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LOMBARD ODIER

INVESTMENT MANAGERS

Stewardship Report

2022

The Stewardship Report is a corporate document, reporting against the 12 Principles included in the Financial Reporting Council's (FRC) 2020 Stewardship Code. This document also contains elements having a marketing communication nature related to Lombard Odier Investment Managers Plastic Circularity Fund, as well as Lombard Odier Funds and its Sub-Funds: Climate Transition, Natural Capital, New Food Systems and TargetNetZero Global Equity (each Sub-Fund being referred as the "Fund"). From 1 May 2023, the Climate Transition strategy will be renamed "Planetary Transition" and "Natural Capital" will be renamed "Circular Economy". The document is addressed to professional investors only as per the Directive 2014/65/EU on markets in financial instruments ("MiFID") in the EU/EEA countries, where the funds are registered for distribution: AT, FI, DE, IT, LIE, LU, NL, NO, ES, SE, UK, CH. In BE: not intended for Belgian retail investors unless the investment subscription is more than 250,000 EUR - Not intended for any US person. Investors must read the prospectus and the KIIDs of the UCITS before making any final investment decisions.

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Introduction

This report is prepared by Lombard Odier Asset Management (Europe) Limited (LOAME), the UK arm of the Lombard Odier Investment Managers group (LOIM), which in turn is the institutional asset management division of the Lombard Odier Group, a Swiss-headquartered, global private banking and asset management business founded in 1796. It is co-issued by Lombard Odier Funds (Europe) S.A. LOAME is an integrated part of the LOIM group. This report therefore reflects processes, policies and operations at both the level of LOAME, and also LOIM, where relevant.

LOIM focuses on institutional investors, third-party distributors and financial intermediaries. Lombard Odier has always been wholly owned and managed by its partners, who are responsible for the day-to-day management of the firm. This independent structure means that we are able to focus 100% on our clients. Our size and focus mean that we can respond with agility to market events. With 187 investment professionals, we are a global business with a network of 13 offices across Europe, Asia and North America and have assets under management of USD 67.5/CHF 62.5/EUR 63.2 billion (as at 31 December 2022).

We provide a range of investment solutions to a group of clients that are all long-term oriented in their diverse ways. Our heritage, and our combination of the best of conservatism and innovation, keeps us well positioned to create lasting value for our clients. Our investment capabilities span fixed income, convertible bonds, equities, multi asset, private markets and alternatives.

This report describes our stewardship work during 2022. As we enter our fourth year of stewardship activity, we have reflected on the uniqueness and maturity of our stewardship approach and decided to present a report that organises our activity alongside several key hubs we have identified as drivers for stewardship. As such, for the first time this year, we are not reporting on a Principle-by-Principle basis, although all of the FRC Stewardship Code's 12 Principles[1] have been addressed and are clearly mapped at the beginning of each chapter, and in the table below.

By shifting the structure of our stewardship report, we also seek to tilt the balance in our reporting towards what we believe matters most: the outcomes of our stewardship activity. The nucleus of stewardship activity (engagement and proxy voting, alongside escalation and conflicts of interest) is supported and given shape by a myriad of concentric circles: LOIM's culture, governance and oversight, our approach to sustainability, how we address and manage risk, (a key element of our overall approach), investment and integration, our clients' needs and our reporting to them.

As such, our 2022 Stewardship Report includes two structural themes: stewardship in action and stewardship anchors, which intersect throughout the report. The thread that joins both sections and subsections is our unwavering belief that sustainability is the founding principle of long-term economic and investment outcomes, and that it will aim to drive returns potential over the long term.

[1] This refers to the Financial Reporting Council's [Stewardship Code](), which includes 12 Principles for signatories to report on.

During 2022, we have deepened our understanding of sustainability by finding innovative and unique ways of considering sustainability and how it will unfold in the coming decades, and have continued to expand the range of investment products that reflect this vision, thereby contribution to managing risks. We have built on our existing WILD to CLIC® economic framework, by defining that the move to CLIC® will take place through 3+1 systems changes involving the energy, land and oceans, and materials systems in addition to the rising price of carbon. We have classified our funds and built online reporting systems, in line with EU regulation, and engaged with regulators, where appropriate, to share our views on our expected sustainability trajectories and roadmaps. Our client engagement has remained a key constant in 2022: a two-way street helping us to shape our convictions. Through stewardship, we have continued to glue together these beliefs, frameworks and actions to promote and encourage those companies whose products, services and business models are advancing sustainability.

This report has been reviewed and approved by Lombard Odier Investment Manager's (LOIM) governing body, our Executive Committee.

