Ardea Annual Stewardship Report

Reporting Period: 1 April 2023 – 31 March 2024
Date of Report: 31 March 2024

ARDEA Investment Management

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Principle 1

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.

Purpose

Founded in 2008, Ardea Investment Management is a specialist manager of fixed income strategies. Ardea is entrusted with managing over $A26bn on behalf of a diverse range of global clients from pension funds, insurance companies, government entities, and retail investors.

Ardea's purpose is to consistently improve our clients' outcomes through the delivery of our highest standard of alpha and value.

As stewards of client capital, Ardea has a duty to ensure that we are operating and inveswting sustainably. Given our investment focus on government bond markets, Ardea sees climate change as the sustainability risk of most concern. Ardea is committed to use its knowledge and to effect change in government bond markets arising from the realisation of risks related to climate change.

Investment beliefs

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.

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. To meet its commitments to sustainability and to enable stewardship, Ardea has prioritised the following three ESG activities within its investment process to deliver long-term value.

ESG Research

Research is integral to Ardea's investment process. With limited literature on managing ESG risks in government bond markets, Ardea is committed to conducting and promoting research that complements existing materials on equities, corporate bonds, and private assets.

ESG Integration

Ardea evaluates and integrates Sustainability Risks, particularly climate change risk, at multiple stages in the investment process, including through scenario modelling. Practically, Ardea aims to use its highly active trading style to foster growth of the government green bond market by a) preference trading green bonds over conventional bonds when the relative value is similar, and b) participating in new bond syndications when the relative value is attractive.

ESG Engagement

Ardea views engagement with stakeholders as the most efficient way to advance sustainable outcomes. With an objective to promote the development of the green government bond market, Ardea regularly engages with major government bond issuers across the markets it invests to advocate for more green bond issuance.

Regarding our investment universe, we operate in the government bond markets of advanced economy sovereigns. As there is a very 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.

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 preferencing of green bonds and engagement with governments have increased our turnover in green government bonds and encouraged governments to issue more green bonds to fund national projects that have positive environmental and/or climate benefits.

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 emphasises 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.

Strategy

Ardea is a specialist manager of fixed income strategies, servicing a global investor base to deliver shared value. Through our differentiated 'relative value' investment approach, Ardea's ambition is to consistently deliver investment excellence to our investors.

To implement this strategy, the organisation is built around two strategic pillars:

- Investment Management: responsible for implementing our distinctive pure 'relative value' investment approach, which accesses return sources beyond the conventional to deliver consistent volatility-controlled returns, and delivering ongoing research for identifying trade ideas, risks, and opportunities and technology development
- Business Management: reporting directly to the CEO and responsible for ensuring a strong and accountable foundation that is aligned to the delivery of superior outcomes across client engagement, risk, compliance, sustainability, and People and Culture.

Our stewardship strategy is focused on three specific areas:

- the issuers within our investment universe,
- our employment practices, and
- our use of third-party providers, including investment counterparties.

In defining these areas, our aim is to focus our resources on where we consider the impact to be greatest and monitor our approach to ensure its effectiveness.

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. Since our inception in 2008, Ardea has maintained relationships with numerous institutional clients for fifteen years, demonstrating our fiduciary responsibility to manage sustainability risks and opportunities in our portfolios, and our alignment in delivering long-term value for our clients.

Culture

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

As part of our commitment to transparency and building trusted partnerships, we regularly communicate with our clients, providing them with comprehensive reports on their portfolios, investment performance, stewardship activities, and other relevant information. We value long-term relationships, seeking out feedback from our clients and other stakeholders to inform our decision-making and to identify areas where we can improve our services.

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

Our culture extends beyond our investment beliefs to our employees and hiring processes. We believe in the importance of a strong office culture and are committed to advancing Diversity, Equity, and Inclusion (DEI) within our organisation and the industry. Our belief is that a diverse and inclusive workforce not only enriches our company culture but also enhances our decision-making processes, driving innovation and creativity across our investment strategies. We are dedicated to creating an environment where all employees feel valued and empowered to contribute their unique perspectives, fostering a sense of belonging and teamwork.

This commitment to DEI is reflected in our hiring practices, professional development programs, industry events and inclusive policies, which are designed to support a diverse talent pool and promote equal opportunities for growth and advancement. At Ardea, we encourage flexible working, believing that consistency of effort is best delivered through work/life balance.

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.

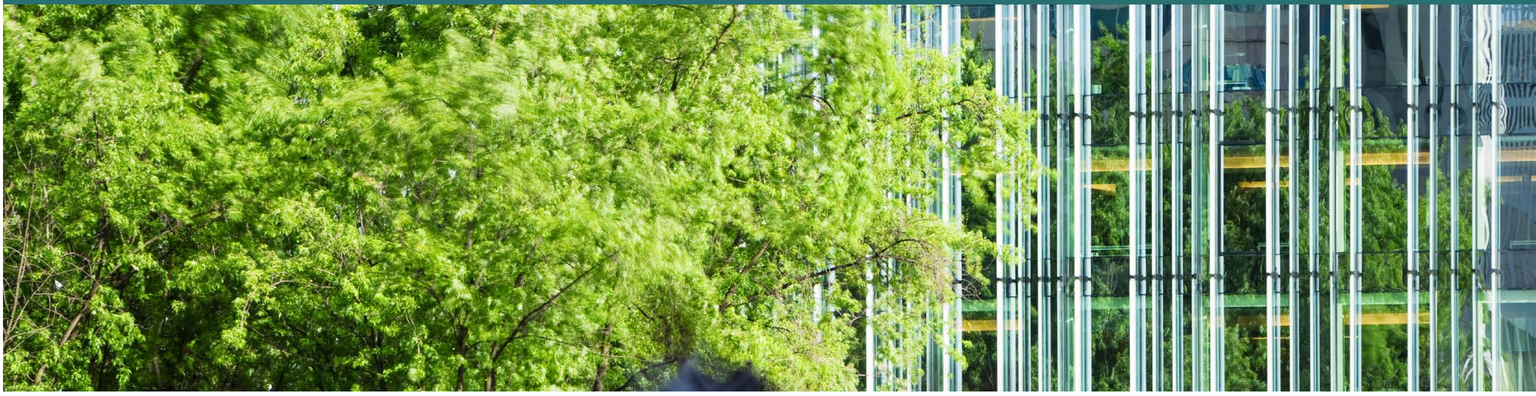
Regarding diversity and inclusion, our company's policy has led to an improvement in gender identity diversity. After implementing significant changes to our hiring policies in early 2020, we have made eight hires of individuals identifying as women, and currently, nine individuals identifying as women in our investment team out of a team of 23, representing 39% of the team. This is part of our broader company's percentage of 33% women employees.

By embedding these principles into our core values, we ensure that our culture of stewardship extends beyond financial management to include the well-being and advancement of our employees. This holistic approach to business practices strengthens our team's ability to create long-term value for our clients, while also contributing to a more equitable and sustainable society.

Ardea stands as a committed partner in the collective effort to address global challenges, demonstrating that responsible investment and stewardship are not just integral to our business philosophy, but are also key contributors in creating long-term value for our clients, our stakeholders, and our employees.

Principle 2

Signatories' governance, resources and incentives support stewardship.



Governance

The governance structure and approach taken by Ardea delivers on our commitment to responsible investing and stewardship, 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 and priorities ensures that all aspects of our business are aligned with our commitment to ESG integration. The involvement of senior leaders from across the firm, including the Board, CEO, and CIOs, 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.

Ardea's responsible investment governance structure is comprised of the following:

Board

The Board of Directors is responsible for overseeing the management and direction of the company and ensures appropriate risk management processes and policies are in place. This extends to policies that address regulatory and fiduciary risks relating to ESG and sustainability elements. The Ardea Board receives an update on ESG activities as part of the CEO update at each board meeting.

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.

Chief Investment Officers

The Co-Chief Investment Officer (CIOs) are responsible for the development and implementation of Ardea's investment strategy. The CIOs lead the investment team and ensure that investment decisions are consistent with Ardea's overall objectives, ESG Policy, and risk management framework.

Research

The Research and Development 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.

Risk and Compliance

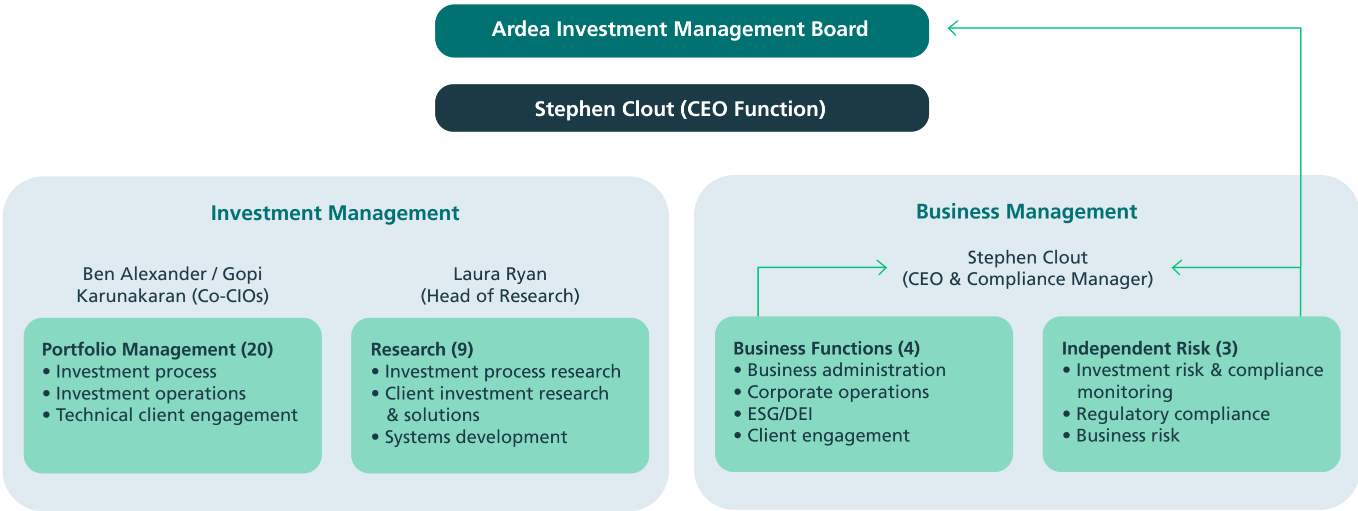
The Risk and Compliance team is responsible for ensuring that the company complies with all relevant laws, regulations, and ethical standards. This includes monitoring trading activities, ensuring that proper internal controls are in place, and maintaining Ardea's code of conduct.

