Annual UK Stewardship Report

Reporting Period: 1 April 2022 – 31 March 2023

Date of report: 28 April 2023

ARDEA Investment Management

Principle 1

1 Purpose

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Ardea is a specialist fixed income investment manager founded in 2008, serving a diverse range of global clients from pension funds, government entities, insurers and retail investors. Our investment philosophy is driven by the belief that fixed interest markets remain inefficient, and our investment strategy focuses on exploiting specific types of pricing anomalies caused by these inefficiencies.

At Ardea, we prioritise capital preservation and control of performance volatility, regardless of market conditions. Our repeatable investment process is built on exploiting 'relative value' mispricing, a reliable source of alpha that stems from structural market inefficiencies and is adaptable to new opportunities and risks. As a result, we generate consistent, volatility-controlled returns that can be packaged into various portfolios to suit varying client needs. This approach provides clients with reliable long-term value through defensive, low volatility, uncorrelated, and differentiated returns that are highly beneficial in a diverse portfolio.

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Our investment approach has evolved to incorporate ESG related risks and opportunities to ensure we deliver long-term value for our clients while contributing to sustainable benefits for the broader community. In addition, our structure and policies are designed to promote a culture of improvement and innovation, driving positive change in our ability to meet our clients' expectations and in turn the industry.

At Ardea, we have established a governance structure that emphasizes transparency, accountability, and responsiveness to our clients' needs. Our investment process is regularly reviewed and updated where necessary to take into consideration new market developments and risks, and to identify new investment opportunities that align with our philosophy.

We also encourage a culture of continuous learning within our organisation. Our team members are encouraged to share their ideas and insights with one another, and we provide opportunities for professional development and training to ensure that our team members remain at the forefront of industry developments.

As part of our commitment to transparency, we regularly communicate with our clients, providing them with comprehensive reports on their portfolios, investment performance, and other relevant information. We also seek feedback from our clients and other stakeholders, using this feedback to inform our decision-making and to identify areas where we can improve our services.

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Overall, our culture, policies, and governance structure are designed to promote long-term value creation for our clients, while also where possible contributing to positive change in the industry and broader community. By fostering a culture of improvement and innovation, we are able to adapt to changing market conditions, identify new opportunities, and deliver the best possible outcomes for our clients.

1 Activity

At Ardea, we are committed to ensuring that our investment approach, business culture, and strategy enable effective stewardship. We believe that our distinctive pure 'relative value' investment approach, which accesses return sources beyond the conventional to deliver consistent volatility controlled returns, aligns with our stewardship objectives.

We constantly monitor our approach to ensure that we meet our clients' expectations and deliver on our stewardship objectives. We seek feedback from clients and have found that client retention is a good indicator of our success in this regard. As at early 2023, almost 50% of our FUM comes from clients who have been invested with Ardea for more than 5 years.

Our stewardship approach focuses on three broad areas: the issuers within our investment universe, our employment practices, and our use of third-party providers. By defining these areas, we can ensure that our allocation of resources is focused and we can monitor our approach to ensure its effectiveness.

Regarding our investment universe, we operate in the government bond markets of advanced economy sovereigns. Given the large number of investors in these markets, our ability to influence is limited. We however believe by leveraging our investment approach, which results in high turnover of bonds and the promotion of a highly liquid market, we can engage with issuers effectively.

We also collaborate with other investors and stakeholders within the government bond space to promote a well-functioning market. For example we engage with counterparties and brokers in relation to issuance of bonds and secondary market turnover in green bonds, and have discussions with another bond manager in Australia in relation to issuance.

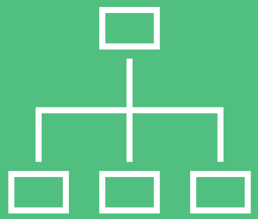
Our employment practices focus on improving our hiring process to ensure a diverse pipeline of talent, including expanding the disciplines and industries from which we recruit, ensuring that there is at least one woman on interview panels, and implementing consistent technical questions across functions. These measures aim to improve cognitive diversity and address gender imbalances and inclusion issues prevalent in our industry.

We have recently started engaging with our service providers and suppliers to ensure they demonstrate a clear commitment to identifying and reporting on their own ESG risks and opportunities. We expect them to implement robust policies and practices, and we will have a greater expectation on reporting of their current approach and will be expecting improvement where possible. Fidante Partners Limited, our strategic minority shareholder and service provider, provides institutional-grade operations, compliance, technology, and client support. They have a focused approach to ESG and continue to improve across all areas of their offering, with updates on ESG-related topics provided to the Sustainability Committee and CEO.

1 Outcome

Ardea's investment approach and culture have led to positive outcomes in green government bond turnover and diversity and inclusion. Our highly active trading style, characterised by frequent buying and selling of government bonds, has improved market liquidity and price discovery for green government bonds. By creating more opportunities for trading and enhancing price discovery, we have contributed to advancing the development and growth of green government bond markets. Additionally, our positive screening process for green bonds and engagement with governments have increased our turnover in green government bonds and incentivized governments to issue more green bonds.

Regarding diversity and inclusion, our company's policy has led to an improvement in gender identity diversity. After implementing significant changes to our hiring policies in early 2020, we have made four hires of individuals identifying as women, and currently, six individuals identifying as women in our investment team out of a team of 27, representing 22% of the team. This is part of our broader company's percentage of 23% women employees.



Principle 2

2 Activity

Signatories' governance, resources and incentives support stewardship.

ARDEA'S GOVERNANCE STRUCTURE IS COMPRISED OF THE FOLLOWING:

1. **Board:** The Board of Directors is responsible for overseeing the management and direction of the company. It is composed of directors who provide oversight and guidance to the CEO and senior management team.

2. **CEO:** The Chief Executive Officer is responsible for the overall strategic direction of the company, as well as day-to-day management and decision-making. The CEO reports to the Board and is responsible for ensuring that Ardea operates in a financially sound and ethical manner.

3. **Chief Investment Officer:** The Chief Investment Officer (CIO) is responsible for the development and implementation of Ardea's investment strategy. The CIO leads the investment team and ensures that investment decisions are consistent with Ardea's overall objectives and risk management framework.

4. **Compliance Manager:** The Compliance Manager is responsible for ensuring that the company complies with all relevant laws, regulations, and ethical standards. This includes monitoring trading activities, ensuring that proper internal controls are in place, and maintaining Ardea's code of conduct.

5. **Sustainability Committee:** The Sustainability Committee is responsible for overseeing Ardea's sustainability initiatives and ensuring that investments are consistent with environmental, social, and governance (ESG) principles. The committee is composed of senior managers from across the company, including the CEO, CIO, Head of Research, Head of Client Management, Compliance Manager (COO), as well as two representatives from the investment team, and an external advisor from our partner Fidante. This Committee was established in early 2023 in response to the CEO and Board believing more focus needed to be placed on Ardea's ESG approach.

6. **Research Team:** The Research team is responsible for identifying trade ideas, risks, and opportunities related to ESG through research and technology development. They work with the Portfolio Management team to identify mispricing between securities and mitigate exposure to market risks, including ESG risk factors. Additionally, they build and support technology to identify green bond trade ideas and research how climate change is priced into physical bonds, in conjunction with the Quant Analytics & Data Team.

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In this governance structure, the CEO reports to the Board and is responsible for the overall direction of the company, while the CIO is responsible for the investment strategy. The Compliance Manager ensures that the company operates in a legal and ethical manner, while the Sustainability Committee oversees the company's ESG initiatives.

The decision-making process for developing our Stewardship Policy, ESG policy and other related policies or processes such as SFDR compliance or UNPRI documentation at Ardea involves multiple levels of governance. The Sustainability Committee, chaired by the Chief Executive Officer and consisting of senior members across the firm, initiates discussions around ESG policies and practices. The Committee seeks input from the Compliance Manager, who provides guidance on regulatory requirements and industry best practices. The Compliance Manager also assists in developing policies and procedures that reflect the firm's commitment to ESG integration.

The proposed policies are then reviewed by the CEO and included within our Governance, Risk and Compliance (GRC) Framework document and presented to the Board for final approval. The CEO, CIO and Board ensure that the policies are consistent with Ardea's investment philosophy, risk management approach, and overall strategy.

Once approved within the GRC Framework, the policies are implemented by the Investment Team, with oversight from the Compliance Manager, who ensures that they are followed in practice.

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This process ensures that ESG considerations are integrated into the fabric of Ardea’s operations and investment decision-making. It reflects Ardea's commitment to Stewardship, responsible investing and aligns with our goal of delivering long-term value to our clients.

The Ardea Stewardship Policy forms part of our overall GRC Framework, managed by the Compliance Manager, and is approved annually by the Ardea Board. All staff are required to sign the GRC Framework Acknowledgement annually, acknowledging that they will abide by the policies and procedures contained within it. The Stewardship Policy also forms part of this Framework, and the Compliance Manager is responsible for ensuring adherence with this Policy.

