STATEMENT ON PRINCIPAL ADVERSE IMPACTS OF INVESTMENT DECISIONS ON SUSTAINABILITY FACTORS

This statement is made pursuant to article 4 (1) of COMMISSION DELEGATED REGULATION (EU) 2022/1288 of 6 April 2022 (the "SFDR RTS") supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council ("SFDR") in the format of the template set out in Table 1 of Annex I of the SFDR RTS.

Financial market participant Lombard Odier Funds (Europe) S.A. – LEI: SB6NR8324Y8KG313SQ11

Summary

Lombard Odier Funds (Europe) S.A. ("LOFE") – LEI: SB6NR8324Y8KG313SQ11 considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of Lombard Odier Funds (Europe) S.A.

This statement on principal adverse impacts on sustainability factors ("PAIs") covers the reference period from 1 January 2022 to 31 December 2022.

LOFE is in scope of the SFDR RTS as a 'financial market participant' by virtue of its activity as a Luxembourg UCITS management company and AIFM as defined in SFDR.

As a financial market participant, LOFE has the principal responsibility for the management of the funds for which it acts as UCITS management company/AIFM, but in most cases it delegates the responsibility for portfolio management to other entities either within or outside of the Lombard Odier Investment Managers group ("LOIM").

LOFE is a member of the LOIM group and where it delegates portfolio management to entities within LOIM, those entities will integrate the consideration of PAIs into their investment decision making processes as set out below.

Where LOFE delegates portfolio management to entities outside of LOIM (including entities of the Lombard Odier group not within LOIM), LOFE will rely upon the policies of those entities to determine how and to what extent they consider PAIs.

LOFE considers the following PAIs:

- PAI 1-16 of Table 1 of Annex I of the SFDR RTS
- PAI 4 of Table 2 of Annex I of the SFDR RTS (optional – environmental)
- PAI 2 of Table 3 of Annex I of the SFDR RTS (optional – social)

PAIs include indicators which have been widely used to measure sustainability impacts by LOFE/LOIM for many years prior to the implementation of SFDR (including indicators relating to carbon emissions, fossil fuel exposure, waste levels, employee conditions and human rights, etc). The introduction of the PAI framework under the SFDR/SFDR RTS does not therefore represent a significant change to the approach to the identification and measurement of negative environmental or social externalities by LOFE/LOIM and is seen by LOFE/LOIM as sitting alongside/complementary to the existing sustainable research framework developed by LOIM.

Notwithstanding the above, there are two key contexts in which consideration of PAIs has been formally integrated into the sustainable research framework of LOFE/LOIM as follows:

1. when determining what constitutes a 'sustainable investment' for the purposes of SFDR in respect of investment products managed by LOIM which have committed to making a minimum proportion of sustainable investments; and

2. when rating a company under the Lombard Odier ESG/CAR Industrial Materiality Rating methodology ("LO Rating Methodology") in the context of analyzing whether an issuer may contribute to the promotion of environmental or social characteristics for the purposes of article 8 of SFDR.

In both of the above contexts, PAI data analysis forms part of the assessment, but is not the exclusive consideration in those contexts.

This statement relates to the consideration of PAIs by LOFE at an entity level and not at a product level. LOFE may consider different PAIs for different products managed by it. LOFE provides information on the PAIs considered by it in respect of products classified as 'article 8' and 'article 9' under SFDR through the European ESG Template (EET) created by FinDatEx, a joint structure established by representatives of the European financial services sector, to facilitate the exchange of environmental, social and governance (ESG)-related disclosures required by European financial markets legislation for investment funds.

Description of the principal adverse impacts on sustainability factors

Indicators applicable to investments in investee companies (Mandatory)

Adverse sustainability indicator		Metric	Impact 2022	Impact 2021	Explanation	Actions taken, and actions planned and targets set for the next reference period
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions (tCO2e)	1 817 327.11	-		Please see information provided in Schedule 1 §1
		Scope 2 GHG emissions (tCO2e)	389 887.21	-		
		Scope 3 GHG emissions (tCO2e)	13 884 796.89	-		
		Total GHG emissions (tCO2e)	16 092 011.21	-		
	2. Carbon footprint	Carbon footprint (tCO2e / MEUR invested)	399.54	-		
	3. GHG intensity of investee companies	GHG intensity of investee companies (tCO2e / MEUR revenue)	948.85	-		
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	4.97%	-		
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	63.15%	-		
		Share of non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	2.27%	-		
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector A	0.63	-		
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector B	6.63	-		
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector C	21.79	-		
		Energy consumption in GWh per million	78.02	-		