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 CEO, CIO, as well as two representatives from the investment team, and an external advisor from our partner and shareholder, Fidante. This Committee has been operational since early 2023 in response to the CEO and Board believing more focus needed to be placed on Ardea's ESG approach.

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.

In this governance structure, pictured below, the CEO reports to the Board and is responsible for the overall direction of the company, while the CIOs are responsible for the investment strategy. The Compliance and Risk team, with a dotted line to the Ardea Board, ensures that the company operates in a legal and ethical manner, while the Sustainability Committee oversees the company's ESG initiatives.



The process at Ardea for developing our ESG policy, Engagement Framework, and other related policies or processes, such as SFDR compliance or UNPRI documentation, 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 Risk and Compliance team, who provides guidance on regulatory requirements and industry best practices, as well as the specialist ESG resources supplied by Fidante.

The ESG Policy, as the foundation document for Ardea's overall approach to responsible investing integration and corporate sustainability, is included within our Governance, Risk and Compliance (GRC) Framework document and presented to the Board for final approval. The CEO, CIOs and Board ensure that the policies are consistent with Ardea's investment philosophy, risk management approach, and overall strategy.

The whole GRC Framework, including the ESG Policy, is reviewed and 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 Risk and Compliance team are responsible for ensuring adherence with this Policy.

Once approved within the GRC Framework, the policies are implemented by the Investment Team, with oversight from the Risk and Compliance team, who ensures that they are followed in practice. 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 responsible investing and stewardship, aligning with our goal of delivering long-term value to our clients.

The Ardea Sustainability Committee, chaired by the CEO, is responsible for improving oversight and implementation of the company's stewardship principles in service of the best interests of our clients. The committee is responsible for monitoring progress, setting clear objectives and outcomes, and agreeing on accountability measures and protocols. Standing agenda items include raising insights from client conversations to assess how Ardea is representing client best interests, and the provision of regular training on ESG-related issues. By having the CEO chair the committee, there is a top-down influence intended to improve responsiveness to evolving client and industry needs and to drive positive outcomes in this area.

The work of the Ardea Sustainability Committee, led by the CEO, reflects our ongoing commitment to improving outcomes in ESG. This is reinforced by the Co-Chief Investment Officers' ultimate responsibility for investment decisions, including those related to responsible investing and stewardship.

The Co-Chief Investment Officers have ultimate responsibility for investment decisions, including those relating to sustainability and stewardship. They work closely with the Research and Development Team and the Portfolio Management Team, who collaborate to identify trade ideas, risks, and opportunities through research and the development of technology.

The Research and Development and Risk and Compliance 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.

Additionally, the Research and Development 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 and Compliance 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.

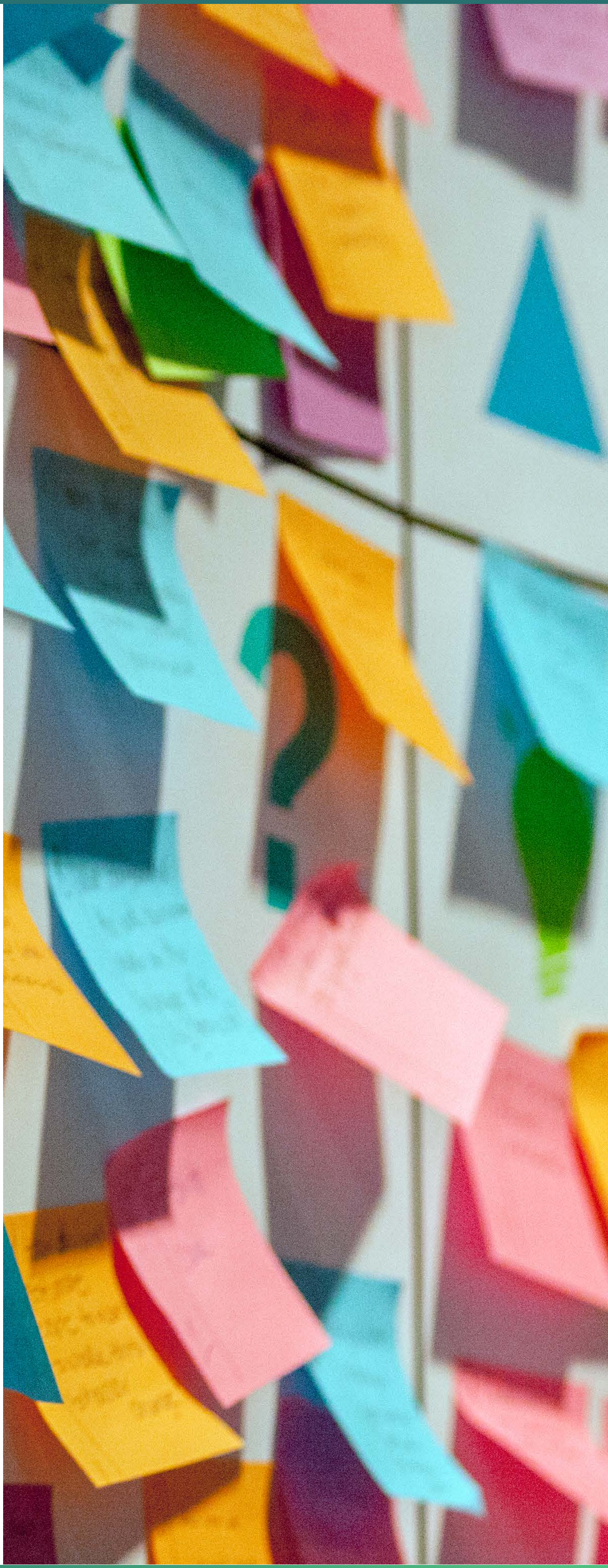
Resources

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, and Head of Research and Development all have over 20 years of experience in the industry. Our CIOs bring both funds management and investment banking experience to the table, 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 number of institutional clients since 2009, demonstrating our commitment to delivering long-term value for our clients.

As the firm is committed to stewardship activities, relevant investment team members each have a stated Key Performance Indicator (KPI) to meet with issuers, counterparties, or other relevant industry parties to engage on ESG issues of relevance to our clients. These interactions are each centrally logged to track Ardea's overall stewardship efforts and the outcomes driven through those engagements, to identify areas for future engagements, and to report to our clients on a transparent and regular basis. Throughout the year, we have actively participated in surveys and reporting initiatives, for example, the PRI/TAI Global Stewardship Resourcing Survey, to receive consultant and client feedback on our approach to resourcing and reporting to incorporate this into our business planning.

In the last year, Ardea employed an external consultant to work with the CEO and Sustainability Committee to review and refresh its ESG policies and processes. This has resulted in an update to our suite of sustainability documents, including, but not limited to, the ESG Policy, Engagement Framework, TCFD reporting, and SFDR disclosures.

In February 2024, Ardea announced its first permanent employee to take ownership of our ESG and DEI practices. This role will be responsible for the ongoing coordination of our work across responsible investing, as led by the investment and research teams, and corporate sustainability, with the role to be further supported by a Client Engagement Manager to ensure direct alignment with client interests and needs.



To ensure our entire workforce are kept up to date with responsible investing and stewardship matters, training is regularly conducted and includes:

- ESG education series including regular 'lunch and learn webinars', hosted by Fidante
- Ad hoc ESG training, as required, based on topics and thematics, e.g., modern slavery compliance
- We maintain a staff training register for professional development to record any industry, DEI and ESG training completed per quarter. The Directors' training register is reported to the Board.

Staff training is also a standing agenda item at the monthly Sustainability Committee meeting to ensure its ongoing monitoring and measurement.

As a boutique investment manager within advanced government bond markets, whilst we acknowledge that our ability to influence may be limited, we are committed to advocating and influencing for change on behalf of our clients. In pursuit of this aim, in August 2023, Ardea also joined a collaborative PRI-led engagement on Climate Change with Australian authorities. This collaborative effort, alongside other investment managers and institutional investors, will not only help to reduce exposures to the risks associated with a failure to rapidly transition to a net zero global economy but aids to amplify Ardea's engagement activities with issuers and to also provide further insights into how clients and the industry are working together around common areas to improve stewardship and responsible investing outcomes.

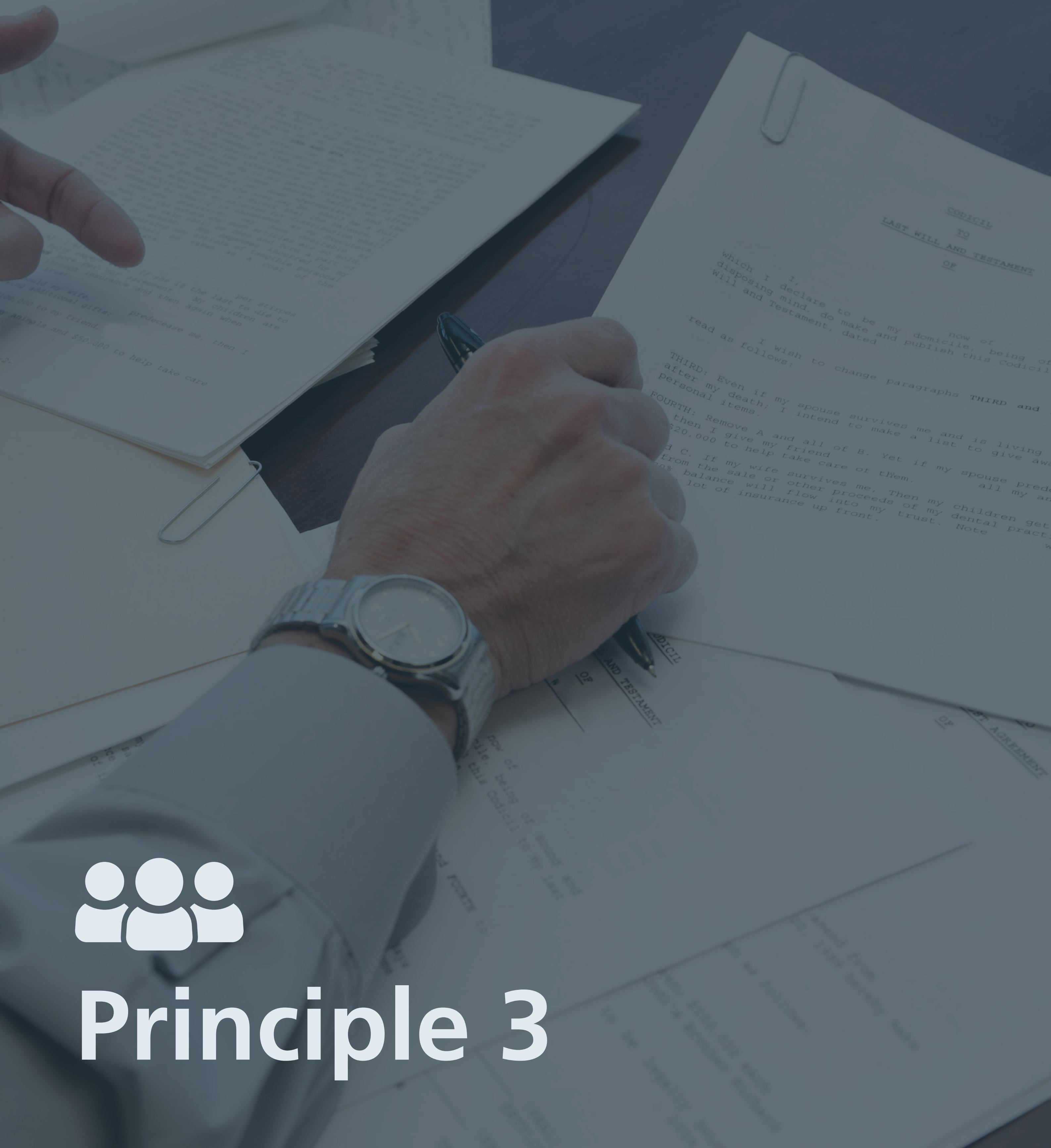
Ardea's commitment to innovation and development is ingrained in our culture. Since 2008, we have invested heavily in our investment and risk management and monitoring infrastructure, culminating in the development of our proprietary system. We continue to refine and improve our technology today, with the Research and Development Team established in 2019 to spearhead 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 resources are responsible for all data and the implementation of new systems, tools, and models, which are either further developed by the investment or research teams.