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The Ardea Sustainability Committee, chaired by the CEO, was established with the aim of improving oversight and implementation of the company's stewardship principles. The committee is responsible for monitoring progress, setting clear objectives and outcomes, agreeing on accountability measures and protocols, and providing regular training on ESG-related issues. By having the CEO chair the committee, there is a top-down influence intended to drive positive outcomes in this area.

The Co-Chief Investment Officers have ultimate responsibility for investment decisions, including those relating to sustainability and stewardship. They work closely with the Research Team and the Portfolio Management Team, who collaborate to identify trade ideas, risks, and opportunities through research and the development of technology. Additionally, the Research Team assists the Systems and Development Committee with the development of sustainability policies to ensure that Ardea's ESG goals and values are reflected in the company's investment decisions. The Risk Team carries out an independent risk function and monitors and assesses all investment risks, including climate change scenario testing, to ensure that Ardea's investment decisions align with its ESG goals and deliverables.

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Rationale for our approach

The governance structure and approach taken by Ardea was created to deliver on our commitment to stewardship and responsible investing, with a focus on incorporating ESG principles into our operations and investment decision-making. The multiple levels of governance involved in the decision-making process for developing ESG policies ensures that all aspects of our business are aligned with our commitment to ESG integration. The involvement of senior managers from across the firm, including the CEO, CIO, Head of Research, Head of Client Management, and Compliance Manager, in the Sustainability Committee reflects the importance placed on ESG initiatives at the highest levels of Ardea. Additionally, the regular training provided on ESG-related issues demonstrates a culture of continuous improvement and learning.

The creation of the Ardea Sustainability Committee, led by the CEO, reflects our commitment to improving outcomes in ESG. This is reinforced by the Co-Chief Investment Officers' ultimate responsibility for investment decisions, including those related to ESG, sustainability and stewardship. The Research and Risk Teams play a crucial role in identifying ESG-related trade ideas, risks, and opportunities through research and technology development, while monitoring investment risks related to ESG. This ensures that Ardea's investment decisions align with our ESG goals and deliverables.

Performance and Incentive Management

To ensure the entire business is incentivised to incorporate sustainability in their day-to-day functions, Ardea employees are assigned an ESG objective or Key Performance Indicator in some form. The percentage allocation to sustainability for team members is a function of their role. This helps to embed sustainability as a core value within the organisation and ensure that everyone is aligned with the goal of incorporating sustainability. Ardea's "one team" approach to investing ensures that everyone in the team is aligned towards the same objective, encouraging information sharing and collaboration. These practices help to drive long-term change and improve outcomes for both the company and its stakeholders.

Ardea’s compensation structure consists of a base salary and bonus. Each member of the team has clear objectives and there is a formal review process that runs throughout the year with a final review prior to a bonus payment. Not meeting KPIs or objectives results in a reduced bonus. As ESG and Sustainability objectives and KPIs have been introduced this year the first round of formal reviews and adjustments to bonuses based on performance in this area will occur in July 2023.

2

Experience & Training

Ardea employs a team of seasoned professionals with extensive experience in investment management and successful stewardship on behalf of clients. Our senior leadership team, including the CEO, CIOs, Head of Research, Compliance Manager, and Head of Risk, all have over 20 years of experience in the industry. Our CIOs bring both funds management and investment banking experience to the table, while our CEO has more than 22 years of experience. Additionally, our Head of Research has over 20 years of experience, and our investment team has, on average, more than 15 years of experience. Since its establishment in 2008, Ardea has been managing investments for a subset of clients since 2009 and has more than 50% of its current FUM invested for over 5 years, demonstrating our commitment to delivering long-term value for our clients.

Training is conducted regularly by a combination of members of the Sustainability Committee, the Compliance Manager and our UK and European Legal Counsel.

This training includes

- A standing agenda item in the monthly Sustainability Committee meeting
- Stewardship training with a particular focus on engagement activities and how to ensure effectiveness and accurate logging for reporting
- Initial TCFD training and reporting sessions
- Ad hoc PRI training, with input from UNPRI representatives
- ESG education series including quarterly lunch and learn webinars, hosted by Fidante
- Ad hoc ESG training as required based on topics and thematics e.g. modern slavery compliance training was presented to the Ardea team in October 2022

2

Investment in systems

Ardea's commitment to innovation and development is ingrained in our culture. Since 2008, we have invested heavily in our investment and risk management and monitoring infrastructure, culminating in the development of our proprietary system. We continue to refine and improve our technology today, with the Research Team established in 2019 spearheading new developments. This team is responsible for the creation of cutting-edge models that enhance our search for investment opportunities and our stewardship and ESG-related investment processes. Our investment has not only been in human resources but also in software where necessary. Our dedicated data and analytics team is responsible for all data and the implementation of new systems, tools and models, which are either developed by the investment or research teams.

2 Outcome

The establishment of the Sustainability Committee reflects Ardea's commitment to continuous improvement in this area. The committee is responsible for monitoring progress, setting clear objectives and outcomes, and agreeing on accountability measures and protocols, with regular training on ESG-related issues.

Ardea's governance structure has been effective in supporting stewardship by embedding sustainability as a core value within the organisation, from the Board of Directors down to individual employees. The Sustainability Committee, chaired by the CEO, initiates discussions around ESG policies and practices and seeks input from the Compliance Manager and other key departments. Proposed policies are reviewed by the CEO and presented to the Board for final approval, ensuring that ESG considerations are integrated into the fabric of Ardea's operations and investment decision-making.

The establishment of the Sustainability Committee reflects Ardea's commitment to continuous improvement in this area. The committee is responsible for monitoring progress, setting clear objectives and outcomes, and agreeing on accountability measures and protocols, with regular training on ESG-related issues. The Co-Chief Investment Officers have ultimate responsibility for investment decisions, including those relating to sustainability and stewardship, with support from the Research Team, Portfolio Management Team, and Risk Team.

To ensure the entire business is incentivised to incorporate sustainability in their day-to-day functions, Ardea employees are assigned an ESG objective or Key Performance Indicator, with a percentage allocation to sustainability based on their role. This helps to drive long-term change and improve outcomes for both the company and its stakeholders.

There is always room for improvement, and Ardea continues to seek ways to enhance its governance structure to support stewardship. For example, we are currently considering a framework for including external stakeholders in our sustainability initiatives, such as clients, NGOs, or industry experts, to provide additional perspectives and insights. Additionally, we will look to build out our sustainability training to ensure all employees have a comprehensive understanding of ESG considerations and their role in promoting sustainable investing. By continually evaluating and improving its governance structure, Ardea can and will further strengthen our commitment to stewardship and responsible investing.

Principle 3

3 Context

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

In accordance with regulatory requirements, Ardea maintains a conflict of interest policy to ensure that any actual, potential and/or perceived conflict of interest that may arise both between itself and its clients, a staff member and a client and between clients are identified, prevented or managed and disclosed in the best interests of clients. This Policy sits within our Governance, Risk and Compliance (GRC) Framework and the Ardea Compliance Manager is responsible for ensuring adherence with this conflicts policy. The Ardea Conflicts of Interest Policy is not publicly available but we are able to share copies of this policy on request.

This commitment to the way we conduct our business is intended to ensure that we provide high quality services which create long term value and minimise adverse impacts to our clients and key stakeholders of the business.

3 Activity

As part of the GRC framework, we maintain a conflicts register. Some examples of notable actual and potential conflicts during the reporting period include:

- A staff member has part ownership in an electronic trading platform which facilitates the trade execution process from price discovery to settlement and the calculation of transaction costs. Ardea are currently users of this platform.

- Personal trading, discussed in more detail under Outcome.

3 Outcome

All Ardea staff are required to complete annual conflicts of interest training to ensure they have the appropriate understanding to identify and report conflicts of interest which can then be prevented or managed pursuant to its conflicts of interest framework. In addition on commencement of employment all staff members are asked to disclose any outside business activities/directorships etc and are required to attest on a monthly basis that if they had entered into any new arrangement that this has been notified to the compliance manager.

With respect to the part ownership of the electronic trading platform the following actions took place after sign off from Ardea's board:

- Full analysis of conflict and risk mitigants as below
- Any development work, including conversations could only be carried out outside of working hours and must not interfere with the performance of their duties at Ardea
- Staff member was not part of the overall business decision to use the trading platform
- The impacted staff member was instructed not to discuss or promote the relative merits of the trading platform with other Ardea employees, unless asked
- Ardea had to be notified immediately of any change in duties of the staff member in relation to the platform

With respect to personal trading, we have implemented the following rules:

- Put the interest of our clients before your own interests
- Check if the transaction you wish to undertake requires pre-authorisation
- Obtain pre-authorisation on applicable securities from the Compliance Manager or a Director
- Undertake trading within the correct timeframe
- If you miss the timeframe window (24 hours), re-obtain pre-authorisation before trading;
- Keep a record or all trades, including contract notes;
- Supply shareholding statements on commencement of employment quarterly and annually;
- All trades involving securities of individual companies require a 30 day holding period, all other trades require a five day holding period.

Principle 4

4 Activity

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

The business views market-wide and systemic risks as ultimately interlinked, with the management and mitigation of market risks being an important step in preventing and managing more severe systemic risks.