Fig.1.A. FRC's Stewardship Code Principles

Principles	Statements
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.
2	Signatories' governance, resources and incentives support stewardship.
3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.
6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8	Signatories monitor and hold to account managers and/or service providers.
9	Signatories engage with issuers to maintain or enhance the value of assets.
10	Signatories, where necessary, participate in collaborative engagement to influence issuers.
11	Signatories, where necessary, escalate stewardship activities to influence issuers.
12	Signatories actively exercise their rights and responsibilities.

Fig.1.B. Outcomes

LOIM report section	Outcomes	FRC Principles Mapping
Sustainability approach	· Codification of the 3+1 systems change framework: our view of the key system transformations that will define the investment landscape in the coming decades, and a key driver for our stewardship activity going forward.	1, 2, 4, 8, 9, 10, 11, 12
Addressing systemic risks	· LOIM's convictions related to the transition include strategies that promote adaptation and aim to generate a return through improved resilience and avoided damage, thereby contributing to mitigating the systemic climate change-related risk. · Our proprietary methodology and tools enable us to analyse the most salient factors related to the systemic risks we have identified, and to start mitigating these in concert with investment strategies tailored to address this exact goal. · Stewardship has an important role to play in addressing the systemic risks described in this section. While our efforts in 2022 focused mainly on corporate engagement, (direct and collaborative engagements alike), we have begun engaging with industry associations and policy makers, and plan to do more of this in 2023.	4, 8, 9, 10, 12
Stewardship framework	· Successful implementation of the stewardship framework. · Review of stewardship documents leading to updated versions which reflect the alignment with the 3+1 systems change framework and which will be implemented in 2023.	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12
Engagement	· In 2022 we carried out 276 engagements (of which 214 were individual and 62 collaborative). All were aligned with our stewardship priorities and specific goals. We strived to ensure all asset classes and strategies were covered according to their needs. · After having formalised the stewardship approach in 2021, a review of all LOIM engagements was conducted at the end of 2022 to assess progress against initial objectives. For 77% of all engagements, objectives were fully or partially achieved, with the remaining 23% reflecting either objectives not being achieved or a lack of response from the company. · Our participation in collaborative initiatives increased by 377%, reflecting a shift in our approach towards more collective engagements and being more selective when it comes to engaging with companies individually.	3, 4, 6, 9, 10, 11, 12
Proxy voting	· LOIM's inaugural Corporate Governance Principles and Proxy Voting Guidelines were approved in late 2021 and implemented for meetings taking place on or after 1 March 2022. This has led to increased oversight, particularly of our leadership pillar (board-related resolutions) and more votes against. · We have moved to ISS Sustainability Research for our parent voting policy, as it is more relevant to our sustainability approach. · Provision of specific rationales for votes against (sourced from the Guidelines). · We continue to reduce the gap between our invested equities universe and votable universe, allowing us to hold more companies accountable whilst still respecting our threshold trigger level for voting. · In 2022, we instructed votes on 100% of our votable universe. · In 2022, LOIM reviewed, analysed and instructed votes at 2,654 shareholder meetings, including more than 31,781 voting items across 58 markets. · We analysed the trend of LOIM and wider market voting on climate transition resolutions on two companies. We reached the conclusion that investors have a more mature approach and higher expectations of companies' commitment and actions regarding climate change.	1, 2, 3, 4, 7, 8, 9, 10, 11