Incentives

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.

To ensure the entire business is incentivised to incorporate sustainability in their day-to-day functions, Ardea employees are assigned an ESG objective or KPI with a percentage allocation to sustainability based on their role. The percentage allocation to sustainability for team members is a function of their role. This acts 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, of delivering the highest standard of alpha and value, encouraging information sharing and collaboration. These practices help to drive long-term change and improve outcomes for both the company, its clients, and its stakeholders.

To demonstrate the firm's commitment to stewardship, an example of these KPIs include that relevant investment team members meet regularly with issuers, counterparties, or other relevant parties to engage further on ESG issues that are of relevance to our clients.



Principle 3

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

Managing conflicts of interest

At Ardea, we conduct our business to ensure that we provide high quality investment services which create long term value and minimise adverse impacts to our clients and key stakeholders of the business.

In accordance with best practice and regulatory requirements, Ardea maintains a Conflicts 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 Risk and Compliance Manager is responsible for ensuring adherence with this policy. The Ardea Conflicts of Interest Policy is not publicly available but we are able to share copies of this policy on request.

In the last year, there has been two material updates to Ardea's Conflicts of Interest policy:

- Best Execution and Order Policy – amended introduction to meet the requirements of MIFID II best execution rules in response to external feedback, and
- Inclusion of sustainability conflicts disclosure.

As part of the GRC framework, we maintain a register to record conflicts of interest. 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.
- A staff member in the investment team is married to an employee of a broking firm. We have put compliance rules in place in our internal trading system to prevent this staff member from trading with the broking firm and have logged the relationship on our Conflicts of Interest register.
- Personal trading, discussed in more detail below.

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:

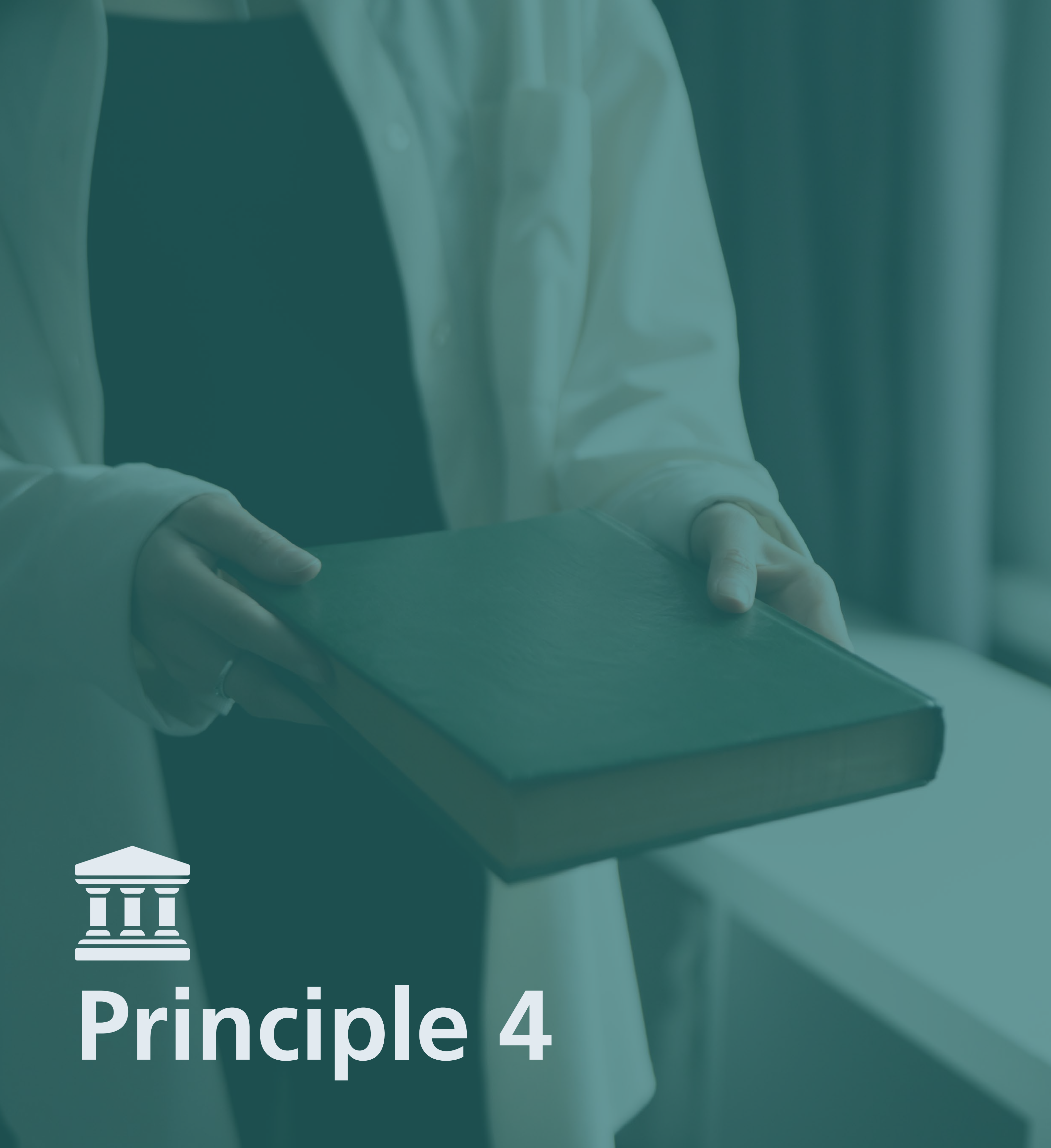
- Any development work, including conversations, could only be carried out outside of working hours and must not interfere with the performance of their duties at Ardea.
- Staff member was not part of the overall business decision to use the trading platform
- The impacted staff member was instructed 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 team 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.

During the year, Ardea also registered a sustainability conflict as part of its engagement with the South Australia Financing Authority (SAFA), a state government issuer in Australia. In October 2023, Ardea was asked by SAFA to provide confidential feedback on updates the issuer was proposing to make to its Sustainability Framework. In its written reply to the issuer, Ardea acknowledged, in the interests of good governance, its role as an investment manager on behalf of related party state-government entities. Furthermore, in raising the potential conflict, Ardea acknowledged that it may not necessarily have been reflecting the sustainability views or priorities of these specific clients, as we believe it is our role to represent the best interests of all clients.

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 team.



Principle 4

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

Identifying and Responding to Market-wide and Systemic risks

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.

Ardea has identified two primary and interrelated systemic risks to the government bond market – the sustainability of governments' fiscal burdens and the realisation of risks related to climate change. These risks are deemed systemic as they each have the potential to materially worsen the risk and return profile of the asset class.

Fiscal sustainability is important as it ensures governments have the flexibility to respond to changes in economic conditions and buffer its citizenry against adverse shocks. In recent years, elevated spending to finance short-term pandemic responses and to stimulate economic growth has resulted in significant government budget deficits. Cost of living pressures from high inflation leading to higher community expectations of government support have further strained public finances. Structurally, the ageing demographic trend playing out across advanced economies will place a further large burden on government budgets in the coming decades.

The fiscal consequences of climate change should also be highlighted. Climate change will have an impact on the medium and long-term fiscal sustainability of government budgets, however the global and long-term nature of the problem, the interconnection with biodiversity loss, and its complexity makes its amplitude and timing much more uncertain.

Many in the investing community claim that climate change is not being factored into government bond markets; therefore, government bond yields are not fully reflecting the impact of climate change and a country's effort to transition to a low-carbon economy in line with the 2015 Paris Agreement.

Findings from a shared research project between the University of Technology, Sydney, and Ardea have challenged this narrative and found that carbon dioxide emissions, natural resources rents, and renewable energy consumption, as measures of transition risk, significantly impact government bond yields and spreads. Accordingly, governments that perform poorly in managing climate change transition may encounter difficulty finding investors to buy their debt.

By contrast, countries with lower carbon emissions incur a lower borrowing cost. Advanced countries reducing their earnings from natural resource rents and increasing renewable energy consumption are associated with lower borrowing costs.

This differs from the effects in developing countries and accordingly, the necessity to support developing countries to meet climate change targets also emerges. The research findings are published here.

In many asset classes in investment markets, including government bonds, transition risks have materialised much faster than physical risks. The physical risk of climate change is currently impacting GDP levels globally. Over the medium to longer term, the physical impacts of more frequent natural disasters will impact the credit ratings of Governments by ratings agencies. This research has identified that advanced economies that perform poorly in managing their climate transition may encounter:

- increased government borrowing costs,
- liquidity constraints,
- reduced capacity to effectively manage climate transition, and
- the inability to finance economic recovery from severe climate shocks or natural disasters.

