

04 September 2024

Dear Manager,

## Cardano's Latest Thinking on Stewardship

Stewardship is important; it's a key focus for our clients, an integral element of Cardano's ESG assessment and we trust it holds importance for you too, as a valued manager in our portfolio.

We view stewardship as one of the most effective levers for change that investors possess in the transition towards a more sustainable financial system. Engagement, voting, and escalation, where appropriate, are essential not only for promoting robust governance and sustainable business practices, but also for driving long-term value.

Our institutional client base view Stewardship as a central pillar of their investment strategy. It is an increasingly important consideration when selecting a new manager, as well as maintaining investments with existing managers.

For the reasons described above, this year, our annual letter will focus exclusively on Stewardship. We will offer insights into best practice, outline some of the trends we see across our manager base and underscore the engagement themes prioritised by our clients.

## Thoughts on Best Practice

We believe that managers, of all shapes and sizes, can, and should engage strategically with all stakeholders (companies, regulators, industry bodies and others) on environmental, social and governance issues.

It is crucial for us, and our clients, to see clear alignment between a manager's beliefs and their stewardship activities; including how their beliefs are reflected in engagement activity, voting behaviour and escalations where progress is not made.

We believe an effective approach to stewardship is based on the following principles:

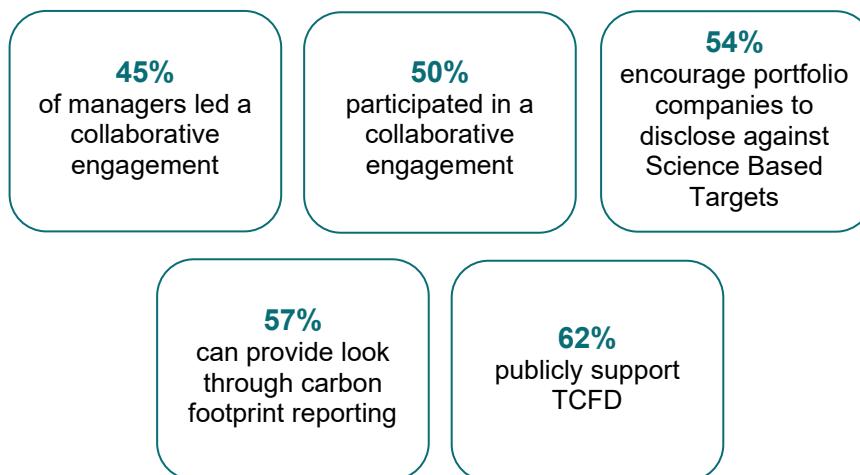


We recognise that environmental, social and governance ('ESG') factors have a greater impact on some strategies over others and that some managers can exert a higher degree of influence. That said, it is absolutely possible for managers across the strategy spectrum to engage on E, S and G issues, even those pursuing more trading orientated strategies.

We know this because we see it across our portfolio – with certain managers, large and emerging, pushing up the bar year-on-year to drive best-practice forward. We highlight (and applaud) some of the practices below, by way of example and inspiration:

<p><b>Signing up to a stewardship code</b></p> <ul style="list-style-type: none"> <li>• Asset owners increasingly see it as a requirement</li> <li>• The UK Stewardship Code (which is not restricted to UK based asset managers) is widely accepted as best-practice</li> </ul>	<p><b>Exercising voting rights on cash equities</b></p> <ul style="list-style-type: none"> <li>• Process enhanced by using a reputable proxy voting provider</li> <li>• Increasing number of managers utilise a sustainable voting policy</li> </ul>
<p><b>Shareholder action</b></p> <ul style="list-style-type: none"> <li>• Filing shareholder resolutions, voting against management and directors</li> <li>• Escalating and garnering investor support when initial engagement fails to achieve the desired outcome</li> </ul>	<p><b>Collaborative engagement</b></p> <ul style="list-style-type: none"> <li>• Working as part of a collaborative engagement initiative</li> <li>• Examples include Nature Action 100 led by the IIGCC</li> </ul>

We assessed more than 150 funds on their sustainable practices in 2023. We observed material year-over-year improvements in several areas related to stewardship and highlight a few to you here (**note: the percentages referenced reflect the total number of invested funds in our invested universe**):



One area where we see encouraging examples of stewardship but also laggards, is private markets. We set out below some areas we consider best-practice in this space.

KPI & Reporting Dashboard	Carbon Emissions	Stewardship
<ul style="list-style-type: none"> <li>Sustainability framework developed and tailored to the particular types of businesses the strategy focuses on</li> <li>&gt;150 data-points tracked, across E, S &amp; G factors and mapped to tools and support provided by the manager (e.g. Cyber-Security, Employee Engagement &amp; Carbon foot printing)</li> </ul>	<ul style="list-style-type: none"> <li>Firm level commitment to Science Based Target initiative</li> <li>Fund level requirement for all portfolio companies to report Scope 1, 2 &amp; 3 emissions</li> <li>Guidance, software and resources provided to portfolio company management teams</li> </ul>	<ul style="list-style-type: none"> <li>Structuring investments to ensure focus and incentives on ESG developments (e.g. deal team and company board members expressly given responsibility for ESG within the business)</li> <li>ESG a compulsory agenda item on all board meetings with climate change to be discussed annually</li> <li>Minimum compliance list for every portfolio company (e.g. policies – D&amp;I &amp; anti-bribery, employee satisfaction surveys etc.)</li> </ul>

## Client Engagement Priorities

We believe that voting and engagement are powerful tools that can amplify a managers influence on corporate behaviour. These aspects of stewardship are a focus for our clients. It is now a requirement for our pension fund clients:

- To oversee and scrutinise the “most significant” votes within their portfolio;
- Ensure votes are consistent with their own sustainability beliefs; and
- Publicly report on voting activity within their portfolio.