The business has identified risks to the government bond market arising from the realisation of risks related to climate change. These risks arise because a well-functioning financial system needs a well-functioning government bond market and for this to be maintained issuers need to fully consider the demand side for their bonds.

As asset owners are now much more focused on improving outcomes the demand for governments to issue bonds that are driving change has increased massively. Our role as buyers of these bonds on behalf of the asset owners is to use our knowledge and influence to effect change in this space.

Some of the risks that may arise if these outcomes were realised include rising yields as the fiscal strength of governments deteriorates over time, and erosion of the crucial defining features of the asset class, such as high liquidity, strong capital preservation, and stability of investment returns over time. Loss of these attributes would transform the fundamental properties of the asset class and make it no longer fit for purpose.

In responding to these risks, we have implemented a range of processes within our business designed to identify exposures arising from market wide risks, and to encourage action by stakeholders to address these risks.

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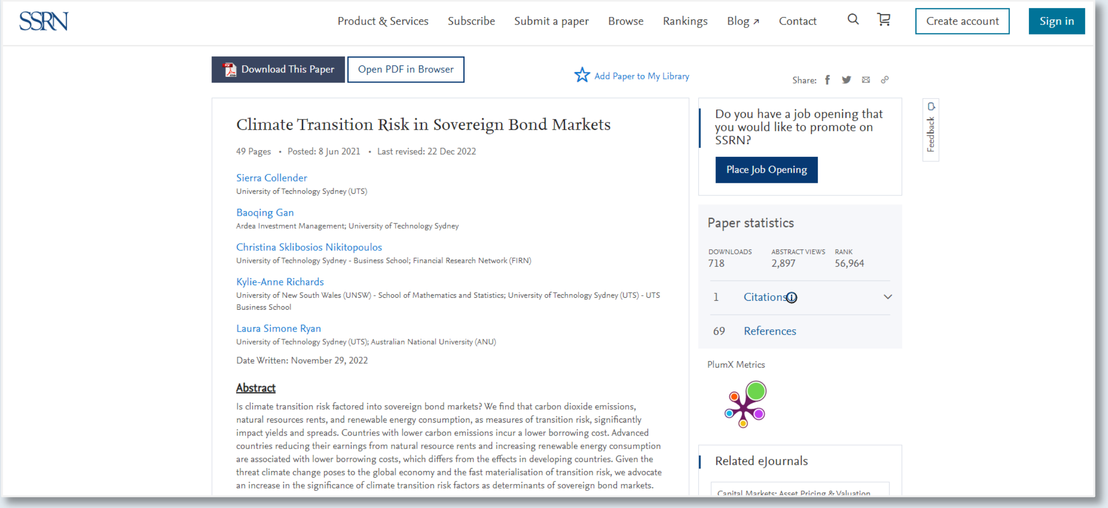
4

In terms of identifying exposures, the business has integrated climate change scenario modelling into the broader scenario analysis framework we use for portfolio risk management (discussed in more detail under Activity below).

In terms of responding to exposures to drive change, the business has focused on using our inherently high turnover investment approach to materially contribute toward improving liquidity and price discovery in green government bond markets, which in turn advances their ongoing development and growth. This acts to lower market risks over time and, by changing the profile of investments undertaken by governments, to mitigate systemic risks over time as well.

The business also uses its position as a large buyer of newly issued government bonds to engage with bond issuers and advocate for increased issuance of green government bonds. An example of recent activity in encouraging issuance of green bonds, and resulting in increased investment in green bonds, is discussed in more detail under Principle 7 in relation to European Union green bond issuance.

As well as identifying market and systemic risks, the business undertakes ongoing collaboration with academic researchers which has resulted in members of the research team [co-authoring a research paper on climate change risks] which has been published in a peer-reviewed journal. The business also works closely with other stakeholders including asset consultants, which has resulted in the business increasing its engagement activities over the past three years. This has resulted in 26 engagements being conducted in the March quarter of 2023, close to the total of 29 engagements undertaken for the entire calendar year previously.



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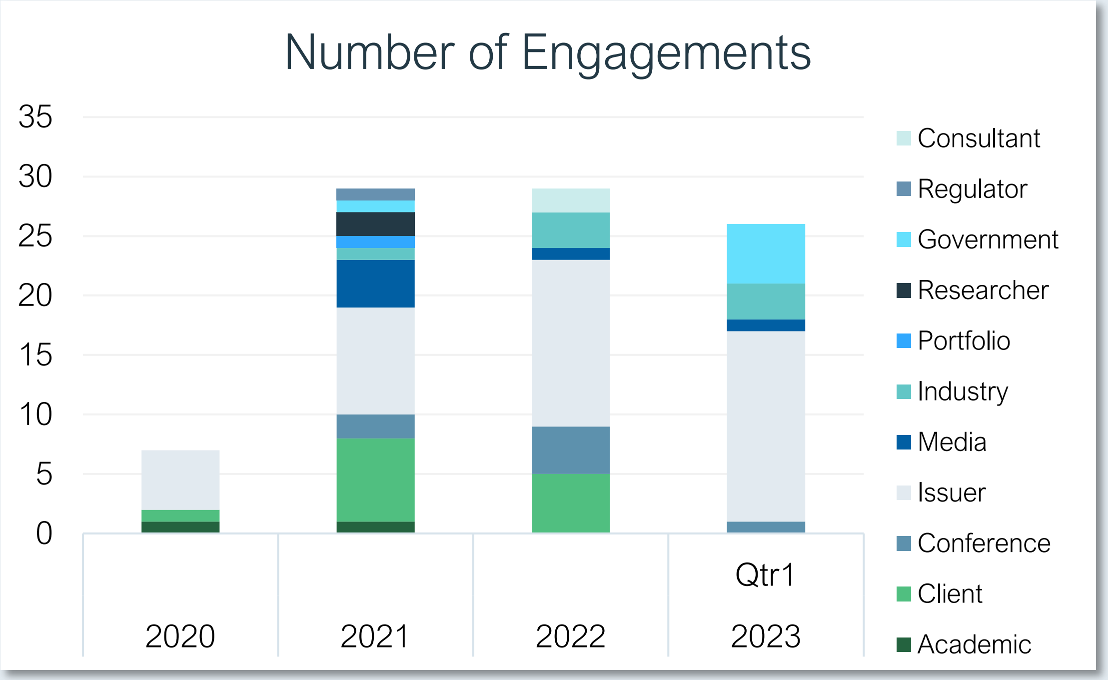


The business also participates and supports a number of industry initiatives aimed to improve stewardship outcomes. This includes participating in a panel discussion on sovereign bonds at the KangaNews Sustainable Debt Summit in March 2023, as well as encouraging the adoption of sovereign investor frameworks such as ASCOR by participating in webinars associated with the launch of this framework.

The business also maintains an informal dialogue with other investment managers on these topics, including two one-on-one discussions on industry stewardship topics held with other fund managers. This is an area however where we believe there is more work to be done to make it a more formal process. Our sustainability committee will look to establish a more formal process in this area over the coming 12 months.

The focus of these efforts has been to mitigate market and systemic risks in government bond portfolios managed by the business. As this process remains ongoing, and given the specific focus on advanced economy sovereign bond markets, the business has not to date made major changes to the investment or alignment of the portfolios it manages for investors. If these changes are made in future they will necessitate close consultation and collaboration with clients given the material changes to the fundamental risk and return properties of client portfolios that would result. The position of advanced economy sovereign bonds at the top of the list in terms of relative quality and asset safety also means that vacating government bonds to mitigate exposures raises the question of whether there exists an alternative that has a demonstrably better exposure to these risks.