Given the threat climate change poses to the global economy and the fast materialisation of transition risk, these environmental factors are most likely to be material determinants of government bond markets. In addition, as the fiscal strength of governments deteriorates over time, the crucial defining features of the asset class, such as high liquidity, strong capital preservation, and stability of investment returns over time may also erode.

Loss of these attributes would transform the fundamental properties of the asset class and make it no longer fit for purpose.

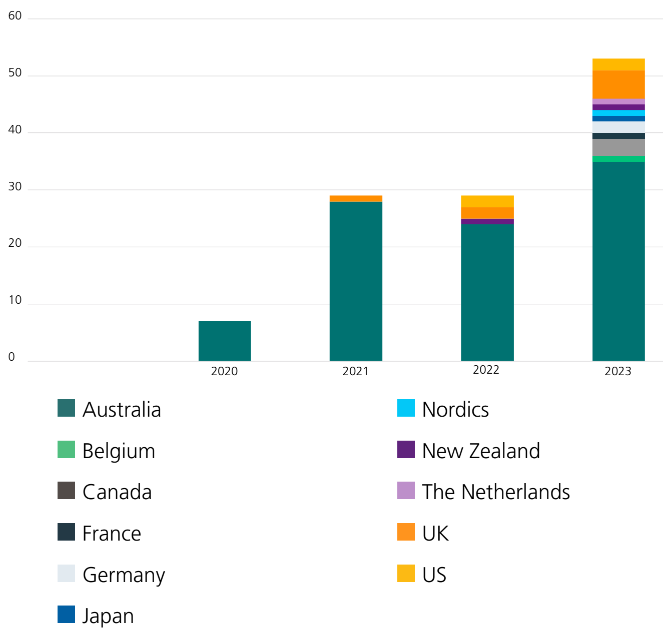
In responding to these risks, we have implemented a range of processes within our business designed to identify exposures arising from market wide risks, and to encourage action by stakeholders to address these risks.

To identify exposures, Ardea has integrated climate change scenario modelling into the broader scenario analysis framework we use for portfolio risk management (discussed in more detail in Principle 7).

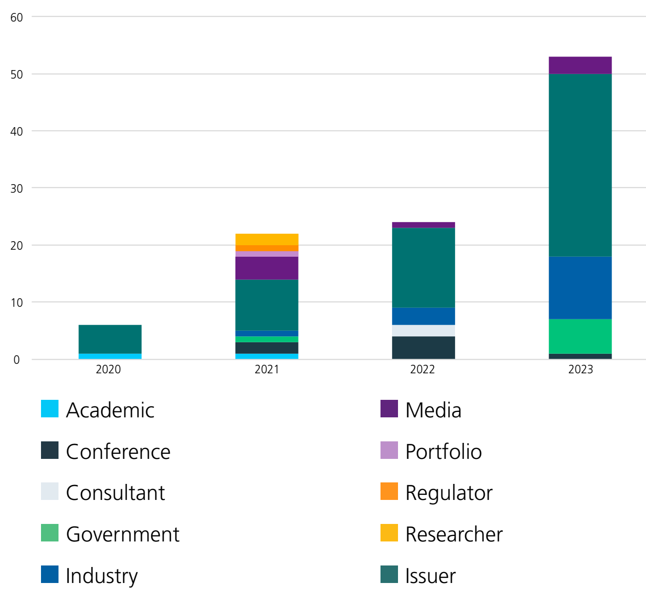
In responding to exposures to drive change, Ardea has focused on using our inherently high turnover investment approach to materially contribute toward improving liquidity and price discovery in green government bond markets, which in turn advances their ongoing development and growth. This acts to lower 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. We have materially increased our engagement activities over the past three years, primarily with issuers, and across the broader market to raise awareness of the sustainability opportunities and risks in fixed income markets.

Engagement by Country



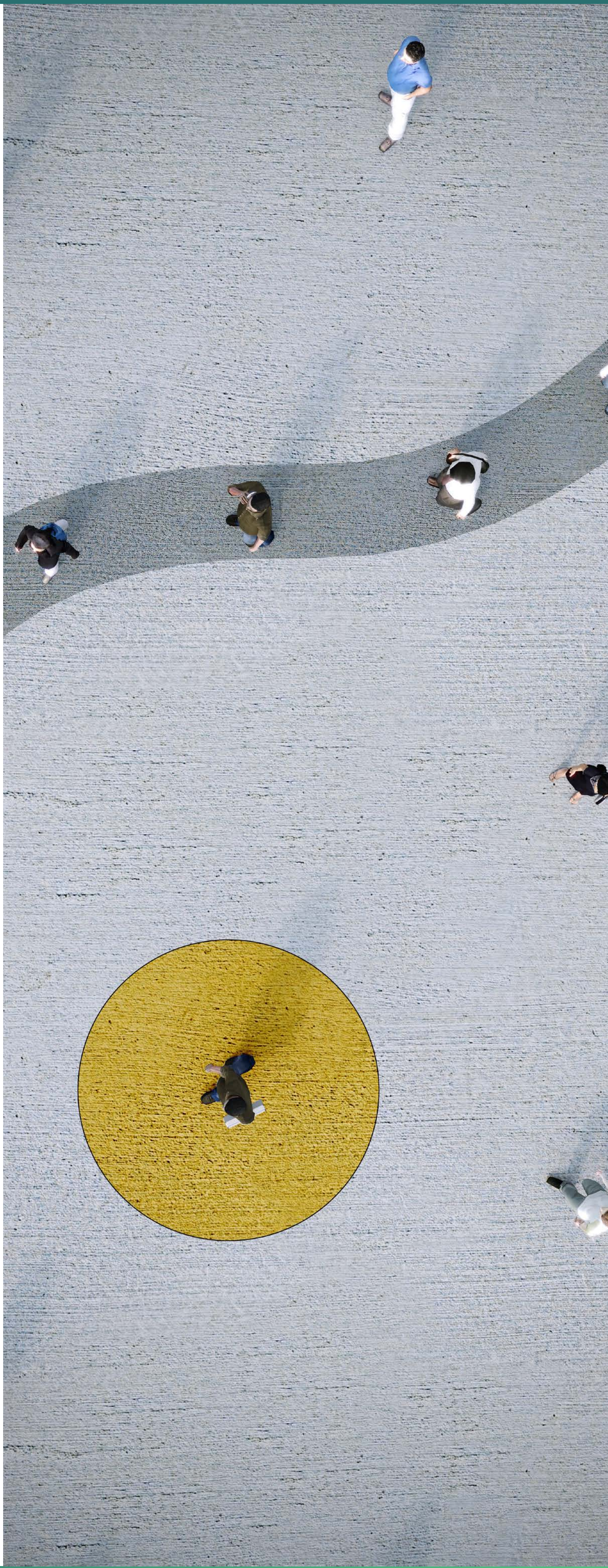
Engagement by Organisation



Ardea has also collaborated with over investment managers and asset owners to amplify our influence and impact on behalf of our clients. In August 2023, Ardea joined a PRI-led pilot engagement group on Climate Change with Australian authorities. This collaborative effort, alongside other investment managers and institutional investors, aims to help to reduce exposures to the risks associated with a failure to rapidly transition to a net zero global economy. A further positive benefit has been to provide further insights into how clients and the industry are responding to critical issues, like climate change, and improving stewardship and responsible investing outcomes.

The focus of these efforts has been to mitigate market and systemic risks in the government bond portfolios that Ardea manages on behalf of its clients. Since December 2022, the Ardea Global Alpha Fund, an Article 8 UCITs fund, has a minimum proportion of 5% of the Fund's NAV invested in green and ESG bonds. For our other funds and client portfolios, given the specific focus on advanced economy government bond markets, the business has not to date made major overall changes to the investment or alignment of the portfolios it manages for investors. We continue to improve our scenario modelling and have reduced exposures to climate change risks in client portfolios (see Queensland Treasury Corporation example in Principle 7).

If these systemic risks were to eventuate and portfolio changes were to be made in future, they would necessitate close consultation and collaboration with our investors given the material changes to the fundamental risk and return properties of client portfolios that would result. The relative quality and asset safety of advanced economy government bonds, compared with other asset classes, also raises the question of whether there exists an alternative asset class that remains high quality and has a demonstrably lesser exposure to these risks.



Principle 5

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

Review, Assurance and Assessment

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 adapts to the needs of our business and our clients, a framework for implementing and monitoring is included within our broader Governance, Risk and Compliance (GRC) Framework.

Ardea's Governance, Risk and Compliance (GRC) Framework ensures 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. This annual review was most recently completed in September 2023.

A nominated Risk and Compliance Manager oversees the GRC Framework and reports to the Board regularly on its effectiveness. The Risk and 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 Risk and Compliance Manager has specific objectives and KPIs relating to the GRC Framework, including our approach to ESG and Stewardship. At each Board meeting, the CEO and Risk and Compliance Manager provide an update that includes the current ESG policies, recommendations, and activity of the Sustainability Committee.

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 Risk and Compliance Manager has responsibilities across both risk and compliance. The Board's ongoing oversight and direct access to the Risk and Compliance Manager help ensure the company's ongoing compliance and effectiveness of the GRC Framework.

Following a review of responsible investing practices by the CEO in early 2023, a decision was made to establish the Sustainability Committee and to improve the current focus, processes and resourcing allocated to Ardea's ESG and Stewardship responsibilities.

As a result, in the last year, Ardea employed additional resources to work with the CEO and Sustainability Committee to review and refresh its ESG policies and processes. This has resulted in an update to our suite of sustainability documents, including:

- the ESG Policy, which was expanded to add corporate sustainability to the existing three pillars of responsible investing and integration (research, integration, and engagement),
- a dedicated Engagement Framework to provide more detail on how Ardea conducts its stewardship practices,
- an updated Modern Slavery statement to demonstrate Ardea's commitments to this area, even though it is not bound by legislation,
- refreshed TCFD reporting of Scope 3 emissions and a completed assessment of Ardea's own Scope 1 and 2 emissions for the year to 31 October 2023, and
- a review of SFDR disclosures to more clearly articulate Ardea's approach to preferencing an investment in green government bonds over government bonds where the relative value is similar.

In October 2023, the Sustainability Committee resolved to commence a review of ESG data and providers in response to the updates to Ardea's ESG policy and acknowledging the further progress made by ESG vendors on data availability and quality. A review was conducted of both primary source ESG data as well as a universe of 20 external ESG data providers. In February 2024, a decision was made to retain Sustainalytics Country Risk Ratings to supplement our own internal ESG research on emissions and climate risk. In parallel, Ardea will continue to explore how primary data may be utilised within the investment process and as a potential signal for future ESG activities for engagement. We are committed to continuing to review the available data offerings in response to the dynamic landscape.