		EUR of revenue of investee companies, in NACE sector D				
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector E	1.68	-		
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector F	1.00	-		
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector G	0.17	-		
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector H	2.56	-		
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector L	10.87	-		
Biodiversity	7. Activities negatively affecting bio-diversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	1.45%	-		Please see information provided in Schedule 1 §2
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	0.25	-		Water emissions was not one of our stewardship priorities in 2022, but we address this topic when material or subject to high level controversies.
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	51.52	-		Hazardous/ radioactive waste was not one of our stewardship priorities in 2022, but we address this topic when material or subject to high level controversies. **Direct corporate engagement:** We engaged a Belgian Specialty Chemicals company in 2022 on hazardous waste subject to a controversy level 4. **Actions planned:** We would like to start addressing issues around

						tailings management of mining companies we are already engaging with in 2023.
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS						
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	1.42%	-		Please see information provided in Schedule 1 §3
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	30.44%	-		
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	20.09%	-		Unadjusted gender pay gap was not one of our stewardship priorities, but we address this topic when material or subject to high level controversies.
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	29.66%	-		**Proxy Voting:** We expect Board composition to include diversity of thought, skills, knowledge, gender, ethnicity, and age, all which serve to boost the execution of the board's responsibilities. Specifically, we prefer boards to: · Be gender balanced. Our preference is for boards to be diverse from a gender perspective and our minimum expectation is for boards to include one-

						third of the least represented gender · We expect companies to publicly disclose a gender diversity policy, which should include targets and progress against achieving them. We may vote against directors where these expectations are not met (taking into account overall board structure, composition and independence considerations). In this case, we strive to engage with the company ahead of the final vote instruction / AGM.
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0.00%	-		Please refer to LOIM's Exclusion Policy https://am.lombardodier.com/files/live/sites/am/files/Documents/AssetManagement/RegulatoryDisclosures/2022/Policy_LOIM_Exclusion_15.09.2022.pdf
Environmental	15. GHG intensity	GHG intensity of investee countries (tCO2e / MEUR GDP)	60.44	-		Please see information provided in Schedule 1 §1
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	6.75	-		LOIM has defined a policy relating to financial sanctions and embargos in order to fully comply at all times with local and international financial sanctions and embargo programs. Employees are required to conform to rules of conduct detailed in this policy. We have monitoring in place for the below sanction and embargo lists: OFAC, UN, EU, UK, Switzerland, Japan, Canada, Hong Kong, Singapore and Australia. Monitoring is done on a pre-trade basis.
		Number of investee countries subject to social violations (relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	7.71%	-		

Additional climate and other environment-related indicators

Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric	Impact
Indicators applicable to investments in investee companies			
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS			
Emissions	4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	57.01%

Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric	Impact
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS			
Indicators applicable to investments in investee companies			
Social and employee matters	2. Rate of accidents	Rate of accidents in investee companies expressed as a weighted average	38.47

Information set out in the above tables is based on available data. Where data is not available from issuers or data providers, data may be estimated using proxies. For certain products, particularly those whose primary focus is investing in private companies, it is not generally possible to obtain reliable PAI data as private companies are not generally covered by data service providers and are not generally able to provide comprehensive or timely PAI data themselves. Accordingly, in those cases, such products have not been included for the purposes of calculating the metrics set out in the above tables.

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

The primary policy framework at LOFE covering the identification and prioritization of principal adverse impacts on sustainability factors ("PAIs") is the LOFE PAI Control Framework (the "PAI Control Framework"). The PAI Control Framework sets out the background to the requirements applicable to LOFE relating to PAIs under SFDR and the SFDR RTS. The PAI Control Framework covers the following elements:

- Status of LOFE as financial market participant
- When and how does LOFE consider PAIs
- Consideration of PAIs by LOFE
- Consideration of PAIs in the context of the definition of 'sustainable investments'
- Consideration of PAIs in the context of the LO Rating Methodology
- Selection of optional PAIs
- Products which do not consider PAIs
- Data sourcing of PAIs
- Responsibility for managing PAI data
- Oversight of PAI monitoring at LOFE
- PAI reporting through the EET

The PAI Control Framework has been reviewed and approved by the LOIM Policy and Documentation Committee and the LOFE Dirigeants Committee and finally approved by the Board of Directors of LOFE on 29 June 2023.

The methodology/reasons for the selection of indicators referred to in SFDR RTS Article 6 (1) (a), (b) and (c) (optional PAIs) is set under the section headed 'Selection of Optional PAIs' in the PAI Control Framework. LOFE has selected the following optional PAIs on the recommendation of the LOIM Research Team:

- Environmental – PAI 4 of Table 2 of Annex I of the SFDR RTS (Investments in companies without carbon emission reduction initiatives)
- Social – PAI 2 of Table 3 of Annex I of the SFDR (Rate of accidents)

The optional environmental PAI 4 from Table 2 of Annex I of the SFDR RTS "companies without emission reduction initiatives", was selected as an important component of the Lombard Odier proprietary Implied Temperature Rise (ITR) tool. The Lombard Odier proprietary ITR tool enables LOIM to assess not only the carbon footprint of companies, but also their temperature alignment based on industry/region breakdowns, historical emissions and forward-looking trajectories and decarbonization targets. The ITR tool seeks to assess the extent to which individual companies or portfolios are aligned with the climate transition and estimates the level of global warming represented by specific companies or portfolios by extrapolation to the targets for their respective peer groups. This means assessing the degree of alignment of companies to the decarbonisation pathways implied by the Paris Agreement goals which seek to limit global warming to 1.5-2°C. For example, a company that is on a trajectory more aligned to a 3°C increase might be cutting its direct and indirect CO2 and greenhouse gas emissions to some extent but is not decarbonizing itself at a pace sufficient to meet the goals set by the Paris Agreement.