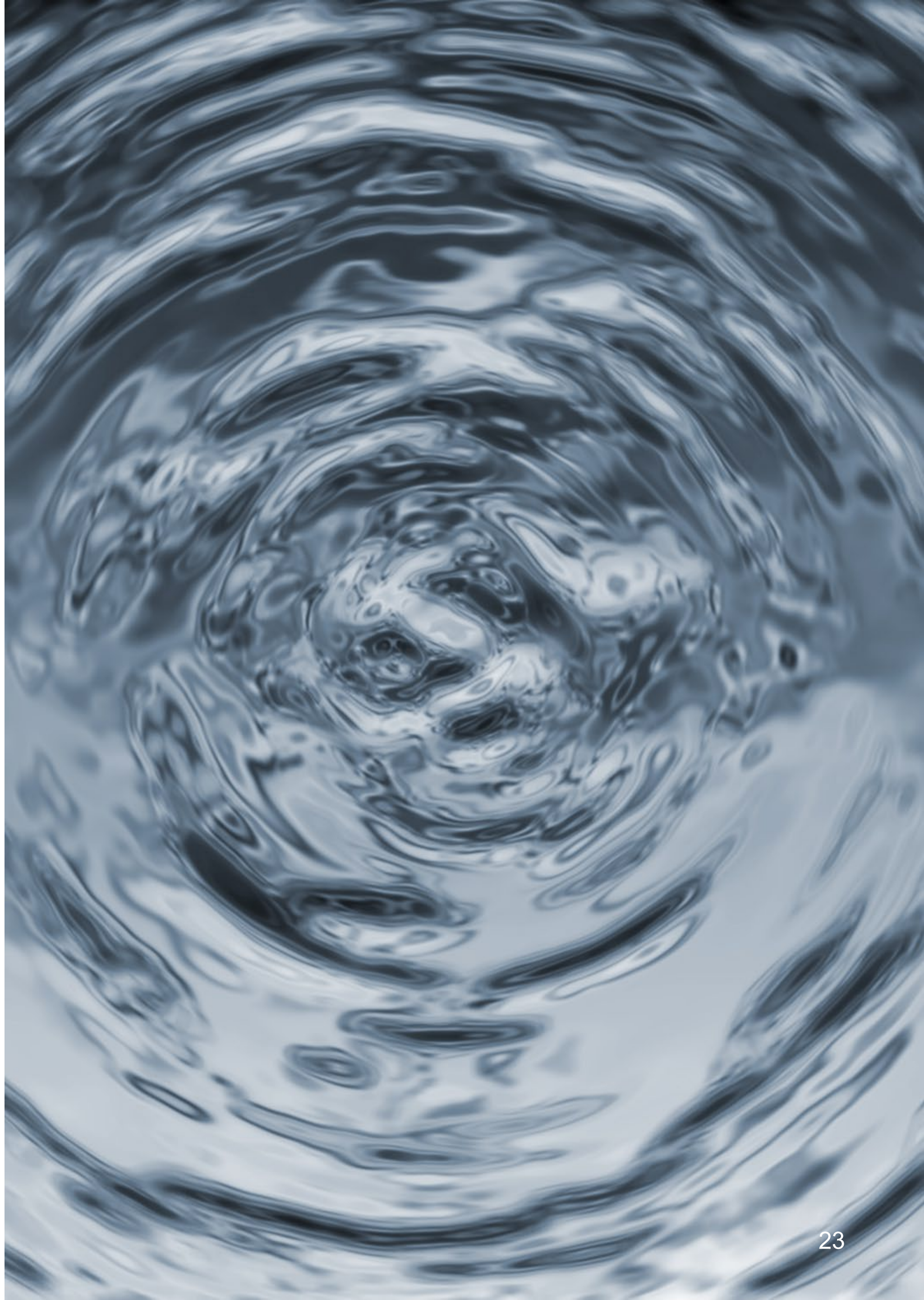
4 Outcome

Green government bond turnover + issuer engagement

An inherent and distinctive feature of our investment approach is its highly active trading style, which results in frequent and high volume trading of government bonds. Importantly, our high turnover approach involves frequent buying and selling of government bonds, as distinct from the more prevalent conventional buy-and-hold investment approaches.

By applying our inherently high turnover investment approach to green government bond markets we contribute materially towards improving market liquidity and price discovery for green government bonds.

- the more we trade, the more opportunities we create for other market participants to take the other side of our trades, which improves market liquidity
- the more we trade, the more live trading price points we create for other market participants to use in their investment decisions, which improves price discovery



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Contributing in this way to improving green bond market liquidity and price discovery creates positive feedback loops that advance the ongoing development and growth of green government bond markets.

- improved liquidity + price discovery as more market participants are incentivised to enter the markets + governments are incentivised to issue more green bonds
- trading turnover increases
- liquidity + price discovery improves further
- positive feedback loop repeats

The practical integration of these ideas into our investment process occurs in the following ways.

- positive screening to preference trading green bonds over conventional bonds when the ‘relative value’ is similar
- regular engagement with governments to advocate for more green bond issuance, including participation in new bond syndications when the relative value is attractive

The practical outcomes of this integration can be seen in the Outcome section below, which have collectively contributed to increasing Ardea’s turnover in green government bonds and compelling governments to issue more green bonds.

4

Green Bond Preferencing

As part of our investment process we use an RV Finder Tool which runs analysis using proprietary models to look for mispricing's across government bond curves. Green bonds are included in this analysis and are compared to both brown bonds and other green bonds. This allows us to identify opportunities where a green bond can be substituted for a brown bond, as well as quantifying the “greenium” which enables us to provide feedback to issuers about what the ‘fair value’ for prospective green bonds should be and increase our turnover of green bonds.

This process is apparent in our trading in Italian government bonds. At the start of April our RV models flagged that the Italian 12yr brown bond had cheapened versus its neighbours. The model suggested a structure that could take advantage of this mispricing and that we could implement in our portfolio. After reviewing the results, we found that the 12yr green bond had cheapened almost as much, and given its similar characteristics to the brown bond we preference the green bond in our portfolio.

Turnover

The table below shows the green bond turnover as a percentage since September 2022. Turnover has increased steadily up to the March 2023 period. This is a direct result of our green bond initiative as described above. We expect turnover as a percentage of the Net Asset Value to continue to increase going forward.

Green Bond Turnover %	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
AUD	0.0	0.0	0.0	0.0	0.0	0.0
CAD	0.0	0.0	0.0	0.0	0.0	0.0
EUR	0.0	5.4	3.1	0.7	3.0	0.0
GBP	1.4	4.5	9.5	0.0	9.5	27.0
JPY	0.0	0.0	0.0	0.0	0.0	0.0
NZD	0.0	0.0	0.6	0.0	0.0	0.0
USD	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	1.4	10.0	13.2	0.7	12.5	27.0

4

Climate change scenario modelling

As part of our standard risk management process, we engage in scenario analysis to evaluate how our portfolios perform under different types of stressed market conditions. Our independent Risk Team regularly runs a standard suite of scenarios, which are formally evaluated as a standing agenda item at our weekly PM Team meeting.

The output from this scenario analysis is used to identify portfolios that may be exposed to outsized losses across a wide range of stressed market conditions that are simulated via the scenarios. Once we identify such portfolios, we undertake further analysis to identify the underlying risk concentrations that are driving those outsized losses. Based on this analysis, we take appropriate action to mitigate these risks, such as reducing position sizes, adding optionality, or adding negatively correlated exposures.

One of the scenarios included in this weekly review process is a climate change scenario developed by our Research Team. This scenario provides valuable insights into the potential impact of climate change on our portfolios and helps us to proactively identify and mitigate climate-related risks. (The detailed research underlying the climate change scenario is available here.)

As part of the continuous improvement of our investment processes, our Research and Risk Teams are collaborating to implement the following enhancements to our climate change scenario modelling:

- add instantaneous government bond yield curve shocks to simulate a more extreme near-term market reaction to climate change risks

- add government bond demand shock parameter by stressing government bond vs interest rate swap spreads to explicitly stress the specific bond vs swap risk factor to which our portfolios are exposed

4

Other Engagement Activities

Engagement with Academic institutions

Engagement with Academic Institutions highlights the need for additional research on ESG outside of equities, corporate bonds and property. As noted above, we have a formalised research partnership with the University of Technology Sydney with the express goal of understanding how climate risks impact government rates markets. We are also a regular (every semester) guest lecturer at the UTS as part of their sustainable finance course. Our goal is to raise awareness of the importance of sustainability risks when it comes to investing in government bonds. Most university course syllabus globally focusses on Equities and Corporate bonds.

Engagement with Media

Engagement with the media helps to increase information provided to the market on ESG matters specifically related to government bond investing. The media are yet to focus on the government bond market and how climate risks will impact this market. It is our intention to contribute to a shift in the narrative. Examples include:

- https://www.fssustainability.com.au/climate-risk-warning-on-government-bond-yields
- https://www.bloomberg.com/news/articles/2020-09-22/aussie-bond-fund-searches-for-debt-safe-from-climate-change
- https://www.bloomberg.com/news/articles/2021-08-24/rich-nations-lagging-on-climate-goals-may-see-higher-bond-yields
- https://insuranceassetmanagement.net/iam/why-are-government-bonds-so-important-when-thinking-about-climate-change.php
- https://www.ausbiz.com.au/media/forcing-governments-to-pay-for-climate-change-inaction-?videoId=16729