In February 2024, Ardea announced its first permanent employee to take ownership of our ESG and DEI practices. This role will be responsible for the ongoing coordination of our work across responsible investing, as led by the investment and research teams, and corporate sustainability. The role is further supported by a Client Engagement Manager to ensure direct alignment with client interests and needs. Being responsive to client insights and feedback is a standing agenda item for the Sustainability Committee to ensure an ongoing assessment of how Ardea is representing client best interests through its stewardship activities.

Ardea also utilises ESG specialists provided by its shareholder and business partner, 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.

Given the large number of investors in advanced economy government bond markets, we acknowledge that our ability to influence is limited. It is therefore critical that we collaborate across the industry to amplify our influence and impact on behalf of our clients. In August 2023, Ardea joined a PRI-led pilot engagement group on Climate Change with Australian authorities. This collaborative effort, alongside other investment managers and institutional investors, aims to help to reduce exposures to the risks associated with a failure to rapidly transition to a net zero global economy. A further positive benefit has been to provide further insights into how clients and the industry are responding to critical issues, like climate change, and improving stewardship and responsible investing outcomes.

We have created an ESG workplan for the year ahead to focus on evolving sustainability issues that clients have raised with Ardea. These include building a deeper understanding of the Global Biodiversity Framework (Taskforce for Nature Related Financial Disclosur) and the risks from biodiversity loss and ecosystem degradation. In addition, Ardea is committed to exploring human rights more fully in the context of government bond investing.

Ardea's approach to ESG has evolved considerably over the past few years. Ongoing reviews by the Sustainability Committee, and reporting through to the board by the CEO and Risk and Compliance Manager, will ensure that we are able to identify and then prioritise, resources appropriately, and update or change our policies in relation to our approach to ESG and Stewardship.

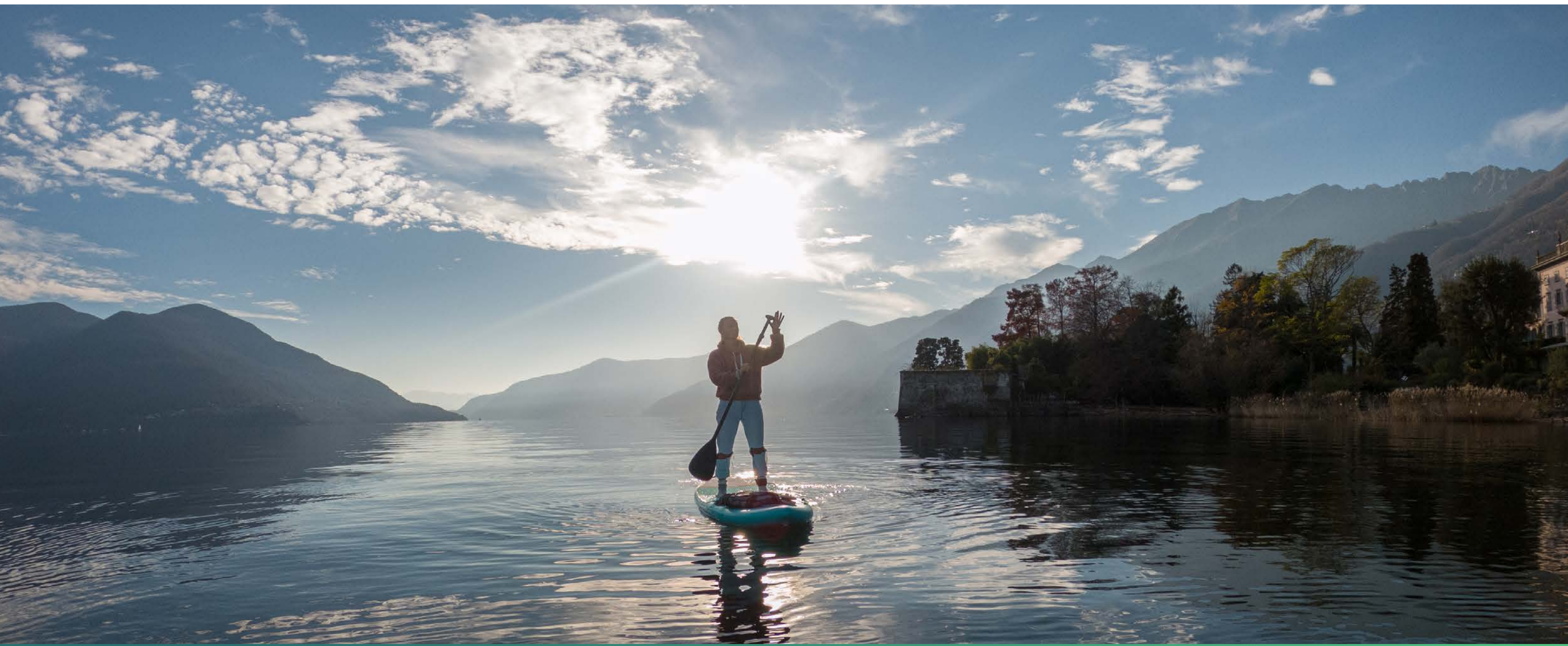
A critical opportunity to assess and review the effectiveness of our sustainability practices came with the publication of the 2023 UNPRI Transparency reporting and Assessment report. Ardea improved its results, receiving four out of five stars for all modules and it is also above peers or in line with peers across all modules.

A summary comparison with 2021 UNPRI reporting is below:

	2023		2021	
	Ardea	PRI Median	Ardea	PRI Median
Policy, Governance and Strategy	84	80	84	72
Direct – Fixed Income – SSA	75	63	61	37
Confidence Building Measures	80	80	n/a	n/a

At the end of Calendar Year 2023, Ardea was also able to assess the stated environmental targets of its Article 8 Global Alpha Fund, as summarised in the table below:

AGAU	End December 2022	End December 2023
Min. 5% of sustainable investments	8.0%	7.5%
Increase in green bond turnover % pa	28.05%	38.10%
Climate change scenario modelling	Reviewed weekly	Reviewed weekly



Principle 6

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

Client Needs and Communications

Ardea is a boutique manager of fixed income investments, specialising in relative value strategies in advanced economy government bond markets. Assets under management amount to $US16.2 billion as at 31 March 2024. A breakdown of assets under management by investor type and investor location is provided below.

	AUS	UK	US	Japan	Total
Institutional	79%	5%	0%	0%	84%
Wholesale	13%	-	0%	0%	13%
Retail	3%	-	0%	0%	3%
Total	95%	5%	0%	0%	100%

Assets are invested exclusively in advanced economy government bond markets. A geographical breakdown of total assets under management as at 29 February 2024 is provided below.

	Bond	Cash and Derivates MTM	Total
AUD	62%	30%	92%
EUR	12%	-5%	7%
GBP	3%	-1%	2%
JPY	1%	-2%	0%
NZD	2%	-2%	0%
USD	11%	-12%	-1%
Total	92%	8%	100%

Ardea manages investments on behalf of a diverse and global client base. Institutional investors include Australian defined contribution funds (superannuation funds) as well as government and commercial insurers with specific liability management requirements. Internationally, the institutional client base includes open-ended UCITS funds in the UK, whose investors are primarily UK pension funds.

The business 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 Ardea's strategies vary but would typically be for a performance target of 1% pa, with a tracking error budget of 1%. 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.

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 response to client feedback, Ardea has enhanced its client collateral and reporting to now include monthly ESG updates; more detailed quarterly investment and engagement case studies; improved classification and outcomes sought from engagement activities; increased transparency on portfolio data, including financed carbon emissions in TCFD reporting; and annual reports that showcase our engagement activities and Article 8 fund outcomes. We actively seek feedback from our clients to continue to enhance and improve our communications with them.

Ardea is committed to managing investment portfolios in line with client stewardship policies and respond to specific client requirements in the form of clients' own quarterly compliance questionnaires and templates.

Ardea also published its own updated Modern Slavery Statement in February 2024 in response to increasing interest from clients. Although not required to do this by legislation, we considered it best practice and respond to client requirements to adopt this initiative.

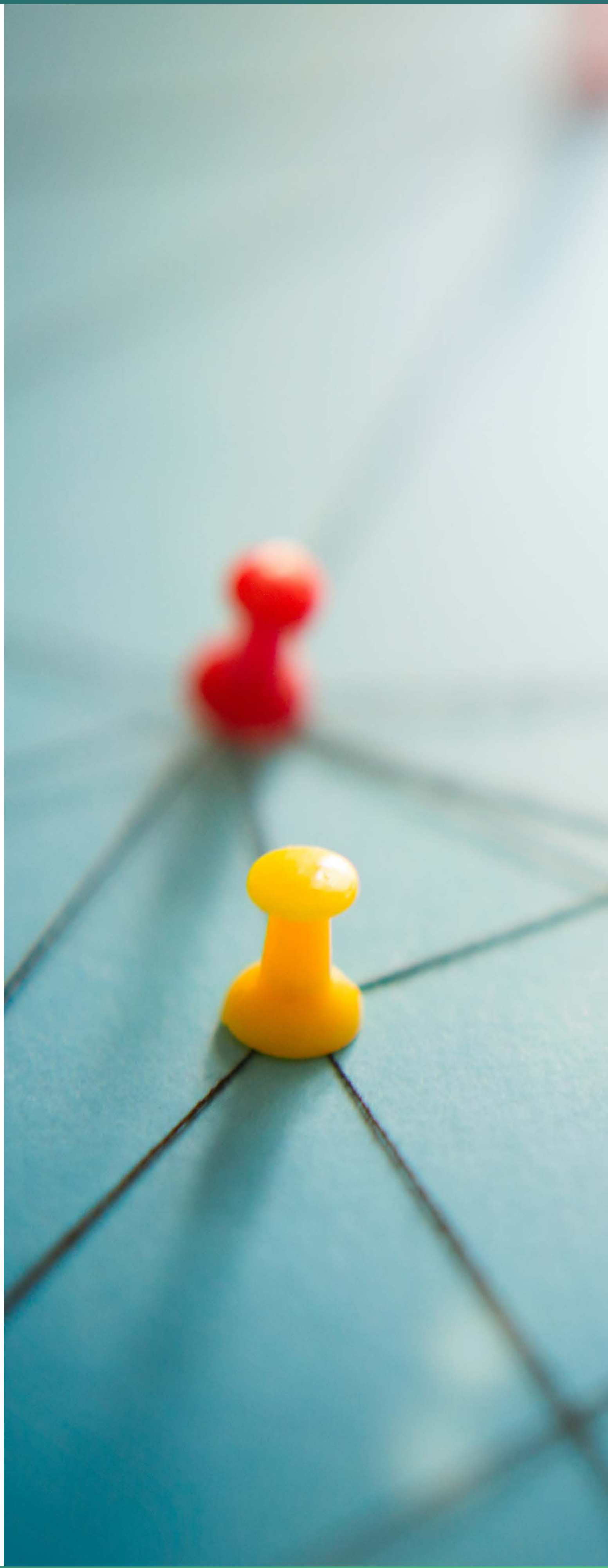
In addition to working closely with our clients, the business also maintains close relationships with asset consultants that review and recommend our strategies. Our interactions with consultants are underpinned by two-way conversations; a source of incoming information for the business on the stewardship priorities of clients, and as a channel for the business to share our learnings on sustainability issues of importance for consultants. Feedback and discussions with asset consultants occur regularly, typically quarterly.

