meaning of Section 1: 1 of the Dutch Financial Supervision Act (Wft) and is not intended for US Persons as defined in the United States Securities Act of 1933 and may not be used for raising investments or subscribing for securities in jurisdictions where it would be unlawful to do so.

With regard to services provided by Cardano:

The Information is solely drafted for information purposes and is explicitly not an offer (or invite) to:

- buy or sell or otherwise transact in financial instruments or other investment products;
- participate in a trading strategy;
- provide an investment service ("verlenen van een beleggingsdienst").

CARDANO ASSET MANAGEMENT N.V. IS REGISTERED WITH AND LICENSED BY THE DUTCH AUTHORITY FOR THE FINANCIAL MARKETS AS MANAGER OF ALTERNATIVE INVESTMENT FUNDS UNDERTAKING FOR COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES AND PROVIDE LIMITED MIFID II INVESTMENT SERVICES. CARDANO RISK MANAGEMENT BV IS REGISTERED WITH AND LICENSED BY THE DUTCH AUTHORITY FOR THE FINANCIAL MARKETS AS AN INVESTMENT FIRM.