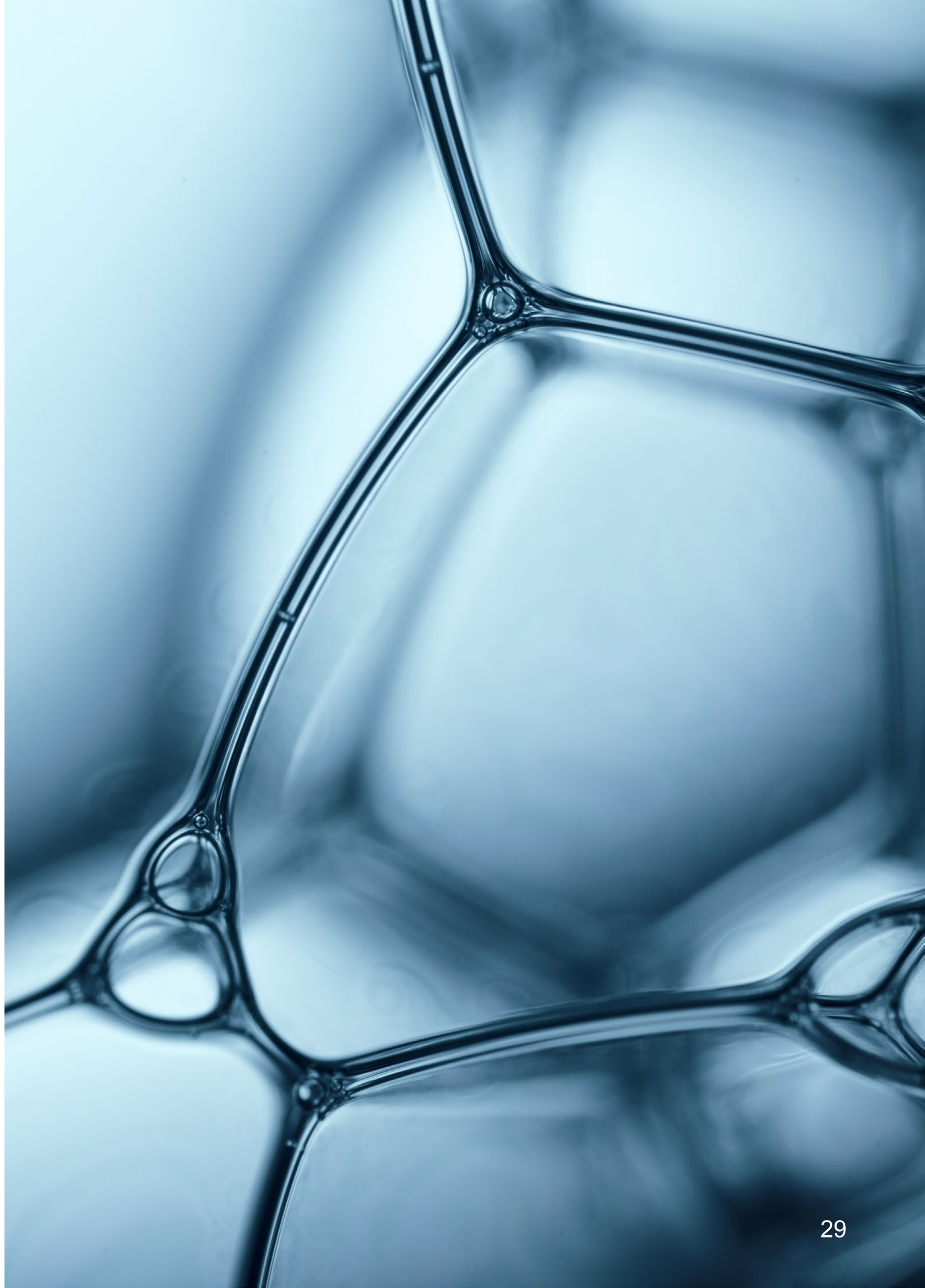
Principle 5

5 Activity

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Ardea’s approach to ESG, Sustainability and Stewardship is ultimately the responsibility of the Board, who delegate the day-to-day management and responsibility for delivering to our policies and processes to the CEO. To ensure that our approach in this area is suitable for our business a framework for implementing and monitoring is included within our broader Governance and Risk and Compliance Framework.

Ardea's Governance, Risk and Compliance (GRC) Framework is in place to ensure that all business risks and opportunities are fully considered and that we adhere to all regulatory and legal obligations, compliance requirements and policies. The GRC Framework is subject to annual review and board approval.



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A nominated Compliance Manager oversees the GRC Framework and reports to the Board regularly on its effectiveness. The Compliance Manager also has ongoing, direct access to the Board, through a standard reporting item. Reporting on a day-to-day basis to the CEO the Compliance Manager has specific objectives and KPI’s relating to the GRC Framework including our approach to ESG and Stewardship. At each Board meeting both the CEO and Compliance Manager provide an update to the board including on the current ESG policies, recommendations and activity of the newly formed Sustainability Committee.

The establishment of a Sustainability Committee in early 2023 was in response to a review by the CEO resulting in the view that there was a need to improve the current focus, processes and resourcing allocated to Ardea’s ESG and Stewardship responsibilities.

The Sustainability Committee is comprised of the CEO, CIO, Portfolio managers, COO, Head of Research, Head of Client Management and an external ESG specialists. The diversity of this group allows us to cover markets, client and stakeholders and regulatory and industry initiatives. The Committee is responsible for ensuring policies are in place and are reviewed annually or as required. Any ad hoc changes or updates are also prioritised and implemented by the Committee.

The company also utilises ESG specialists provided by a related entity (Fidante Partners) to provide a "sense" check on policy development and ensure diversity of thought in the process. Review is also sought from the CEO and Portfolio Managers to align reporting obligations with the company's activities.

Material amendments to the GRC Framework are approved by the Board and communicated to all staff who are required to sign-off annually. The company has a single corporate entity in Australia and a wholly-owned UK subsidiary with its own independent governance and board. The Compliance Manager has responsibilities across both risk and compliance. The Board's ongoing oversight and direct access to the Compliance Manager help ensure the company's ongoing compliance and effectiveness of the GRC Framework.

5 Outcome

Continuous improvement outcomes

This structure provides clear oversight and accountability for the policies and requirements we have in this area.

Ardea's approach to ESG has evolved considerably over the past few years. Historically due to the investment universe we are active within we found it difficult to identify where we could be influential in helping to identify and manage ESG risks in the industry.

While this position was widely understood by the Ardea board there was pressure to constantly challenge this opinion and look for ways where we could improve in this area. Through one of the regular updates of the GRC it was identified that we were lacking not only in our ability to influence change but also in our approach to ESG related risks and the risks this posed for our business and our stakeholders.

In response the board decided that an ESG policy should be updated and included in the broader framework for board review and approval and that regular updates from the Compliance Manager and CEO were required.

With this renewed focus there was an increase in resourcing and a focus on identifying areas where we could have positive impact through our influence. This led to the establishment of our current ESG Policy, along with the implementation of a number of initiatives in research, engagement and Green Bond investing.

This structure provides clear oversight and accountability for the policies and requirements we have in this area. Ongoing reviews by the Sustainability Committee, and reporting through to the board by the CEO and Compliance Manager will ensure that we are able to identify and then prioritise, resource appropriately and update or change our policies in relation to our approach to ESG and Stewardship.

Principle 6

6 Context

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Ardea is a fixed income fund manager specialising in relative value strategies in advanced economy government bond markets. Assets under management amount to $US 15.2 billion as at 31 March 2023. A breakdown of assets under management by investor type and investor location is provided below.

	Australia	UK	US	Japan	Total
Institutional	68%	7%	0%	1%	76%
Wholesale	19%	-	-	-	19%
Retail	5%	-	-	-	5%
Total	92%	7%	0%	1%	100%

Assets are invested exclusively in advanced economy government bond markets. A geographical breakdown of total assets under management is provided below.

	AUD	EUR	JPY	NZD	USD	GBP	CAD	Total
Bond	59%	17%	3%	2%	8%	3%	2%	95%
Cash and Derivatives	21%	-13%	1%	-2%	0%	0%	-2%	5%
Total	81%	4%	4%	0%	8%	4%	0%	100%

The client base consists of institutional investors and wholesale and high-net worth investors. Institutional investors include Australian accumulation funds (superannuation funds) as well as some government and commercial insurers with specific liability management requirements. Internationally the client base includes open-ended UCITS funds in the UK, whose investors are primarily UK pension funds.

The business also ensures during the onboarding process that clients select strategies that are appropriate for their needs and investment horizons. We do this qualitatively and quantitatively, by being explicit about the tracking error targets of each product, and the expected distribution of returns.

The tracking error targets in place across the business's strategies vary but would typically be for a performance target of 1 percentage point per annum, with a tracking error budget of 1 per cent. We would typically communicate an investment horizon for such a strategy of 2-3 years, taking into account the expected variability in the distribution of returns.

6 Activity

The business regularly solicits and receives client feedback and expectations on stewardship activities. This occurs through regular review meetings which typically occur quarterly. This provides the opportunity to (a) hear specifically from the client or investor about any new developments or changes in terms of their own approach and expectations with respect to stewardship, and (b) update the client or investor with any new developments in relation to their portfolios or in relation to stewardship more broadly. Within these quarterly meetings we have introduced a standing agenda item where we seek feedback specifically on Stewardship and ESG related themes.

In addition to working closely with clients to receive their views, the business also maintains close relationships with asset consultants that review and recommend our strategies. Asset consultants tend to receive their own requirements from advised clients in relation to stewardship, which they then use as the basis for requests which they pass on to investment managers. Consultants have thus been another source of incoming information for the business on stewardship, but also a channel for the business to share information and developments we learn of that are relevant for consultants.

Feedback and discussions with asset consultants occur quarterly or more frequently when specific issues arise. To facilitate direct communication of client feedback to the Sustainability Committee, the Head of Client Management is a member of the committee.

Assets have been managed in line with client stewardship policies and requirements by incorporating client limits into the business's compliance framework, including in the portfolio management system. The business also reports on specific client requirements in the form of clients' own quarterly compliance questionnaires and statements.