During the year, Ardea contributed to stewardship surveys managed by WTW / The Thinking Ahead Institute and has completed and sought feedback on its engagement activities with The Investment Consultants Sustainability Working Group (ICSWG), which brings together leading UK investment consulting firms with the aim of seeking to improve sustainable investment practices across the investment industry.

Both client and consultant feedback is shared and reviewed by the Sustainability Committee as a standing agenda item at each meeting. We consider client feedback to be the best measure of the effectiveness of our communication with clients on our stewardship activities. 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.

Recommendations from clients and consultants regarding future areas of focus with respect to stewardship have focused on placing further consideration on the social elements of sustainable investing which is why exploring human rights, in the context of government bond investing is a key feature of our ESG workplan.

Given our narrow focus on advanced economy government bonds, there have been no instances where assets have not been managed in line with client stewardship requirements. We acknowledge that this may occur in the future as client requirements in this area and our own standards evolve.



Principle 7

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

Systemically integrate stewardship and investment

As an investor in advanced economy government bonds, Ardea has focused on system-wide risks such as climate change and the financial sustainability of governments' fiscal burdens. Given the threat climate change poses to the global economy and the fast materialisation of transition risk, these factors are most likely to be material determinants of government bond markets. However, environmental risks are not currently adequately addressed by credit ratings given their focus on policy events and market dynamics. Further, we believe that environmental risks (and, in particular, climate change) will become increasingly important over time.

Ardea has prioritised our work on these systemic risks as most likely to have a material impact on most of the global government bond market, rather than focusing on issues that may be specific to certain governments or specific to individual securities.

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

- Use our inherently high turnover investment approach to materially contribute toward improving liquidity and price discovery in green government bond markets.
- Integrate climate change scenario modelling into the broader scenario analysis framework we use for portfolio risk management.
- 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.

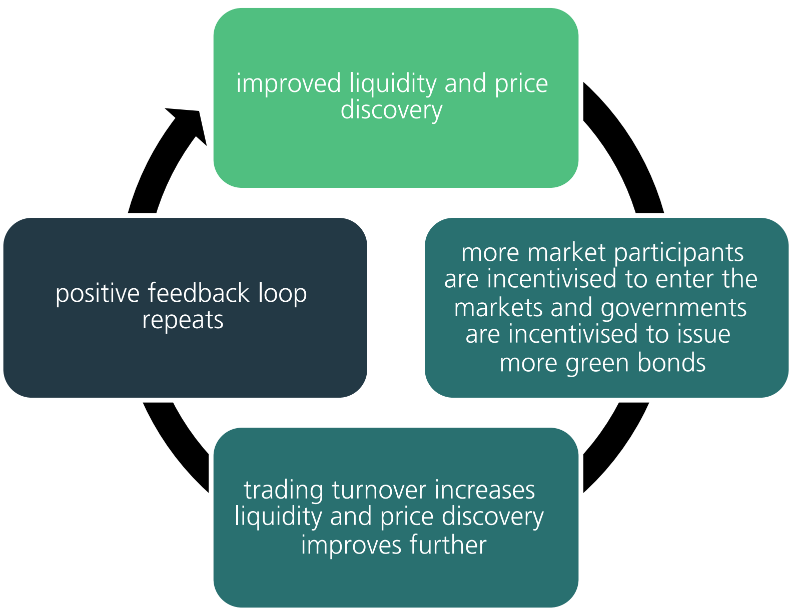
ESG Investment Integration

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. We aim to utilise this strong presence in the market to foster growth of the green bond market, contributing materially towards improving market liquidity and price discovery for green government bonds.

To practically integrate these ideas into our investment process, Ardea is committed to selecting green government bonds in preference to comparable government bonds when the relative value is similar. For the Ardea Global Alpha Fund, an Article 8 UCITs fund, Ardea also have a commitment to have a minimum proportion of 5% of the Fund's NAV invested in green and ESG bonds.

By creating more opportunities for trading and enhancing price discovery, our aim is to contribute to advancing the development and growth of the green bond market globally which, in turn, has encouraged governments to issue more green bonds and contributes to a reduction in sustainability risk for issuers, and therefore economies overall. This has direct implications for the sustainability of the government bond market in aggregate and therefore all investors in government bond strategies.

In contributing in this way, Ardea fulfils its responsibilities to improve green bond market liquidity and price discovery which in turn creates positive feedback loops that advance the ongoing development and growth of green government bond markets.



Integrate Climate Change Scenario Modelling

As part of Ardea's 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 and Compliance Team regularly runs a standard suite of scenarios, which are formally evaluated as a standing agenda item at our weekly Portfolio Management 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 and Development Team (the detailed research underlying the climate change scenario is available here). 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 investment risks.

Our research has found that climate transition risks are priced into government bond markets. The climate change scenarios, shown below and as defined by the IPCC in its fifth assessment report, results in shocks to the level of government bond yields and the shape of yield curves with these effects expected to eventuate over an extended period:

(i) **The Paris Agreement:** average global temperature rise will remain below 2°C by 2100
   a. Emissions stay constant

(ii) **Intermediate Scenario:** Emissions in the atmosphere peak at around 2040 and then decline. Global temperatures will rise by between 1.7–3.2°C by 2100
   a. Emission increase by say 0.5% per year

(iii) **No Action:** according to the IPCC, global temperatures will rise by between 3.2–5.4°C between the years 2081–2100 from pre-industrial times
   a. Emissions increase by say 1% per year

The climate change scenarios form part of a broader series of stress tests Ardea runs across all portfolios daily. The scenario modelling is reviewed regularly at our weekly portfolio construction meetings to assess the potential impact on the portfolios and address undesirable risk exposures. All scenario models are considered within the context of Ardea's active trading style that allows for the dynamic rebalancing of positions.

To fulfill our responsibilities, Ardea continues to refine our risk management processes related to climate change as the market and data continue to evolve. During the year, Ardea updated its scenario model to rank sub-sovereign Australian bonds from best to worst ESG performer based on embedded climate risk factors based on a combination of their current emissions as well as their future plans to transition away from fossil fuels. The criteria assessed are:

1. Current Emissions: States with lower current emissions were ranked higher as they have already made progress in reducing their greenhouse gas emissions.
2. Transition targets: States with more ambitious and clear emission reduction targets were ranked higher.
3. Measurable interim targets: States with specific and measurable interim targets were given higher ranks
4. Renewables: States that had legislated measures and specific targets for increasing the share of renewable energy in their energy mix were given higher rankings

This is an important evolution of our scenario tools for two reasons:

- ESG data on the government and sub-sovereign space has continued to be limited (particularly when compared to equities and corporate bonds) therefore it is incumbent on Ardea to expand its proprietary tools, and
- given the Australian federal government has not yet issued green government bonds, however the state governments are active issuers.

Treating the yield differential of state vs federal government bonds as a "yield spread", the model shocks these spreads to reflect scenarios where markets demand a higher risk premium to reflect climate-related risks. The shocks are scaled to the severity of relative climate risk for each state and other nuances, such as the tenor of specific bonds.

Case study

Case Study: Queensland Treasury Corporation (QTC)

Engagement Objectives: Integration of climate change scenario modelling within investment process

Outcome and Status:

There has been only one instance since the sub-sovereign scenario model was updated where such a concentrated risk was identified. In November 2023, the scenario analysis flagged that one of our client portfolios could incur an outsized loss relative to its risk budget on its holdings of Queensland State government bonds. In their most recent Sustainability Report, it was noted that the largest part of the Queensland economy is mining. Furthermore, renewables comprise just over 20% of total energy consumed with reaching zero net emissions not targeted until 2050. As such, the State has relatively higher climate-related risks compared to other Australian semi-sovereigns.

Each client mandate or Fund managed by Ardea has an annual risk budget or amount of daily volatility that it can tolerate. For a portfolio with a higher risk appetite, no further action was necessary. However, in this instance, we reduced the client portfolio's holdings of these bonds because the scenario loss exceeded the tolerances defined by this particular portfolio's risk budget.

Since reducing this position, Ardea has met with senior representatives of QTC and the Queensland government as part of the PRI-led Collaborative Working Group on Climate Change. We were able to gain further insights into their transition plans and how they are proposing to use their fiscal capacity to take positive actions and deliver on targeted goals across climate change and natural capital.

Engagement with issuers

Engagement with sovereign issuers is fundamentally different to engagement with corporate issuers. This in part reflects the nature of the government bond market as having a small number of issuers each of whom are very large in size, when compared to the corporate bond market which offers thousands of issuers, each of whom issue much smaller amounts. This difference, alongside regulatory, prudential, and portfolio construction requirements that necessitate owning government bonds, gives governments considerable influence over the demand for and pricing of their bonds. This is very different to the competitive, mostly-level playing field apparent in the demand and supply of capital in the corporate bond market.

Notwithstanding this difference, government bond investors, as long-term stakeholders in the governments they invest in, are well-placed to intervene to influence government actions or policies to secure their interests as investors, and to ensure that governments pursue effective policies that benefit citizen stakeholders over the long term.

The highly correlated nature of government bond markets also means that engaging broadly across the key government and semi-sovereign issuers is necessary. Therefore, this engagement approach has been consistent across markets and similar across our Sydney and London offices. This approach is also consistent across funds and portfolios, as although the strategies managed for clients may vary in terms of return and tracking error targets, all portfolios address the same investment universe.

For these reasons, engagement is the most effective tool at our disposal to encourage and shape long-term, best practice ESG outcomes. Divestment or exclusion are, to our mind, punitive and short-term levers and, given the central role of government bonds in investment portfolios, of limited practical usefulness.