The optional social PAI 2 of Table 3 of Annex I of the SFDR "rate of accidents", was selected due to its relevance for identifying minimum social standards. At LOIM, we believe that, when a company operates in a moderate to high-risk sector, this metric is material to assess if a company is aligned with a fair transition, that incorporates minimum social standards for its employees.

LOFE (via the work undertaken by the LOIM Sustainability Research Team) uses, mainly but not solely, sustainability data service providers Trucost, SBTi and Sustainalytics to source PAI quantitative data for PAIs 1-16 of Table 1 of Annex I of the SFDR, with a substantial portion of such data coming from Trucost. Information concerning the way in which Trucost sources, models and updates data can be found at the following link I need to align with SFDR | S&P Global Market Intelligence (spglobal.com). Data coverage per PAI may vary significantly. Whenever the exact data described in the PAI was not available, we relied on our data provider and our research to select an indicator that we believe to be a sufficient and reasonable assumption for the PAI.

In regards to the optional environmental PAI 4 from table 2 of Annex I of SFDR RTS "companies without emission reduction initiatives", the source of data selected was SBTi "Science Based Target Initiative". Therefore, the associated margin of error is related to any decarbonization initiative from companies outside of the SBTi. SBTi is now recognized as one of the best-in class standard for auditing, tracking and validating corporate entities' decarbonization strategies. It defines and promotes best practices in science-based target setting and the SBTi independently assesses and approves companies' targets in line with its strict criteria. We therefore selected this data source, bearing in mind it can over-estimate the actual number of companies without emissions reduction initiatives as we believe it would be misleading to also account for lesser quality, less ambitious and less credible emissions reduction initiatives.

In regards to the optional social PAI 2 of Table 3 of Annex I of the SFDR RTS "Rate of accidents", the source of data selected was Trucost. The margin of error associated to this metric mostly lies in the coverage capabilities of our external provider and its capability to collect any reference data. The figure is an average score between 0 and 100 based on the TFIFR (Total Recordable Injury Frequency Rate) as a proxy for accident rate as it represents adequately the risk related to the issue. The lower the score, the higher the potential risk linked to this issue. This score is only applicable for companies impacted significantly by occupational health and safety issues (less than 5% of the corporate entities considered here).

The data returned only concerns the employees of the company and not the contractors.

LOIM may use its engagement activity with investees to enhance or complete its data on invested assets. As an example, stewardship and engagement at LOIM have an important role to play in addressing climate change related to systemic risks. In 2022, Net Zero was the second issue to trigger engagements at LOIM after ESG/TCFD disclosures, reflecting our stewardship priorities. Over our dialogue with investees, we may seek to fine tune our internal climate models thanks to the information we collect.

When no data is available either from external data providers or from engagement, LOIM may make reasonable assumptions on data, based on its own expertise and sectoral, regional and analytical knowledge.

Engagement policies

LOFE adheres to the LOIM Engagement Policy summarised below.

Engagement Definition

In order to promote and enhance the long-term value of the assets entrusted to LOIM by our clients, and as part of our active ownership responsibility and, under recognised sustainability frameworks (PRI, FRC, SRDII, SFDR, EU Taxonomy, CSRD), LOIM undertakes outcomes-based engagements. Engagements are firmly anchored in our sustainability conviction that our economic model will be transformed through a '3+1 system-level change' driven by energy, land & oceans and materials, together with the appropriate pricing of carbon and other externalities. Seeking to achieve real economy impact, engagement is how we open and maintain, continuous and constructive dialogue with a company throughout the investment lifecycle. LOIM engagements are carried out to pursue, support and promote our sustainability vision, articulated through two questions, leading to two underlying stewardship objectives:

(i) is a company accelerating or slowing down the sustainability transition? and
(ii) how is a company financially exposed to the transition?

The outcomes of this process influence our investment and research views, thereby ensuring a circular and integrated approach. Our engagement framework reflects our investment geographic exposure. It covers all asset classes.

Engagement priorities

In 2022, LOIM pursued engagements with companies in line with the following priorities:

(i) encouraging companies to align with transition pathways; adopting a sustainable transition pathway is crucial for companies to maintain and increase their value over the years to come;

(ii) promoting and upholding best-in-class business practices; sound, robust business practices reflecting a coherent framework aligned with a company's vision and mission are a key element to successfully create value over the long term; and

(iii) managing controversies; as active owners, we engage with companies subject to certain levels of controversies to gather the most complete understanding of the source of the controversy risk and the remedial action that can be taken.

We look at all PAIs as part of our overall view on engagements in particular in relation with the first priority (promoting alignment).