Information communicated to clients regarding stewardship activities has focused on inclusion of a summary of our engagement activities in client review meetings, as well as communication of client portfolio emissions intensity in the form of TCFD carbon intensity calculations. As these calculations are consistent with industry standards, they are able to be incorporated by clients into broader firm-wide calculations.

6 Outcomes

We consider the best measure of the effectiveness of our communication with clients on stewardship activities to be feedback from those clients.

We consider the best measure of the effectiveness of our communication with clients on stewardship activities to be feedback from those clients. Consistent with the steady increase in activity and communication with clients on stewardship, we have received positive feedback from both clients and consultants in this area.

Several institutional clients have specifically raised our focus on increasing green bond issuance and turnover as being a unique and different approach, and one consistent with our focus on relative value as a business. Clients also noted they felt that the conviction and commitment to stewardship among senior portfolio managers was genuine, which was not always apparent across the industry.

Asset consultants have also noted an improvement in the business with respect to stewardship activities and noted that we were one of the earlier managers in the consultant’s government fixed income managers to begin producing TCFD reports. Alongside this feedback we also continue to receive recommendations from asset consultants regarding further areas of focus with respect to stewardship. Our focus on advanced economy government fixed income markets also necessitates a different approach to stewardship compared to say corporate bonds or emerging markets and this approach is still evolving.

In terms of instances where assets have not been managed in line with client stewardship requirements, given our narrow focus on advanced economy government bonds there have been no instances of this that we are aware of. We expect that further evolution of client requirements in this area and of our own standards means that some instances of this may be encountered over time.

Principle 7

7 Context

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

The business has integrated ESG considerations into our investment process in the ways listed below, each of which is subsequently explained in more detail.

1. Integrate climate change scenario modelling into the broader scenario analysis framework we use for portfolio risk management.
2. Use our inherently high turnover investment approach to materially contribute toward improving liquidity and price discovery in green government bond markets, which in turn advances their ongoing development and growth.
3. Use our position as a large buyer of newly issued government bonds to engage with bond issuers and advocate for increased issuance of green government bonds.

In terms of prioritising issues when assessing the investments Ardea makes in advanced economy sovereign bonds, Ardea has focused on system-wide risks such as climate change and the financial sustainability of governments' fiscal burdens. These risks are likely to have a material impact on most of the government bond market, rather than focusing on issues that may be specific to certain governments or specific to individual securities. The business has not focused on specific policy issues or specific government portfolios, for example land use or health care, but may do so in future as expertise is accumulated in the business over time.

7 Activity

The integration of stewardship in the investment process has been the same across geographies and within the fixed income asset class. This reflects the practical perspective that portfolios invested on behalf of clients contain a range of government bonds from different markets, so for consistency it makes sense to ensure that similar treatment and standards are applied across each market.

That the business invests in advanced economy sovereign bonds means that there is also a common approach to integration that applies throughout the asset class. This approach is also consistent across funds and portfolios, as the strategies managed for clients vary in terms of return and tracking error targets, but all portfolios address the same investment universe.

The consistent approach employed across portfolios, across the investment universe, and across different markets also allows for standardisation of integration of stewardship in the investment process. This ensures that all portfolios operated by the business achieve the same standards.

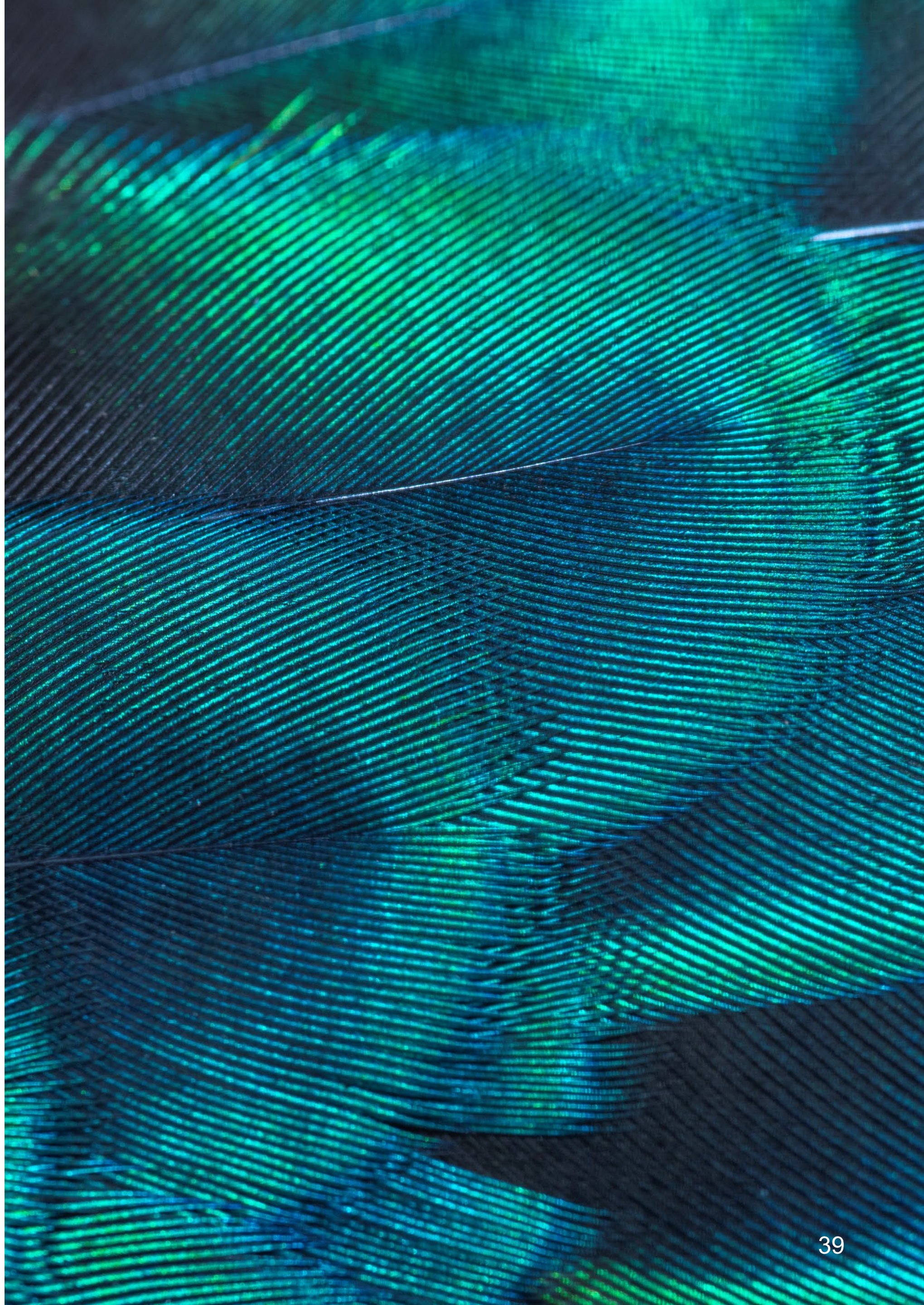
7

Climate change scenario modelling

As part of our standard risk management process, we engage in scenario analysis to evaluate how our portfolios perform under different types of stressed market conditions. Our independent Risk Team regularly runs a standard suite of scenarios, which are formally evaluated as a standing agenda item at our weekly PM Team meeting.

The output from this scenario analysis is used to identify portfolios that may be exposed to outsized losses across a wide range of stressed market conditions that are simulated via the scenarios. Once we identify such portfolios, we undertake further analysis to identify the underlying risk concentrations that are driving those outsized losses. Based on this analysis, we take appropriate action to mitigate these risks, such as reducing position sizes, adding optionality, or adding negatively correlated exposures.

One of the scenarios included in this weekly review process is a climate change scenario developed by our Research Team, the research paper is noted in principles 1 and 4 above. This scenario provides valuable insights into the potential impact of climate change on our portfolios and helps us to proactively identify and mitigate climate-related risks. (The detailed research underlying the climate change scenario is available here.)



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In simplified terms, the climate change scenario results in shocks to the level of government bond yields and to the shape of yield curves, which in turn drives performance impacts for our portfolios. The following is an explanation of the path by which the underlying climate change research is incorporated into our investment process and ultimately influences investment decisions.

- Research Team undertakes research on how climate change can impact government bond markets
- Research Team collaborates with Risk Team to translate their climate change research into a climate change scenario that can be applied to our portfolios
- Climate change scenario added to standard suite of scenarios that are formally evaluated as a standing agenda item at our weekly PM Team meeting
- Climate change scenario shocks the level of government bond yields and the shapes of yield curves, which creates performance impacts for portfolios
- Evaluation of climate change scenario output identifies portfolios that may be exposed to outsized losses due to government bond market stress arising from climate change
- Undertake further analysis to identify the underlying risk concentrations that are driving the outsized losses (typically results from build-up of unintended duration or macro curve exposures)
- Action is taken to mitigate the risk concentrations e.g. by reducing position sizes, neutralising unintended duration and curve exposures

As part of the continuous improvement of our investment processes, our Research and Risk Teams are collaborating to implement the following enhancements to our climate change scenario modelling:

- add instantaneous government bond yield curve shocks to simulate a more extreme near-term market reaction to climate change risks
- add government bond demand shock parameter by stressing government bond vs interest rate swap spreads to explicitly stress the specific bond vs swap risk factor to which our portfolios are exposed

7

Green government bond turnover + issuer engagement

An inherent and distinctive feature of our investment approach is its highly active trading style, which results in frequent and high volume trading of government bonds. Importantly, our high turnover approach involves frequent buying and selling of government bonds, as distinct from the more prevalent conventional buy-and-hold investment approaches.

