Memo on Towards Sustainability Exclusions & Restrictions

1st January 2024

Table of contents

1. Definitions 3

2. Background 3

3. Purpose 3

4. Sustainability Strategy for LOIM Towards Sustainability Labelled Funds 3

5. Exclusions & Restrictions 3

Exclusions 3

Sector restrictions 3

6. Other key ESG issues 5

7. Potential data updates for exclusions and restrictions 5

8. Sustainability investments exclusions and restrictions tolerance statement 5

9. Amendments 5

1. Definitions

LOIM	Lombard Odier Investment Managers
LOIM Towards Sustainability Labelled Funds	Investment funds managed by the LOIM group which have attained the Towards Sustainability label certification.

2. Background

The Towards Sustainability label is based on specific quantitative and qualitative rules referred to as Quality Standards. It requires exclusion of the financing of a limited number of practices that are widely regarded as unsustainable. The Quality Standards do not stipulate how the requirements should be fulfilled in practice: this is left to the expertise of the portfolio manager. The standard provides a mix of exclusion, impact, engagement, transparency, and accountability. The balance of these elements and the specific requirements associated, will evolve, and be adapted over time to reflect the evolving expectations of investors and the needs of society, and the legislative translation of these needs and expectations. As such, the Quality Standards are not fixed and shall be evaluated regularly in a multi-stakeholder context.

3. Purpose

The purpose of this memorandum is to set out the restrictions which LOIM has determined to follow in respect of LOIM Towards Sustainability Label Funds.

4. Sustainability Strategy for LOIM Towards Sustainability Labelled Funds

LOIM Towards Sustainability Labelled Funds shall make use of the following strategies:

- <u>ESG integration</u>: each position in the portfolio shall be subject to ESG due diligence
- <u>Normative screening</u>: portfolio shall be screened based on the normative screening of LOIM Exclusion Policy
- <u>Exclusion</u>: portfolio shall be screened based on the Exclusions and Restrictions in section 5 of this memorandum
- <u>One of the following additional strategies</u>:
    - Best-in-class/universe selection
    - Sustainability themed investing
    - Impact investing
    - Objective to do better than a benchmark on one or more ESG indicators

LOIM Towards Sustainability Labelled Funds shall also comply with the following expectations:

- <u>GHG intensity:</u> The GHG intensity of the portfolio shall be at least better than the GHG intensity of the portfolio's reference benchmark
- <u>Gender diversity:</u> The Board gender diversity of the portfolio shall be at least at the level of the regional Board gender diversity levels provided annually by CLA. For 2024:

Values, in %	Europe	US	Rest-of-World	World
Corporates – Board gender diversity	33	28	17	23

- <u>Corporate engagement and shareholder action</u>: for LOIM Towards Sustainability Labelled Funds, report annually on the % of investee companies by sector that a) is engaged with and b) is voted in.

5. Exclusions & Restrictions

LOIM shall exclude or restrict investment in the following companies in respect of LOIM Towards Sustainability Labelled Funds.

<u>Exclusions</u>

- **Controversial weapons**: shall be restricted in accordance with LOIM's Exclusion Policy.
- **Oppressive regimes***:* Please refer to LOIM Financial Sanctions & Embargoes Policy for further information.

<u>Sector restrictions</u>

Unless otherwise validated in accordance with LOIM's exclusion override process as detailed below, LOIM shall restrict investments in the following companies for the LOIM Towards Sustainability Labelled Funds:

Tobacco

- Companies involved in the production of tobacco products or retailing of tobacco products/services shall seek to reduce the adverse social impact of its activities and to increase its contributing activities, if applicable
- Companies deriving more than 5% (included) of their revenues from either production of tobacco products or retailing of tobacco products/services shall be excluded. For companies enabling the restricted activities, the revenue threshold is 25%.

Conventional weapons

- Companies involved in manufacturing and/or sale of conventional weapons shall seek to reduce the adverse social impact of its activities and to increase its contributing activities, if applicable

- Firearms: companies deriving more than 5% (included) of their revenues from firearms. All categories (military/civilian customers, manufacturers/retail/distribution, key components manufacturers) shall be excluded. For companies enabling the restricted activities, the revenue threshold is 25%.

- Military contracting: companies deriving more than 5% (included) of their revenues from manufacturing military weapon systems and/or integral, tailor-made components or these weapons or providing tailor-made products and/or services that support military weapons shall be excluded. For companies enabling the restricted activities, the revenue threshold is 25%.

Coal
Companies operating in thermal coal exploration and mining, thermal coal power generation, processing of thermal coal and/or transportation of thermal coal shall meet all the following criteria:

- Companies shall seek to reduce the adverse environmental impact of its activities and to increase its contributing activities, if applicable
- Non-expansion of adverse impact:
  - The company shall currently not be involved in coal exploration, and not be involved in the exploitation or development of new coal mines.
  - The company's absolute production or capacity for thermal coal-related products/services shall not be increasing.
- Transition of operations - the company shall meet at least one of the following criteria:
  - have a SBTi ("Science Based Targets initiative") target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment
  - have an annual thermal coal production less than 10Mt and derive less than 5% of its revenues from thermal coal mining, power generation and/or processing of thermal coal. For transportation, the revenue threshold is 10%. For companies enabling the restricted activities, the revenue threshold is 25%.
  - have less than 10% of CapEx dedicated to thermal coal-related products/services and not with the objective of increasing revenue
  - have more than 50% of CapEx dedicated to contributing activities

Unconventional oil & gas
Companies with revenues derived from activities related to unconventional oil & gas, namely tar sands, shale gas and oil and artic oil & gas exploration, shall meet the following criteria:

- Companies shall seek to reduce the adverse environmental impact of its activities and to increase its contributing activities, if applicable
- Non-expansion of adverse impact:
  - The company shall currently not be involved in exploration, and not be involved in exploitation or development of new unconventional oil or gas fields.
  - The company's absolute production of or capacity for unconventional oil and gas-related products/services shall not be increasing.
- Transition of operations - the company shall meet at least one of the following criteria:
  - have a SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment
  - derive less than 5% of its revenues from unconventional oil and gas-related activities. For companies enabling the restricted activities, the revenue threshold is 25%.
  - unconventional oil and gas production is less than 5% of total oil and gas production.
  - have more than 50% of CapEx dedicated to contributing activities

Conventional oil & gas
Companies with revenues derived from activities related to exploration, extraction, refining and transportation of oil and gas shall meet one of the following criteria:
- Companies shall seek to reduce the adverse environmental impact of its activities and to increase its contributing activities, if applicable
- Non-expansion of adverse impact:
  - The company shall currently not be involved in exploration, and not be involved in exploitation or development of new oil or gas fields.
- Transition of operations - the company shall meet at least one of the following criteria:
  - have a SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment
  - have an emissions intensity aligned with 1.5°C target (e.g., TPI: 55,75 gCO_2e/MJ in 2023, or other science-based alignment assessment)
  - derive less than 5% of its revenues from oil and gas-related activities. For companies enabling the restricted activities, the revenue threshold is 25%.
  - have less than 15% of CapEx dedicated to oil and gas-related activities and not with the objective of increasing revenue
  - have more than 15% of CapEx dedicated to contributing activities

Power generation
Companies with revenues derived from activities related to the generation of power/heat from non-renewable energy sources shall meet the following criteria:

- Companies shall seek to reduce the adverse environmental impact of its activities and to increase its contributing activities, if applicable
- Non-expansion of adverse impact:
  - The company shall currently not be involved in building new coal-fired power stations.
  - The company's absolute production of or capacity for coal-based power shall not be structurally increasing and be less than 5 GW.
- Transition of operations - the company shall meet at least one of the following criteria:

- have a SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment
- have a carbon intensity aligned with 1.5°C target (e.g., TPI: 0,348 tCO_2e/MWh in 2023, or other science-based alignment assessment)
- derive less than 5% of its revenues from generation of power/heat from non-renewable energy sources
- derive more than 50% of its revenues from contributing activities
- have more than 50% of CapEx dedicated to contributing activities
- be an ESG leader and be within the top 25% when rated against it peers and have a carbon intensity lower than the annual threshold shown below

	2019	2020	2021	2022	2023	2024	2025
Max. gCO_2/kWh	429	408	393	374	354	335	315

Use-of-proceeds Instruments
Use-of-proceeds instruments shall meet the following criteria:

- Use-of-proceeds instruments shall comply with an appropriate framework (e.g., ICMA/CBI/EU GBS/LMA) and be subject to independent external review, if possible
- Issuers and beneficiaries of use-of-proceeds instruments shall be subject to the ESG due diligence process of the manager.

6. Other key ESG issues

Biodiversity, Water utilisation, waste management, taxation, gender & diversity
The Lombard Odier ESG/CAR Industrial Materiality Rating Methodology ("LO ESG Materiality Rating") used in connection with the management of LOIM Towards Sustainability Labelled Funds encompasses relevant indicators covering not only greenhouse gas emissions and energy performance, but also biodiversity, water utilisation, waste management, social and employee matters, human rights and anti-corruption and bribery. Considerations and valuation of these key ESG issues are embedded in the ESG score produced by the LO ESG Materiality Rating.

Please see below a non-exhaustive list of indicators considered in the LO ESG Materiality Rating:

- Water utilisation: Water intensity, Water Risk Management, Water Management Programmes
- Taxation: Tax Disclosure
- Biodiversity: Environmental Policy, Environmental Management System, Natural Resource Use-Direct Impact Ratio (%), CDP forest data, Biodiversity Programmes, Land Use and Biodiversity, Forest Certifications, Animal Welfare Policy
- Waste management: Mineral Waste Management, Radioactive Waste Management, Emissions Effluents and Waste, Noise Management
- Gender & diversity: Discrimination Policy, Diversity Programmes, Freedom of Association Policy, Board Structure, Board/Management Quality & Integrity, Remuneration & Gender Pay Gap

LOIM reserves the right to amend, adjust, replace or cease using the LO ESG Materiality Rating at any time.

7. Potential data updates for exclusions and restrictions

Data provided by relevant data agencies and regarding LOIM Towards Sustainability Labelled Funds' investments may be out of date, triggering exclusions or restrictions based on outdated data. In this case, a Portfolio Manager or Analyst may address a request for updating the outdated data, based on a robust assessment of the investment and clear datasets. This request will be sent to the Sustainability Research Team who will consider the data and assess its robustness.

8. Sustainability investments exclusions and restrictions tolerance statement

LOIM has no tolerance to breaches of investments' exclusions and restrictions related to sustainability. LOIM assesses its adequacy to this memorandum through the continuous monitoring of the assets under management subject to exclusions and restrictions.

This memorandum covers all investments held directly LOIM Towards Sustainability Labelled Funds, excluding outright short positions.

Exclusions and restrictions set out in this memorandum may not be overridden, however an override may be granted occasionally on a temporary basis to allow an engagement with the concerned company so that more information can be gathered and a more detailed assessment can be performed.

9. Amendments

This memorandum may be amended, adjusted and/or withdrawn at any time and with immediate notice. This memorandum does not propose to amend and/or restrict the investment guidelines as described in the relevant prospectus of any fund.