To fulfill our responsibilities, we place a reliance on engagement and specific initiatives, such as growing green bond turnover, to deliver change. As government bond investors, we have direct access to issuers and can leverage the alignment present between issuers and investors in ensuring that securities continue to perform within the expectations of end investors. The focus on ensuring consistent investment returns above all else ensures that other issues that may be deemed overly political in nature do not detract from the core objectives of engagement.

With an objective to promote the development of the green government bond market, Ardea regularly engages with all major government bond issuers across the markets it invests.

This engagement is to:

- help governments better understand the increasing ESG demands of investors
- convey expectations and concerns on behalf of our clients
- promote discussions between investors, sovereign issuers, and other stakeholders
- increase the information provided to the market on ESG matters
- extract ESG information important for our analysis, and
- encourage ESG data transparency.

The primary method of engagement has been through meetings with senior representatives of government bond issuers and through follow up telephone calls. As well as meeting with issuers, we have, in some cases, also 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.

Our approach to engagement utilises our long-standing communication channels with government issuers to raise ESG issues that are deemed of importance by investors. We also believe it is important to receive feedback and communication from government issuers as to the challenges and constraints they are facing, with a view to raising awareness within the investor base and promoting two-way conversations.

Engagement is undertaken by the Investment team with support provided by the Research and Development team.

Given the large number of investors in advanced economy government bond markets, we acknowledge that our ability to influence is limited. It is therefore critical that we collaborate across the industry to amplify our influence and impact on behalf of our clients. We address this further in our response to Principle 10.

Case study

Case Study: Bundesrepublik Deutschland Finanzagentur

Engagement Objectives: Work with issuers to develop green bond markets

Outcome and Status:

Green German Federal securities were first issued in 2020 with a stated “twin bond” approach. Germany aims to be active in both primary issuance and in creating secondary liquidity with an ambition to establish a green yield curve for the Euro area.

Engagement commenced in 2023 with two meetings held to discuss the German government green bond programme as well as Ardea’s objectives to support the development of green bond markets through our high turnover approach, and specifically our support for further primary issuance. Meetings were held between senior leaders of the German DMO and the Ardea investment team. There was a positive response by the issuer, commenting that our approach was “music to our ears”. Our feedback was to note a preference for new 5 year and 20-year bonds to develop the curve.

In April, Germany issued a 10-year bond, and in June issued E4.84b in a new green 30-year bond, a twin to the existing 2053 brown bond, and seventh point on green curve. Ardea was allocated E315m / 70% of our order.

To support the new green bond, Ardea sold a large holding in existing 2053 brown bond given similar Relative Value levels.

Principle 8

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

Monitor and review service providers

To ensure it monitors and holds its service providers to account, the business has in place an Outsourcing Policy, contained within the Ardea Global, Risk and Compliance (GRC) Framework, which sets out the guidelines for the establishment, management and monitoring of agreements with service providers to whom business activities are outsourced.

The Board is ultimately responsible for all outsourcing arrangements, including monitoring existing relationships. As such, a permanent agenda item at each Board meeting is 'Services Providers and Support Services' to review any material issues relating to service provider delivery.

As a boutique investment manager, the majority of Ardea's procurement relates to professional services, investment administration, technology and software services, office equipment and travel services.

Ardea's shareholder and key supplier of non-investment services is Fidante Partners, a wholly owned subsidiary of Challenger Limited. Fidante supplies both administration and distribution services under two separate agreements. These two agreements contain certain Service Levels which are monitored in accordance with the Outsourcing Policy. Performance of the service levels is monitored by the Ardea Board with Fidante Partners reporting at each Board meeting.

For investment trading, Ardea has a counterparty selection policy which outlines the criteria and processes involved in the approval of investment counterparties. The policy was purposefully designed to meet the best interests of clients by ensuring that the counterparties selected are capable of providing best execution. This policy forms part of the GRC Framework.

Included in the selection criteria for counterparties is an assessment of their:

- Reputation, experience, and financial stability
- Standing with pertinent regulatory bodies and associations
- Integrity, ethics, and trustworthiness
- Approach to ESG risks including, but not limited to, reducing environmental impacts, enhancing livelihoods, and responsible business practices.
- Sufficient, competent personnel and support staff.

Counterparty risk is measured daily via our investment administration platform, SimCorp Dimension, and is covered by ISDA documentation, Global Master Repurchase Agreements (GMRA) and a Credit Support Annexure (CSA).

In May 2023, a review was conducted by Ardea of its other suppliers to verify their commitments to corporate responsibility. This was completed through an audit of their sustainability practices and policies, including evidence of positive ESG, DEI, and climate change initiatives. Throughout the year, we appointed one new investment counterparty to expand our UK coverage after they had successfully met the criteria for inclusion on our counterparty panel. There was no other change to existing counterparties and no suppliers were found to have not meet Ardea's standards so no need for further action has been required to date. Ardea is committed to enhancing client interests by conducting proper due diligence on all counterparties on a regular basis.

In October 2023, the Sustainability Committee resolved to commence a review of ESG data and providers in response to the updates to Ardea's ESG policy and acknowledging the further progress made by ESG vendors on data availability and quality. A review was conducted of both primary source ESG data as well as a universe of 20 external ESG data providers. In February 2024, a decision was made to retain the incumbent, Sustainalytics Country Risk Ratings. The review found that Sustainalytics continued to make improvements to the breadth of its research capabilities, including in the areas of US sub-sovereign and biodiversity, as examples, and were open to areas of improvements in areas of importance to Ardea, like Australian sub-sovereign ratings. Ardea was also able to extend its access to the Sustainalytics data files through use of the online portal, in addition to the existing data connection with the investment team's Slack messaging platform. We acknowledge that ESG data limitations still exist and will have to supplement our own internal ESG research on emissions and climate risk. In parallel, Ardea will also continue to explore how primary data may be utilised within the investment process and as a potential signal for future ESG activities for engagement. We remain committed to regularly reviewing the available data offerings and providers in response to the dynamic landscape.

Modern Slavery Case Study

Ardea's business partner, Challenger, publishes an annual Modern Slavery Statement in accordance with the requirements of the Modern Slavery Act. Where appropriate, Ardea participates in this review of practices and receives a copy of the final report. For the Financial Year 2023, Challenger identified the procurement of IT equipment in the Asia Pacific region and marketing branded items as high-risk areas in the supply chain. To address these risks, Challenger has an approved Human Rights Policy, have enhanced their risk assessment methodology of suppliers and investments to account for the updated 2023 Global Slavery Index, have implemented a thorough supplier due diligence process, including strengthening its contractual mechanisms by embedding a modern slavery clause in renewed and new supplier contracts, rolled out staff training to teams exposed to the high-risk areas, and conducted industry engagement and policy advocacy with the Australian Government through the Financial Services Council (Australia), Responsible Investment Association Australasia, and Investors against Slavery and Trafficking.

In May 2023, the Australian head office for both Challenger and Ardea, was certified under the Cleaning Accountability Framework (CAF), which ensures that a worker-led approach is implemented at the property and establishes a formal role for the on-site cleaning workforce to contribute to due diligence.

In February 2024, Ardea published its own updated Modern Slavery Statement. Although not required to do this by legislation, in response to requests from clients, we consider it best practice to adopt this initiative.

Principle 9

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

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 the major government bond issuers in the markets in which it invests.

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 of green government bonds, such as the European Union, that have a material influence on government bond markets broadly, as well as focusing on key issuers in terms of assets invested, notably Australian state and federal governments, given the strong representation of Australian clients in Ardea's 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 or ESG 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).

Case study

Case Study: South Australian Government Financing Authority (SAFA)

Engagement Objectives: Support the issuance of green and sustainable bonds in South Australia

Outcome and Status:

Since our inception in September 2008, Ardea has maintained a relationship with the Australian state of South Australia and their financing authority, SAFA.

Due to this long relationship, in October 2023 Ardea was asked by SAFA to provide advance feedback on proposed updates to their sustainability framework and bonds on issue. Ardea was requested to provide an investor's perspective and to share insights from our underlying clients.

In contrast to other Australian states that are heavily dependent on fossil fuels, South Australia is on track to have 100% renewable energy generation by 2030 with net zero emissions by 2050 (and 50% reduction in net GHG emissions by 2030). South Australia has no coal-fired power generation with over 70% of its energy needs met by renewable sources.

With the maturity of their energy mix, South Australia was proposing to broaden its sustainability vision and framework to spotlight the state government's delivery of social services, including education, health, affordable housing, and First Nations affairs, alongside its environmental strategy focused on renewable energy and biodiversity.

In updating their sustainability framework, SA was also proposing to label all bonds issued since 1 July 2018 as Sustainability Bonds. This followed successful completion of a full lookback into the alignment of their expenditures with the Framework's updated Eligibility Criteria.

On behalf of our clients, Ardea provided detailed and confidential written feedback to SAFA followed by two meetings to discuss and debate the framework and the proposal to reclassify their existing bonds. Through these interactions, Ardea referenced our client conversations to inform our ESG observations.

SAFA released their updated Sustainability framework in December 2023. The reclassification of all bonds issued since 2018 was successfully completed in January 2024.

Principle 10

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

Collaborative Engagement

As a specialist investor in advanced economy government bonds, it is critical that we collaborate across the industry to amplify our influence and impact.

Since 2010, Ardea has been a signatory of the UN backed Principles for Responsible Investment and committed to the six key principles to develop a more sustainable financial system.

We believe it is our duty to act responsibly and sustainably with respect to our own carbon footprint and our actions as global citizens. As such, we:

- support the Paris Agreement and its goals of limiting global warming to 1.5 degrees Celsius compared to industrial levels via economic and social transformation based on the best available science[1],
- are a signatory to the Global Investor Statement to Governments on Climate Change[2] which calls on world governments to:
    - Achieve the Paris Agreement's goals
    - Accelerate private sector investment into the net-zero transition
    - Commit to improve climate-related financial reporting.
- we are supportive of and seek to follow the recommendations as described in the "Task Force on Climate Related Financial Disclosures"[3] (TCFD). We published our first report in December 2022 on our scope 3 financed emissions and have completed an assessment of Ardea's own Scope 1 and 2 emissions for the year to 31 October 2023.

In August 2023, Ardea joined a collaborative PRI-led engagement on Climate Change with Australian authorities. This collaborative effort, alongside other investment managers and institutional investors, will not only help to reduce exposures to the risks associated with a failure to rapidly transition to a net zero global economy but aids to amplify Ardea's engagement activities with issuers and to also provide further insights into how clients and the industry are working together around common areas to improve stewardship and responsible investing outcomes.