By applying our inherently high turnover investment approach to green government bond markets we contribute materially towards improving market liquidity and price discovery for green government bonds.

- the more we trade, the more opportunities we create for other market participants to take the other side of our trades, which improves market liquidity
- the more we trade, the more live trading price points we create for other market participants to use in their investment decisions, which improves price discovery

Contributing in this way to improving green bond market liquidity and price discovery creates positive feedback loops that advance the ongoing development and growth of green government bond markets.

- improved liquidity + price discovery
- more market participants are incentivised to enter the markets + governments are incentivised to issue more green bonds
- trading turnover increases
- liquidity + price discovery improve further
- positive feedback loop repeats

The practical integration of these ideas into our investment process occurs in the following ways.

- positive screening to preference trading green bonds over conventional bonds when the ‘relative value’ is similar
- regular engagement with governments to advocate for more green bond issuance

7 Outcomes

The practical outcomes of this integration can be seen in the following ways, which have collectively contributed to increasing Ardea's turnover in green government bonds and compelling governments to issue more green bonds.

Case Study: The European Union (EU)

Engagement Objectives: Work with issuers to develop green bond markets

Outcome and Status:

The European Union as an issuer has become one of the biggest in European bond markets since the Covid19 pandemic when a framework was put in place to fund the Union's income support programs. As one of the largest European SSA issuers, Ardea is extremely active in trading EU green and brown bonds. On 9 February, Ardea representatives attended a roundtable meeting with members of the EU issuance team as well as other government bond investors. We discussed their funding strategy as well as Ardea's objectives to support the development of green bond markets, and specifically our support for further primary issuance. Our aim was to begin a dialogue with the issuer so that they would have confidence that there was real demand for green bonds, with a view to increasing the volume of green issuance. On 17 March the EU announced a 'request for pricing' for green bond issuance. Ardea provided detailed feedback to the issuer on which bonds we would have the most demand for, at what level and an indication of the size we could accommodate. A syndication was then held on 28 March where the EU sold €6bn of their 15yr green bond, of which Ardea was allocated 350mm. This was 50% of our order, a relatively high percentage given the deal was 12x oversubscribed. We sold some of our existing brown bond holdings to make room for the new green bond in line with our aim of becoming a net green lender.

Principle 8

8 Activity

Signatories monitor and hold to account managers and/or service providers.

Ardea partners with various external service providers for systems and services. While we haven't traditionally considered the ESG stance of these providers, the newly formed Sustainability Committee has recommended that we explore this area. We plan to complete the implementation of a process for this by September 2023. Initially, we will focus on gathering information to ensure we have a clear understanding of our service providers' positions. As we move forward, we will work on integrating requirements for ongoing improvements in sustainability and stewardship, aligning with our own approach.

We have a counterparty selection policy on the investment side that considers various criteria, including requesting information from investment counterparties before approving trading. In 2023, we plan to update this policy to include ongoing monitoring of ESG-related initiatives, rather than just information gathering for initial selection. This update aligns with our commitment to integrating ESG considerations into all aspects of our investment process.

8

Also, in relation to the investment process, in the sovereign bond asset class there is the absence of a complete data offering from third party providers. However, Ardea utilise third party data to supplement our own internal ESG research on emissions and climate risk as desired/required for analysis/reporting with other data sources.

Initial due diligence review of ESG data providers

In 2021 Ardea signed up to a third party ESG data provider to provide country risk ratings. Prior to engaging this provider, Ardea completed a comprehensive review of the major ESG data and research providers in the market to understand what the latest offerings are and to benchmark the service providers. This review included a detailed analysis of the methodology applied to the country risk ratings, the quality of data and any data gaps.

Monitoring data and research providers

Due to the fast-changing ESG data landscape, Ardea will undertake a comprehensive ESG data review every two years, with the next review due in 2023. This will be in consultation with the Administrator's ESG team who regularly monitor and assess the market for ESG data across asset classes. This will include a detailed assessment of the current service provider, to ensure this data is meeting the needs of Ardea in supplementing the internal ESG research and data. This review will be presented to Ardea senior management.

In addition to our monitoring of investment services providers, the business also ensures that service providers that support business operations are also within scope. In this aspect we receive considerable support from our operations provider Fidante, but nonetheless both Ardea management and the board can and have raised issues in this area, most commonly in relation to sustainability aspects of building and facilities, and service providers such as contract cleaners.

8 Outcomes

After utilising the third party ESG data providers, we have now formed the view that we are likely to gain greater insights for our investment process from in-house indicators that we have started to build and according to our continuous improvement process we will continue to build out over time. We also continue to use third-party data and research providers in this space, but we are keen to avoid the limitations that have become apparent in the traditional credit rating space, where the rating becomes more a matter of compliance rather than an indicator of genuine investment quality.

Considerable challenges remain in this area however, while the available data and ratings have improved considerably for corporate issuers, there remain many gaps in the government and sovereign space. Improved monitoring and engagement with other service and system providers will be implemented following a formal review and proposal by the Sustainability Committee by September 2023.

Principle 9

9 Activity

Signatories engage with issuers to maintain or enhance the value of assets.

As the business invests only in advanced economy government bond markets, we have focused our engagement on issuers in the government sector. Because this provides a smaller universe of issuers compared to say a corporate bond universe, the business has been able to focus on engaging with all major government bond issuers in the markets it invests in, rather than ranking engagement by holding.

The highly correlated nature of government bond markets also means that engaging broadly is necessary. As such the business has focused on engaging with key issuers such as the European Union, as noted in Principle 7, that have a material influence on government bond markets broadly, as well as focusing on key issuers in terms of assets invested, notably Australia given the strong representation of Australian clients in the investor base.

A challenge that arises when engaging with governments is that the activities governments undertake are highly diverse. Without specific expertise it can be difficult to determine where risks may arise across a broad set of activities and an even broader set of policy responsibilities performed by governments. Given this, the business has focused on specific outcomes in particular the issuance of green bonds when engaging with governments.

The methods of engagement the business has used has primarily been through meetings with senior representatives of government bond issuers, and through follow up phone calls. As well as meeting with issuers we have in some cases engaged with government officials. In our view this approach is effective, as the concentrated representation of the issuer universe allows ongoing engagement with each issuer. Meetings can also be an effective form of laying out areas of concern and for communicating sensitive information and expectations in relation to markets and issuance.

This engagement approach has been similar across the universe of assets the business invests in, and similar across regions (primarily the UK/Europe and Australia as the business has teams located in these regions).

9 Outcomes

Case Study: The Australian Office of Financial Management (AOFM) and Commonwealth Treasury (Australia)

Engagement Objectives: Support and encourage the eventual issuance of a sovereign green bond in Australia

Outcome and Status:

Australia is among the shrinking group of sovereign government bond issuers that has not yet brought to market a dedicated green bond program at the sovereign level (Australian state governments have issued green bonds). As an investor in this market on behalf of our clients, our key concern is that the fundamental qualities of the asset class, such as liquidity and a stable source of low-risk returns, may be adversely affected over time should the central government not develop a green bond market over time. In raising our concerns with the issuer over a series of meetings commencing in 2021 and continuing through to the present, we have emphasised the importance of providing issuance that remains eligible for the growing number of investors that require green or sustainable bond issuance. Over time this approach has resulted in increasing agreement by the issuer that change is needed, although the process of implementation remains complex given that Australia’s federal structure means that most assets suitable for funding by green and sustainable bond programs exist at the state level and not the federal level.

Recent announcements by the government have indicated that Australia would bring a green bond program to market in mid-2024. While the announcement of a program is encouraging, the timetable is late. This means the focus will now turn to the quality of the program, and given long delays, expectations regarding quality will be high. As key investors in government bonds we look forward to contributing to and shaping these discussions.

As well as focusing on the issuance of green bonds, this engagement has also emphasised the importance of maintaining effective government policy across all areas, including large government services such as the provision of healthcare, education, and aged care. Effective policy in these areas is critical to maintaining the fiscal strength and flexibility necessary to fund climate change transition costs over time. A further component of this engagement has been elevating the concerns around green bond issuance to policy staff at the Australian Treasury. Emphasising the importance of green bond development to policy decision makers and talking through market implications should assist with a higher quality green bond program than otherwise.

Principle 10

10 Activity

Signatories, where necessary, participate in collaborative engagement to influence issuers.

> Being an active participant in the gilt market we were able to provide firsthand feedback about liquidity conditions in green bonds.