Identification and engagement process

There are four main levels to each engagement:

Level 1. Company and issue identification. The process to select candidates with whom LOIM will engage on an individual basis is an internally collaborative process involving (i) the portfolio management teams; (ii) the sustainability team; and (iii) the stewardship team. To prioritise engagement candidates, LOIM uses (i) the tools and metrics developed by our (sustainability) fundamental, roadmap and systematic research (such as Implied Temperature Rise, forward-looking metrics on nature and materials, geospatial analysis, indicators on business, social and governance practices); (ii) external indicators derived from regulatory frameworks (i.e., principal adverse impact indicators derived from the SFDR legislation) and controversy events; (iii) guidance on transition pathways and profitable shifting pools; (iv) AGM and proxy voting research; and (v) specific needs of investment teams.

Level 2. Company and issue analysis, based on the findings in the previous level, the stewardship team prepares a stewardship memo which includes measurable, outcomes-based engagement objectives which are trackable over time. The stewardship memo sets our analysis and our expectations prior to an engagement interaction taking place.

Level 3. Company interaction(s). Correspondence is launched leading to interactions with companies identified in the previous steps, which may cover pre- and post-investment companies. Accepted forms of engagement interactions are in writing or via meetings/calls. Dialogue takes place in an integrated manner, and it can take a variety of forms: such as conversations with Chairman, Senior Independent Director, other Non-Executive Directors, CFO, CEO, ESG and Sustainability Officers, periodic investor calls/meetings, written dialogue, during pre-offering capital markets roadshows. Interactions may also be subject to escalation (see below). The outlook is the basis for Level 4.

Level 4. Follow-ups, escalation and closure. We believe that constructive, private, non-confrontational dialogue tends to be more effective. We will generally give a company no less than 18-24 months to make progress before, if necessary, we escalate our approach. Follow ups and escalation may include the following:

• increasing the intensity of the engagement (individual engagements with more senior board members, and collaborative engagements).

• appropriately using our vote to hold boards accountable for lack of response or lack of action: voting against the most relevant management resolutions, supporting shareholder proposals seeking to address the issue, and also filing or co-filing shareholder proposals, and requesting an EGM.

• expressing concerns through the companies' advisors, making a public statement in advance of a shareholders' meeting, and speaking at a shareholders' meeting and requesting a general meeting.

• divesting and excluding a company from our investment universe. Our escalation approach rests on the view that (i) each company is unique, even if the topic under engagement is the same; and (ii) escalation action cannot be approached with a one-size fits all angle. We seek to address concerns through ongoing engagement dialogue with our investee companies. Decisions regarding escalation are taken on an integrated basis involving portfolio management teams and sustainability and stewardship teams.

Escalating our engagement is done on a case-by-case basis, and any decision will depend on the severity of the issue and the engagement history (i.e., whether the company has been responding well to our concerns, previous voting, and immediate controversies affecting the stock). Any decision to use tactical voting, file a shareholder proposal or divest will require input from the relevant portfolio management team, CIO and Stewardship Team (and in certain cases, the Stewardship Committee).

An engagement is closed when the objectives set out in Level 1 have been achieved or if there is a sustained lack of response from the company. LOIM implements a watchlist process for the latter.

The engagement policy is reviewed on at least an annual basis. Such review includes an assessment of whether any adaption of the policy is required if and to the extent that engagements are not as a whole resulting in a reduction of the principal adverse impacts over more than one period reported on. There can however be no guarantee that engagements will have the desired outcomes.

References to international standards

LOIM and/or the wider Lombard Odier group support/endorse the following international standards:

B Corporation Certified	Certification	2019
CDP (formerly Carbon Disclosure Project) on Climate Change, Forests and Water)	Signatory	2004
The Circular Bioeconomy Alliance (founding member)	Founding partner	2020
Climate Action 100+	Participant	2020
Energy Transitions Commission	Member	2019
FAIRR Initiative	Member	2022
Forest Investor Club	Founding member	2021
Glasgow Financial Alliance for Net Zero	Member	2021

Green Bond Principles, Social Bond Principles and Sustainable Bond Principles	Member (Investors)	2019
Institutional Investors Group on Climate Change (IIGCC)	Member	2018
Net Zero Asset Managers initiative	Signatory	2020
Natural Capital Investment Alliance	Founding member	2021
Sustainable Finance Geneva (SFG)	Active member	2008
Sustainable Markets Initiative	Member	2020
Swiss Sustainable Finance (SSF)	Founding partner and member	2014
Task Force on Nature-Related Financial Disclosure (TNFD)	Member	2021
Task Force on Climate-Related Financial Disclosure (TCFD)	Signatory	2019
UNEP Principles for Responsible Banking	Signatory	2020
UN Global Compact	Participant	2018
United Nations Principles for Responsible Investment (UN PRI)	Signatory	2007

Paris Alignment

As part of the NZAM initiative, we are required to a set a 2030 decarbonisation target including information on the calibration of the target, information on the interim targets and proportion of AUM covered. LOIM is committed to manage 70% of total AUM (including client's mandates and dedicated funds) in line with net zero targeting a 1.5°C temperature rise. The 70% target represents 100% of the AUM and asset classes where we presently have access to the methodologies, metrics and data needed to assess alignment. To assess the temperature alignment at company and fund level, we have developed our proprietary Implied Temperature Rise (ITR) methodology in line with the methodological framework put toward by the TCFD's portfolio alignment team.