A key benefit of this collaboration is leveraging economies of scale compared to engagement with governments on an individual basis. These benefits arise because:

- Working collaboratively as a group provides representation of a larger asset base. This ensures that views of the group carry significant weight and can assist in gaining access to senior decision makers.
- Working collaboratively as a group also leverages a wider field of expertise, across different topics, than what would be held by any individual member of the group. This can assist in areas of subject matter complexity, such as the energy sector's transition to net zero.

Although this collaboration has only been operating for approximately six months, it has already facilitated a number of senior-level meetings with state-government officials in Australia (Australia is the focus of this engagement and thus other countries have not yet been included in this process). This has ensured awareness of investor concerns at the ministerial level. The engagement has also been welcomed by governments and carries significant weight for them given the importance to governments of ensuring continued access to the investor base and ensuring that investor expectations are addressed.

Research is integral to Ardea's investment process and helps to inform our broader investment and operational ESG activities as well as to raise awareness of the importance of sustainability risks and opportunities when it comes to investing in government bonds. The potential impact of climate related risks and opportunities is a factor driving the research strategy. This has resulted in the development of several key research partnerships with academic institutions, including the University of Technology Sydney, with whom we published a joint research paper, 'Climate change transition risks on sovereign bond markets.'

Ardea actively participates in roundtables, roadshows, webinars, and conferences to promote discussions relating to ESG and government bond investing. Our approach to engagement seeks to move beyond demonstrating the impact of ESG factors for investment returns and risk. We view engagement with stakeholders including clients, media, academia, and issuers as the most efficient and logical way to promote sustainable outcomes generally, not just within our industry or asset class. Engagement also broadens the scope to include a wider discussion on ESG issues across the key governmental entities that produce the supply of a large part of the fixed income universe, including debt management offices, governmental departments, national authorities, regulators, and other policy makers.

[1] https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

[2] https://theinvestoragenda.org/focus-areas/policy-advocacy/

[3] https://www.fsb-tcfd.org/recommendations/

While issuers remain the primary focus for engagement, Ardea's approach also encompasses the following stakeholders, including:

- Our clients to understand their ESG expectations
- The media to help increase information provided to the market on ESG matters
- Research houses to understand risks and opportunities and to highlight the need for targeted research on government bond ESG matters
- Academia so that we can highlight the need for additional research on ESG outside of equities, corporate debt, and property
- Other key participants within financial markets, such as clearing houses and exchanges, which have the potential to perform new and innovative functions with respect to ESG
- Investment bank capital market desks and dealer panels, who through their market-making role, can advise sovereigns on ESG issues that might be material to pricing and would increase the attractiveness of their bonds, and
- Specific engagement with banks to promote secondary market turnover and liquidity in the global green government bond market.

Ardea has a further research partnership with the CFA Institute, Australian National University and the University of Technology Sydney investigating diversity in the Australian Finance industry. Our previous research featured in the development of the CFA Institute Policies on DEI, as well as informing our own DEI practices. Details of this research can be found here

In May 2023 Ardea hosted an industry Women's Networking event. It was attended by 200 people in person and online, the purpose of the event was to bring together women working or wanting to work within Finance or related roles and provide further education about equality and diversity within the workplace to all attendees and the importance of mentoring and networking. Ardea's own Dr Laura Ryan, Head of Research and Development, was the keynote speaker on her recent work on gender promotion rates and an external speaker, Kaizen Recruitment, discussed their initiatives to promote and nurture diversity and inclusion.

Case study

Case Study: United Kingdom Debt Management Office (DMO)

Engagement Objectives: Support the further issuance of green bonds in the United Kingdom

Outcome and Status:

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.

At the subsequent consultation in May 2023, a representative from Ardea again pushed for the development of a green government bond curve, in addition to the proposed 10-year green gilt under consideration. Engaging with issuers to encourage maturities in un- or under-developed tenors assists with the development of a green curve which we expect would become an important market indicator of the overall green economy.

Principle 11

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

Escalate Stewardship Activities

Engagement with sovereign issuers is fundamentally different to engagement with corporate issuers. This difference, alongside regulatory, prudential, and portfolio construction requirements that necessitate owning government bonds, gives governments considerable influence over the demand for and pricing of their bonds. This is very different to the competitive, mostly-level playing field apparent in the demand and supply of capital in the corporate bond market.

Furthermore, 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. 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.

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 long-term stakeholders in the governments they invest in, we consider government bond investors, like Ardea, are well-placed to intervene to influence government actions or policies to secure their interests as investors, and to ensure that governments pursue effective policies that benefit citizen stakeholders over the long term.

For these reasons, engagement is the most effective tool at our disposal to encourage and shape long-term, best practice ESG outcomes. Divestment or exclusion are, to our mind, punitive and short-term levers and, given the central role of government bonds in investment portfolios, of limited practical usefulness. We are focused on using our long-standing communication channels with government issuers to raise ESG issues that are deemed of importance by investors. We also believe it is important to receive feedback and communication from government issuers as to the challenges and constraints they are facing, with a view to raising awareness within the investor base and promoting two-way conversations. These efforts may span many years, as in the case of the Australian Federal Government.

We are yet to escalate any issues given the limitations of escalation mechanisms in government bond investing so there are no specific examples available. Throughout the year, we have increased and broadened our discussions with issuers on how sustainability risks are accounted for and reported on by issuers.

We accept that we are likely to gain the most traction with issuers by advocating strongly both behind closed doors and through collaborative forums, like the PRI-led engagement on Climate Change with Australian authorities. Our engagement aims to support issuers in their efforts to issue green or other ESG bonds and to convey that our clients strongly support all positive improvements that issuers can undertake. Please see Principle 4 for more detail on our engagement activity.

Case Study

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

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

Outcome and Status:

In February 2024, the Australian Office of Financial Management announced its plan to issue its inaugural green bond in the middle of the calendar year.

Since 2021, Ardea has met regularly with AOFM, as well as the Commonwealth Treasury, to discuss the growing investor demand for a dedicated green bond program at the sovereign level (Australian state governments have issued green bonds). In raising these concerns on behalf of our clients, our primary emphasis has been that the fundamental qualities of the asset class, such as liquidity and a stable source of low-risk returns, may become adversely affected should the central government not develop a green bond market over time. We have further highlighted the importance of providing issuance that remains eligible for the growing number of investors that require green or sustainable bond issuance.

Over the course of our engagement, there has been increasing agreement by the issuer that change was needed. In May 2023, the government formally announced its commitment to a green bond program to commence in mid-2024.

While the announcement of a program is encouraging, the timetable is late. This means the focus turned quickly to the quality of the program, and given the long delays, expectations regarding quality are high. It should also be acknowledged the complexity for implementation as Australia's federal structure means that most assets suitable for funding by green and sustainable bond programs exist at the state, and not federal, level.

Ardea met with AOFM and Treasury in July 2023 to discuss the prospective green bond program. The conversation was broad and included potential environmental projects and activities that could be financed through use of proceeds. The opportunity to emphasise the importance of green bond issuance to policy staff at the Australian Treasury and discussing potential market implications should assist with a higher quality green bond program than otherwise.

In December 2023, Ardea also made a formal submission to the Treasury's Sustainable Finance Strategy Consultation on two key matters:

- Identifying and responding to potential systemic financial risks, and
- Issuing Australian federal government green bonds.

In addition to focusing on the issuance of green bonds, Ardea's engagement has also emphasised the importance of maintaining effective government policy across all areas, including large-expenditure 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 and to ensure fiscal sustainability.

The Australian Government Green Bond Framework was released in December 2023; a comprehensive framework which clearly addresses investor expectations towards meeting Australia's net zero policy goals. Key observations from Ardea about the framework, which were shared with our clients, include:

- This is specifically a green bond program, i.e., not a broader sustainable bond program which is the approach some Australian states have taken. Only climate and environmental initiatives are considered eligible.
- Federal tax rebates to encourage green activity or investment are considered an eligible use under the program. Therefore, the government can borrow using green bonds to fund the cost of these rebates or incentives, rather than funding specific projects or initiatives. This will go some way towards countering the shortage of viable green tangible infrastructure projects at the Federal level.
- Nuclear energy, arms manufacturing, and the fossil fuel industry are all explicitly excluded. This provides clarity that green bond proceeds would not be allocated to funding for nuclear submarines via AUKUS, or to support the SA defence industry.
- The government's focus is on spending to support targeted investments in the clean energy transition. There is less of an emphasis on broad-based market-neutral regulation to influence private sector investment via market forces. Generally, economic inefficiencies associated with direct government spending on targeted investment projects would typically result in higher costs than using a prohibition via regulation approach. Directed investments can still be warranted however if managed well, and if there are genuine risks that the private sector is unable to bridge.

In February 2024, AOFM released its plans for the green bond program to ensure its appeal to the widest possible range of investors. The first green bond, to be issued in mid-2024, will be in the most liquid and in-demand part of the curve, with around 10 years in tenor. The intention is for the initial issue to be large while leaving capacity for further smaller tenders. The program intends to develop a curve in subsequent years with the establishment of new green bond lines with impact reporting expected within 18 months of the first green bond issue.

Principle 12

Signatories actively exercise their rights and responsibilities.

Actively exercise 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. Unlike equities or corporate bonds, there is not the opportunity to vote proxies or to divest.

As an active owner and participant in government fixed income markets, Ardea views a well-functioning government bond market as an essential component of a modern economy and financial system. For investors, it is a core allocation in well-diversified investment and superannuation portfolios given its 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.

Actively exercising our rights and responsibilities in this market is therefore of critical importance.

For this reason, Ardea places a heavy reliance on engagement and specific initiatives, such as growing the green government bond market, to deliver change and create long-term value for our investors.

The standardised nature of the government bond markets in the advanced economies means that we have adopted a consistent engagement approach across funds, assets, and geographies. In exercising our rights and responsibilities, the focus has been on driving changes in the framework, priorities, and approach of government issuers, rather than changes to the terms or detail of specific securities. There is limited ability to seek amendments to the terms and conditions of government bonds, as opposed to corporate debt issuance. For this reason, the business has focused on driving improved green bond issuance through the use of our high turnover active investment strategy as a key outcome.

Ardea is also mindful of its social operating licence when exercising these rights and responsibilities. In doing so, we seek to represent the long-term interests of investors in government bonds. This long-term focus of investors may 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 stakeholder groups express preferences consistent with their horizons is complementary and consistent in our view.

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