The UK DMO hold both quarterly and yearly investor consultations in which Ardea is a regular attendee. The aim of these meetings is to encourage dialogue between market participants and the issuer so that they can better understand where the demand for UK Gilts is and structure issuance accordingly.

At the consultation in December 2022 an Ardea representative proposed the idea of further green bond issuance. Being an active participant in the gilt market we were able to provide firsthand feedback about liquidity conditions in green bonds. The main issue we highlighted was that demand outweighs supply, and thus the two existing green Gilts are generally bought by buy to hold funds and infrequently traded.

This impairs liquidity and price discovery for other investors, something which is essential for a well-functioning market. We suggested that further issuance of new green bonds would be readily received by the market and achieve value for money for the issuer. The DMO responded that the obstacle to further supply was the number of green projects that could be funded via this issuance method as opposed to a lack of willingness from the issuer.

The business is also in the early stages of participating in an industry framework used to assess stewardship in sovereign government bonds, known as the ASCOR framework (Assessment of Sovereign Climate Opportunities and Risks). The business has participated in the recent launch of the framework and has also interacted with investor peers in the Asian region in seeking to support early uptake of the framework in other regions. In October 2022 the firm also signed the Global Investor Statement to Governments on the Climate Crisis, which was signed by 602 investors representing almost USD $42 trillion in AUM.

10 Outcome

Understanding the blockers to green bond market development is key to helping us create an effective strategy with regards to our stakeholder engagement. As a result of these meetings with the UK DMO, we have begun to have discussions with other investors in the green bond market about effective ways we can collaborate encourage further green bond issuance.

Principle 11

11 Activity

Signatories, where necessary, escalate stewardship activities to influence issuers.

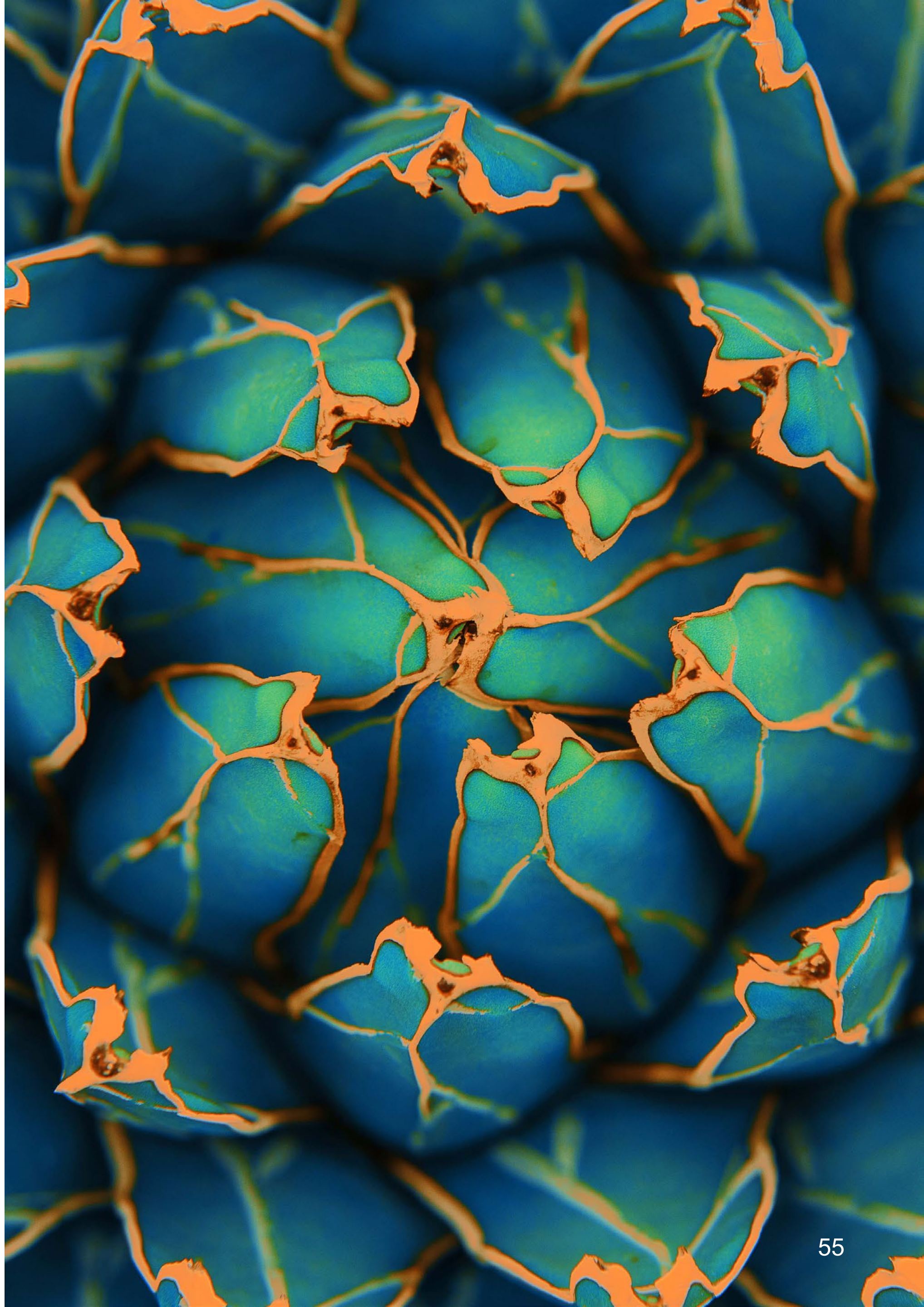
The ability of the business to escalate stewardship issues has limitations given that as government bond holders we do not have access to conventional channels of investor engagement such as proxy voting and meetings with company management. However, as government bond investors we do have direct access to issuers and can leverage the strong alignment present between issuers and investors in ensuring that securities continue to perform within the expectations of end investors. As such, there is a strong focus on advocacy that is aimed squarely at achieving good outcomes for investors in sovereign bonds. The focus on ensuring consistent investment returns above all else ensures that other issues that may be deemed overly political in nature do not distract from the core objectives of engagement.

As a manager investing exclusively in advanced economy government bonds, we also do not have access to the same escalation channels that diversified investment managers may benefit from. Given our dedicated focus on this asset class, we are not, for example, able to escalate concerns about a corporate bond investment with a corresponding team of equity analysts covering the same company and sitting in another part of the business. The dominant role of government bond markets, and the dominant role of governments themselves, means that governments have a much greater degree of control over the very markets they seek to raise capital from. This is another reason for placing heavy reliance on direct engagement with government issuers in seeking to achieve stewardship outcomes.

As the business has not yet escalated any of its engagements there are no specific examples of escalation available. Please see Principle 4 and 7 for more detail regarding our integration and engagement policies and processes.

11 Outcomes

We are yet to escalate any issues given the limitations of escalation mechanisms in sovereign investing. However, given the increasing legal risks to both our clients and to issuers themselves, we believe there will be more frequent discussions regarding how sustainability risks are accounted for and reported on by issuers. We also accept that we are likely to gain the most traction with issuers by advocating strongly both behind closed doors and in public forums, while at the same time making clear to issuers that we support their efforts to move forward and that our clients strongly support positive improvements that issuers can undertake. Please see principle 4 and 9 for more detail on our engagement activity.



Principle 12

12 Context

Signatories actively exercise their rights and responsibilities.

As Ardea invests in advanced economy government bonds, the rights and responsibilities held relate to the responsibility of being an active owner and participant in the government bond market. The business views a well-functioning government bond market as an essential component of a modern economy and financial system, and essential for investors seeking low-risk, predictable returns, and high liquidity. Government bonds are also critical for the functioning of monetary policy, as a secure asset held for prudential regulatory purposes, and for use as a risk-free rate when pricing a wide range of other asset classes. Exercising rights and responsibilities in this market is therefore of critical importance.

The central role that government bonds play also means that divestment and allocation away from government bonds is of limited usefulness. Rather, a heavy reliance is placed on engagement and specific initiatives such as growing green bond turnover in delivering change. The same approach is used across funds, assets and geographies.

The business is also mindful of its social operating licence when exercising these rights and responsibilities. In doing so the business seeks to strike an appropriate balance in representing the long-term interests of investors in government bonds alongside the interests of other groups within the community. The business also seeks to balance the interests of industries or regions that are directly affected by economic changes that may arise from the industry's ongoing focus on stewardship.

The long-term focus of investors may also differ from the short-term focus of other groups in the community. For example, voters may revise their assessment and preferences of government performance on stewardship issues at regular democratic elections; investors on the other hand may invest in government bonds at much longer maturities, e.g. 30 or 50 years. That different stakeholders express preferences consistent with their horizons is complementary and consistent in our view.

12 Activity

The standardised nature of the government bond markets in the advanced economies means that the approach in exercising rights and responsibilities has focused on driving changes in the framework and approach of government issuers, and not on changes to the terms or detail of specific securities. For this reason the business has focused on driving improved green bond issuance and turnover as a key outcome, as noted in further detail under Principle 9.

ARDEA

Investment Management