LOIM has built an internal extra-financial database by accumulating raw data, rather than ratings from various providers, and through our teams. We have collected over 10 years of historical data on approximately 23,000 companies, giving us a large and competitive coverage on business practices of companies and government sustainable policies and therefore, a great flexibility to build and test sustainability investing within the portfolio construction. Specifically for our climate metrics, Trucost's carbon emission database along with Trucost's revenue breakdown per activity database are primarily used in our proprietary Implied Temperature Rise (ITR) tool to measure the historical decarbonization performance of companies. We collect decarbonization targets from companies on their websites and various initiatives (such as CDP and SBTi). We use IPCC and climate works data to build our 163 industry and six regional decarbonisation pathways for different temperature scenarios as part of our proprietary temperature assessment. While we use raw data from third-party service providers, we have developed proprietary tools and scoring methodologies that provide us reliable and highly scalable ESG scoring framework. We use our internal scores and frameworks in our investment process. We continuously review external providers' data given the dynamic and rapid evolution of this space. We maintain an open and regular dialogue with our providers to ensure their data is as investment relevant as possible

To assess the temperature alignment at company and fund level, we have developed our proprietary Implied Temperature Rise (ITR) methodology in line with the methodological framework put forward by the TCFD's portfolio alignment team. Lombard Odier's ITR framework, the Lombard Odier Portfolio Temperature Alignment ("LOPTA"), is based on forward-looking analysis to assess the temperature trajectory of individual companies including scope 1, 2, 3 up and downstream, and the credibility of their net zero commitments. This means assessing the degree of alignment of companies to the decarbonisation pathways implied by the Paris Agreement goals which seek to limit global warming to 1.5-2°C. Our ITR framework is embedded in the investment process of LOIM funds and we are currently working on temperature alignment pathway for our funds. Information concerning the methodology used by our ITR tool can be found at https://www.tcfdhub.org/wp-content/uploads/2020/10/PAT-Report-20201109-Final.pdf

In 2022, the Swiss Confederation issued the Swiss Climate Scores (SCS), aiming at setting best-practice transparency on the Paris-alignment of financial investments to foster investment decisions which contribute to reaching the climate goals. These scores contain indicators reflecting the current situation of invested companies in financial portfolio as well as forward-looking metrics associated with these companies. LOIM was an active member of the SCS setting and specifically advised on forward-looking scores to assess future emission trends.

Historical comparison

N/A, this is the first reporting year.

SCHEDULE I

§1 Greenhouse gas emissions and environmental adverse sustainability indicator

Stewardship has an important role to play in addressing climate change related systemic risks. In 2022, Net Zero was the second issue to trigger engagements at LOIM after ESG/TCFD disclosures, reflecting our stewardship priorities.

While our efforts have previously focused mainly on direct corporate engagement for stewardship, 2022 saw an increase in collaborative engagements to address issues defined by our stewardship priorities, which will continue in 2023 with a more selective process for engaging individually with investee companies. Moreover, we have begun engaging with industry associations and policy makers, and plan to do more of this in 2023.

Direct corporate engagement:

We conducted a number of engagement campaigns within our investment strategies to address climate change and more specifically carbon emissions.

- Companies held in LOIM strategies with the **Towards Sustainability** label, and with direct oil and gas activities, are required to have decarbonisation targets. Of the 6 companies flagged with an exposure to oil and gas, we engaged with half of them in 2022. As at year end, two engagements were still ongoing and one closed with objectives partially achieved. The latter has been proactive in decarbonising its activities, leading to a good ITR score compared to its sector, but the company has not verified its targets with the Science-Based Targets initiative (SBTi). We will maintain this engagement and engage with the remaining companies in 2023.

- For the **TargetNetZero** equity and fixed-income strategies, our engagement focus was the transition to net zero, using the **Oxford Martin Principles framework** and our ITR tool to quantify companies' alignment with Paris Agreement. The aim is to encourage companies to establish decarbonisation strategies, together with quantifiable targets and, if existing, verify their credibility. Those engagements can lead to a review of their ITR scores which can then influence the weightings of companies within the portfolios. The ITR score of 8 companies was revised following engagement, with an improvement of the ITR score at four companies and a deterioration for the remaining ones.

- We targeted companies listed on the **Global Coal Exit List**, with coal extension plans and relevant exposure within LOIM funds. According to the Intergovernmental Panel on Climate Change (IPCC), phasing out coal from the electricity sector is the single most important step to align with keeping global warming within 1.5°C of pre-industrial levels. The engagement and review led to a deteriorated ITR score for a US company and subsequent exit from our TargetNetZero fixed-income strategies, as well as a move to an underweight position in our TargetNetZero equity strategies.