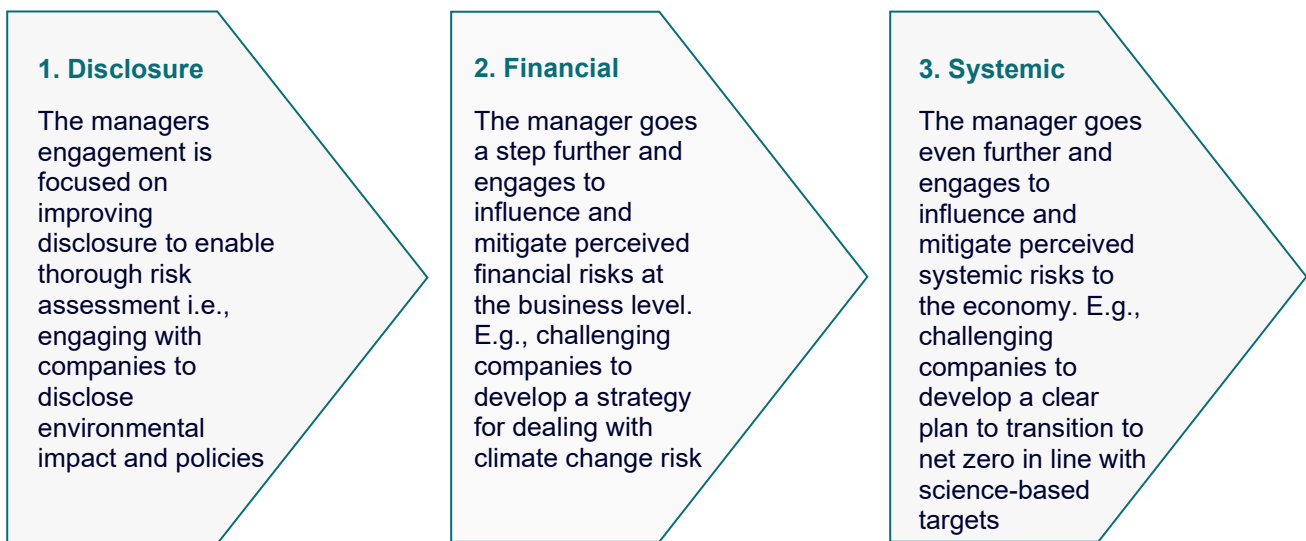
Your role is crucial in helping our mutual clients achieve their stewardship objectives. We have worked with our clients to identify their priority sustainability themes, which we share with you in the expectation that you incorporate these themes into your engagement and voting decisions. Our clients’ implementation statements (publication of which is a statutory requirement) will then disclose voting activity, the outcomes of most significant votes, and the extent to which voting is consistent with their priority themes. The themes are:

Theme	Focus Area	Example topics
<b>Climate</b>	<ul style="list-style-type: none"> <li>Climate Change</li> <li>Net Zero Green House Gas Emissions</li> </ul>	<ul style="list-style-type: none"> <li>Climate change governance, including board accountability and oversight of risks and opportunities</li> <li>Corporate disclosure, including TCFD and Taxonomy reporting</li> <li>Setting of Net Zero targets and developing transition plans</li> <li>Decarbonisation of company products, operations and supply chains</li> <li>Awareness of physical risk exposures</li> <li>Investment in low carbon energy solutions</li> <li>Lobbying efforts, particularly of industry trade associations</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>Biodiversity</li> <li>Deforestation</li> <li>Water</li> </ul>	<ul style="list-style-type: none"> <li>Biodiversity and Deforestation governance, including policies, board accountability and oversight of land use in the business and in supply chains</li> <li>Biodiversity and Deforestation-related disclosure and water foot-printing, TNFD recommendations</li> <li>Water governance, including policies, board accountability and oversight of water withdrawal, consumption and pollution</li> </ul>

<b>Human Rights</b>	<ul style="list-style-type: none"> <li>• Living Wages</li> <li>• Gender Equality</li> <li>• Health &amp; Nutrition</li> </ul>	<ul style="list-style-type: none"> <li>• Lobbying efforts including those of industry trade associations</li> <li>• Adopt and implement the UN Guiding Principles, including policies and board accountability</li> <li>• Human rights-related disclosure, including transparency across operations and supply chains, and political engagement</li> </ul>
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Some of the most substantial, long-term, financial risks faced by our clients arise from a failure to address climate change, nature and biodiversity loss. These risks will affect the economy as a whole, as well as portfolio outcomes. Ultimately, neither asset allocation or security selection will be able to mitigate these risks.

We are particularly interested in understanding your climate orientated stewardship goals and objectives. We typically observe managers falling into one of the following categories –



We will be asking you to describe your position in our upcoming ESG questionnaire, which will be sent out later this month.

## Closing Remarks

We believe that Stewardship is a critical tool for driving long-term value within the economy with the potential to help avoid some of the long-term systemic risks that will arise from climate change and biodiversity loss. As valued stewards of our client's capital we encourage you to engage strategically with all stakeholders on environmental, social and governance issues where-ever possible and specifically in relation to your investment activities.

We are fortunate enough to sit in a position where we can observe and learn how best to drive progress in these important areas and we remain, as ever, at your disposal as a partner and sounding board for any and all discussions around sustainability and stewardship. We are always keen to learn and develop our own thinking alongside you and would welcome further debate and challenge on any of the topics raised.

Your usual contacts on the team are available to address any queries or questions.

Best wishes, Cardano

Ben Cooper – Head of Manager Research

Keith Guthrie – Head of Sustainability