- We engaged with a US energy firm who are divesting from coal and transitioning to sustainable energy sources. According to our ITR tool, they are on a 1.3° pathway. The firm is shifting from electricity production to retail so their emissions will be transferred from scope 1 to scope 3 upstream. They do not include purchased energy in their scope 3 disclosures and failed to demonstrate a fixed timeline for exiting coal, casting doubt on their ability to reduce emissions by 2030. We overrode their ITR rating with "scope 1 emissions expected to stay level until 2030" reflecting the slow exit from coal. This led to an important correction of the score from 1.3°C to 4.4°C. Following this, we sold the position and plan to speak with them in Q3 2023.

- For our **Climate Transition equity strategy** (renamed Planetary Transition in May 2023), we led a **SBTi engagement campaign** between July and November 2022, undertaking a series of engagements that focused on all companies in the portfolio without GHG emissions-reduction targets (absolute targets covering all three scopes). We believe that the absence of such targets will hinder companies in the future, possibly becoming a source of reputational risk. We reached out to 19 companies on the need to define targets and have them certified by the SBTi. By the end of 2022, three calls had been held with companies and one had provided explanations in writing. Companies generally acknowledged our requests and affirmed that work is underway to collect and analyse the necessary data, with a view to defining and submitting targets to the SBTi for validation. The remaining companies did not provide a response.

Finally, we also started in 2022 to include **just transition** considerations in our net-zero engagements, especially for companies in high-emitting sectors. This is something we plan to enhance in 2023.

Collaborative engagements/membership:

- In 2022, LOIM participated in **CDP's SBTi campaign**. The goal of this campaign is to drive the world's highest-impact companies to set science-based targets (SBTs) in line with the Paris Agreement goal of capping the global temperature rise at 1.5°C. By supporting the campaign, LOIM sought to align its investment and lending portfolios with the Paris Agreement and increase the number of companies in its portfolios with credible net-zero targets. For the 2021-2022 campaign, LOIM was among 220 financial institutions, representing a combined USD 29.3 trillion in assets. Of the 1,610 companies targeted, 213 joined the SBTi; 38 companies have had their near-term targets approved and 96 companies have committed to net-zero.

- LOIM has been a **Climate Action 100+** signatory since 2020 and in 2022 we were involved in three CA100+ collaborative engagements (and joined a fourth in 2023). We are a co-lead investor for one engagement which is focusing on Board oversight on the company's decarbonization plans, climate lobbying and incorporating sustainability targets into compensation packages, and a supporting investor in the remaining three.

- In 2022, LOIM participated in the strategy consultation aiming to enhance the Net Zero Company Benchmark for the phase two of the initiative.

- In 2022, we joined the **IIGCC Net Zero Engagement Initiative**, which seeks Net Zero Transition Plans from companies consistent with the IIGCC Net Zero Investment Framework. We also contributed to developing the **Net Zero Stewardship Toolkit**.

Proxy voting:

Our **Corporate Governance Principles and Proxy Voting Guidelines** outline our expectations as regards good corporate governance and the transition to a low-carbon economy. For the latter, we hold the board of any investee company responsible for oversight of climate strategy, risk management, and performance against goals and targets.

We expect companies to report transparently on their climate transition commitments and pathways. We encourage companies to report using the FSB Task Force on Climate-related Disclosures and apply the Oxford Martin Principles for Climate Conscious Investors.

We expect investee companies to set transition plans aligned with the Paris Agreement, commit to gather the necessary data and report on the current greenhouse gas emissions under scopes 1, 2, and 3, commit to decreased absolute emissions under all three scopes and set science-based targets corresponding to a business strategy that aligns with 1.5-degree climate scenario by 2050.

We may vote against the approval of the financial statements/report and accounts/re-election and/or discharge of directors if timely disclosures do not take place. We may vote against the report and accounts, external auditor, audit, remuneration, and nomination committee members, directors, including the chairman, and remuneration resolutions, if we see no evidence of progress in developing climate transition plans and progress in the responsible use, preservation, and protection of natural resources.

Shareholder proposals will be assessed on a case-by-case basis. We will generally support proposals that contribute to furthering our stewardship priorities and sustainability convictions. We will not support proposals that hinder the company and its board, seek to micro-manage or duplicate efforts. We will also consider the timeframe allowed for the implementation of the shareholder proposal to avoid unrealistic scenarios.

Proxy voting is a valuable tool in our engagement toolkit, as illustrated by this case study.

Case study: Engagement with a Swiss financial institution – Say on Climate proposal

Background: The company proposed a say-on-climate resolution, presenting its net-zero transition plan at its 2022 AGM. The plan was criticised for its lack of strong scope 3 targets (representing the majority of its carbon emissions) and weak divestment policies on highly polluting sectors. The plan was however aligned with the Net Zero Asset Managers initiative, of which Lombard Odier is a founding member.

What did we discuss and ask for? The company organised a say-on-climate roundtable to discuss the details of their say-on-climate proposal and underlying net-zero strategy. We highlighted to the company that we did not agree with one main weakness in their proposal, the lack of commitment around scope 3. The company argued that it was not comfortable with the existing measurement methodology but that it was working with peers to tackle this. We encouraged them to collaborate with the SBTi to accelerate the process.

Outcome: Following the engagement we voted 'for' the say-on-climate resolution as we recognised Lombard Odier's strong governance and efforts that had gone into developing the plan, and the fact that it is aligned with the Net Zero Banking Alliance requirements (despite the limitations of the latter). We decided it was more constructive to support the resolution and continue to address the pending issues through engagement. The vote sought to strike the right balance between identified weaknesses and the strong and credible governance structure of the company on climate issues, as well as significant progress made in the previous 12 months.

Engagement with regulators/policy-makers:

Lombard Odier is lobbying and engaging with decision-makers across policy, finance and industry to promote a productive evolution of sustainable finance in Switzerland.

- We are actively participating in regulation-related discussions through **Swiss Banking (Swiss Bankers Association)** and other industry collectives, as well as working groups established by government institutions. In 2022, through Swiss Banking, we actively participated in shaping module 1, entitled "Integration of ESG into investment advice and investment management", for a self-regulation project in Switzerland. We are also represented in a working group which contributed to the Swiss Climate Scores where we contributed expertise on the management of climate risks and opportunities in investment portfolios.

- We supported **the Forum pour l'Investissement Responsable (FIR)** letter to the French regulator to include a mandatory say-on-climate vote. The letter aims to amend Company Law to encourage permanent dialogue between investors and listed companies on climate plans and risks in the framework of the AGM cycle.

Actions planned:

- In 2023, we will continue to enhance our participation in collaborative actions tackling climate change and continue to integrate just transition considerations in these engagements.
- For proxy voting, we plan to put in place a process to make boards accountable for their companies' climate strategy.

§2 Biodiversity

Today, over 50% of our economy is moderately or highly dependent on natural capital. We believe that Nature is the most productive asset of our economy. Our current, linear economic model is dangerously depleting this asset, despite its regenerative nature. While this creates risks for our global economy, and society as a whole, it simultaneously creates opportunities in the form of new businesses and solutions, and overarching economic and social models. We address this risk through some dedicated investment strategies and within our stewardship framework with engagements on Natural Capital including circularity and deforestation.

Natural Capital was the third most common theme we engaged on in 2022.

Direct corporate engagement

In 2022, for the Natural Capital strategy (renamed **Circular Economy** in May 2023) we chose to focus our engagements on forest management, having already predicted a growing and necessary momentum in the fight against deforestation. We have researched the different approaches of investee companies in the fund, as well as shared a recommended course of action on best practices and reporting to enhance our contribution to integrating the topic of forest management in corporate strategies. We have also assisted companies in understanding the expectations of their investor base. To support these engagement efforts, for the second consecutive year we applied our forestry-management assessment tool. The engagements themselves were guided by the tool's findings and earlier assessments were bolstered by the new intelligence the tool provided. Our aim is to provide incentives for greater transparency and accountability from corporates, while improving our decision-making and capital-allocation efficiencies. Disclosure being key, companies were encouraged to answer the CDP Forest survey to increase transparency on deforestation arising from commodities-sourcing practices. Overall, the companies were very responsive but face challenges on the certified product volume, on tracing raw materials to their origin, and on the use of geospatial tools under development. Efforts will continue in 2023.

Case study: French cosmetic company – Natural Capital

Engagement background: The company manufactures and retails beauty and well-being products that are rich in natural and organic ingredients. It has made encouraging achievements in recent years by addressing key natural-capital areas of water use, biodiversity, waste and recycling issues through risk assessment and goal setting. This is supported by its overall sustainability strategy, which focuses on protecting and restoring cultivated and natural biodiversity.

What did we discuss and ask for? During 2022 we engaged with the company on the need for improved disclosures, reduced deforestation and better supply-chain management, biodiversity impact assessments and more sustainable packaging – areas where our integrated investment and sustainability research highlighted weaknesses. On disclosures and deforestation, we asked the company to start disclosing in accordance with the CDP's Forest Section. Although the company aims to trace 90% of plants used back to their country of origin by 2025, we believe further granular disclosures are needed to address the lack of existing information about raw materials purchased. The company is also exploring alternatives to palm oil to ensure a 100% deforestation-free path. It is analysing its impact on biodiversity by measuring the land footprint used, so it can compensate for this impact through a regenerative agriculture project using the same area of land.

What was the outcome? The company has a very strong and integrated sustainability approach. We are satisfied that the existing structure for governing its impact on natural capital appears to adequately address and respond to the company's challenges. To reduce environmental and deforestation risks, the company has developed a risk scorecard for each ingredient it uses. This is an important mapping exercise: although the company can't trace all the products it buys, and we will closely follow this initiative and assess how it changes the types of ingredients it uses or certification it seeks. We have asked the company to start responding to the CDP's Forest Section and await a timeline on this. We have suggested the possibility of a new formula to also reduce packaging, and to go beyond the refill and-design programme in order to increase the volumes of recycled materials used, recyclable packaging produced and the amount of packaging removed through redesign. We will continue to engage with the company in 2023 to push for progress on these areas

Collaborative engagements/membership:

- Lombard Odier is a founding member of the **Circular Bioeconomy Alliance (CBA),** which was established in 2020 by His Majesty King Charles III. The CBA advances the circular bioeconomy by connecting investors, companies, governmental and non-governmental organisations, and local communities to share knowledge, target funding and create the joint vision needed to transition to -a nature-positive economy. As a central part of this work, the CBA is building a global network of Living Labs, using landscape restoration projects to kickstart the development of circular bioeconomy value chains while restoring biodiversity and local livelihoods. By combining ancient wisdom with science and modern technological innovations, and forming public-private partnerships, Living Labs bring both concrete real-world benefits and act as a model for how we can learn to live in harmony with nature.

- In 2022, we co-signed **deforestation-related legislation** in the US, through a letter organised by ShareAction (NY and California state bills)

- LOIM is member of **FAIRR**, the first and largest global investor engagement network focused on encouraging global food companies to systematically transition product portfolios to facilitate healthier, more sustainable diets. In 2022 We joined the Biodiversity and Nature Risks initiative, which started with a manure management campaign where LOIM was co-lead for one engagement.

- **CDP non-disclosure campaign**; through this initiative, we actively engaged with companies in our portfolios to begin disclosing TCFD-aligned data through CDP. We co-signed letters to 51 companies requesting them to complete the CDP questionnaire on climate, forests or water.

- LOIM has been a member of the **Finance for Biodiversity Pledge** since 2020. We co-authored an engagement and proxy voting guide on Biodiversity.

Proxy Voting (from the guidelines):

We expect companies to report on their commitment to the protection of biodiversity and restoration of natural capital and work towards establishing frameworks that monitor associated risks. Once science-based targets for nature are developed, our preference is for companies to adopt them.

Actions planned:

We are currently developing a framework to address deforestation risk through our stewardship efforts with the help of the forest management tool created by the LOIM Sustainability Research Team.

§3 Social and employee matters

LOIM uses a variety of approaches in integrating sustainability in our investments including **norm-based screening**: screening of investments against minimum standards of business practice based on national or international standards and norms, such as treaties on controversial weapons, the International Labor Organisation conventions, the OECD Guidelines for Multinational Enterprises, the UN Global Compact or the UN Guiding Principles on Business and Human Rights. For this screening, we rely on the implementation of LOIM's Exclusion Policy.

Among the **short-term ESG metrics** we look at when analysing a company for engagement purposes, these include assessment of Material Breaches of UN Global Compact Principles broadly covering areas of human rights, labour, environment, and anti-corruption.

As active owners, we engage with companies subject to certain levels of controversies to gather the most complete understanding of the source of the controversy and the remedial action that has been or can be taken.

Nine companies were engaged in 2022 in addition to the 12 already under engagement. We generally engaged companies subject to controversies level 5/5 and companies which saw their controversy level increase from 4 to 5. The issues covered by these nine new engagements include:

- Customer incidents: 2
- Society and community incidents: 2
- Environmental supply chain incidents: 2
- Operations incidents: 1
- Employee incidents: 1
- Social supply chain incidents: 1

Direct corporate engagement:

- In 2022, we engaged with an Asian apparel company on how they manage/mitigate the risks of **forced labour** in their supply chain. We are currently discussing internally how to address the matter more substantially in 2023.

Collaborative engagements/membership:

- In 2022, Rathbones led (through the PRI platform) a collaborative engagement that targeted FTSE 350 companies which fail to comply with section 54 of the UK Modern Slavery Act (2015). We joined this collaborative engagement, co-signing 10 letters based on LOIM exposure to the targeted companies. We are also involved in the 2023 edition of the initiative.

Case Study: Engagement with a European Utilities company - DNSH, human rights, community relations

Our team flagged the company due to a level 3 controversy identified during a "Do No Significant Harm" (DNSH) assessment. The controversy was linked to the human rights impact of developing solar energy projects in occupied territory. A European court ruled that the company's approach was illegal since it had failed to obtain the free, prior and informed consent of the local population. Several investors had divested and placed this company on their exclusion list as a result. We sought to engage with the company to better understand its human rights due diligence (HRDD) process, including its willingness to consult concerned communities in a meaningful way; how it handled the controversy and what mitigating measures or new policies it put in place to avoid similar situations in the future.

Proxy Voting:

Our guidelines indicate our expectation regarding companies' disclosure to report issues associated with bribery and corruption, human rights, health and safety, modern day slavery, labour standards and their alignment and progress with the Sustainable Development Goals. We may vote against management resolutions if these expectations are not met.

Actions planned:

In 2022, we also engaged on other social issues, including Health and Safety; Employee working conditions, Product quality and safety; Freedom of Association and Collective Bargaining; application and implementation of the core ILO conventions. We are contemplating how to tackle these issues through our stewardship framework in a more comprehensive manner in 2023.

In 2023 we joined a **collaborative initiative** on Uyghur forced labour in the supply chain together with the Interfaith Center on Corporate Responsibility, the Investor Alliance for Human Rights and other institutional investors. So far, we are engaging with companies in the automotive sector and considering doing the same for renewables.