LOIM report section	Outcomes	FRC Principles Mapping
Escalation	· Proxy voting continues to be a key escalation lever. · Escalation actions are tailored on a case-by-case basis. · Patient escalation horizons are needed, decisions to escalate are made in a measured way. · In 2022, we voted 'for' 11 of the 12 shareholder resolutions flagged by Climate Action 100+.	2, 3, 4, 5, 7, 8, 9, 10, 11, 12
Conflicts of interest	· Limited number of conflicts of interest, illustrating the continued strength of LOIM's policy and approach. · The same scenarios appear year-on-year, indicating that the issues which arise are more of a market/structural issue than specific to LOIM the as an asset- management firm. Where we can add value and have impact is on how we manage these conflictsm, with the underlying objective of upholding the long-term interests of all of our clients. · A new type of conflict appeared during 2022: one client specifically shared its views on how to vote on selected shareholder resolutions. The conflict was managed and the request triggered an internal reflection on expressions of wish and pass through voting, which we will continue to pursue on 2023.	3, 8, 11, 12
Governance, oversight and risk management	· In 2022 LOIM Internal Audit reviewed the processes and controls of investment teams with a focus on sustainability integration into investment processes. · Our governance structures continue to provide effective guidance and oversight of our growing stewardship & sustainability functions. · 100% employees completed mandatory trainings on anti-money laundering, conduct, information security and data protection in 2022.	2, 5
Investment and integration across asset classes; data providers and monitoring	· We established a new Roadmap Research unit, as part of our wider Sustainability Research team. Our roadmap research aims to define our convictions as to the likely shape of the economy by 2030 across key systems, themes and sectors. In parallel, we integrated our existing the Fundamental Equity Research unit into this same sustainability Research team, to fully align the idea generation across our thematic equity convictions to our thinking on industry roadmaps. · Ten accredited LOIM funds have received the Towards Sustainability label, which aims to promote socially responsible, convictions related to the transitions and build trust among retail and institutional investors. · In 2022 we developed a new approach to address cybersecurity risk in our portfolio management process. We partnered with an expert in cybersecurity management, to create a custom-built methodology – which includes engagement –best suited to our needs. · The results of our pilot cybersecurity risk analysis on 500 companies showed that each month, 4% of companies on average scored "amber", while 12% of the companies scored "red". Initial results since June 2022 indicate a decrease of the number of "red" companies, suggesting that companies do take action after they are informed of, and engaged on, their vulnerabilities.	2, 4, 7, 8
Clients' needs and reporting	· In 2022, LOIM's sustainability reporting moved online: we developed an online sustainability reporting platform, available to clients, with all of the sustainability metrics that are most relevant for each fund or strategy. · In 2022, LOIM reported for the time against the United Nations Principles for Responsible Banking's (UN PRB)'s six principles and its initial target disclosure in the context of the Net Zero Asset Managers initiative (NZAM) was published in May 2022. · Our regular interactions with sales, RFP and investment teams allow us to receive – and incorporate into our stewardship approach – the expectations and requests received from clients. · Certain clients place great value on collaborative engagements and encourage us to do more. We agree, and as a result, are seeking additional opportunities to participate in collaborative initiatives.	3, 6, 9, 10, 11, 12

LOIM at a glance

As an asset manager, we provide our clients with investment solutions that meet their needs for the long term and evolve to thrive in the challenging world in which we live. Our culture is based on promoting curiosity, imagination and entrepreneurial skills. We seek out hidden opportunities and develop new ways of investing to build resilient strategies that can preserve and grow the long-term value of our clients' assets – evolving as the investment environment changes, old opportunities disappear and new ones arise. We take the same approach to sustainability, investing in innovative people, systems and data and partnering with world-class institutions to develop new sources of insight that may create alpha opportunities for our investment managers and underpin our dedicated sustainable strategies. Our entrepreneurial and agile culture constantly fosters and invests in innovation to support this approach.

Investing in people

We have a growing team of professionals dedicated to sustainable investing, focusing on both sustainable research and on the integration of sustainability in the investment processes. Annex 1 includes a full description. Equally, the stewardship team welcomed a new team member in January 2023 (outside of the scope of this report), which continues to highlight the growing expectation of the business function. We believe that our diversity in terms of skills, experience, knowledge, educational background and languages spoken, as well as gender and nationality, fosters creative thinking and healthy and constructive criticism. As the team grew in 2022, we were privileged to witness how our increasing diversity has led to more capacity to innovate as well as more effective decision-making.

Zooming in: diversity, equity and inclusion

Our diversity, equity and inclusion (DEI) Steering Committee confirms our internal commitment to undertake initiatives aiming to foster an inclusive culture, improve recruitment and advancement policies, and work on the organisational capacity to make the firm an inclusive and diverse employer. It gives shape to our ambition to hold ourselves to the same diversity and inclusion standards that we expect of our investee companies.

The Committee is sponsored by our Lombard Odier Managing Partner and LOIM Co-Head Jean-Pascal Porcherot and comprises a cross-section of employees from all business areas and offices globally. This Committee has a clear remit to both broaden and deepen our focus on DEI. In order to do this effectively, it has been organised in four pillars – Recruitment, Advancement, Culture Change and Operational Change – which share the a common purpose of improving diverse talent representation, retention and equal pay. There is a strong commitment and conviction from senior management that DEI is at the heart of our people strategy.

Our main achievements and priorities were:

- Reviewing our benefits coverage, such as parental leave. For example, we have increased our enhanced maternity and paternity pay in the UK from the 1 January 2023
- Preparing the launch of a 'comeback' programme aiming to support employees who return from long-term absence (such as leave, caring leave or illness) to support career advancement and diverse talent retention
- Organising a series of cultural events in London, New York and Geneva
- Reviewing and removing potential biases from our HR processes and policies, and developing goals for improving diversity
- Launching our internal mentoring programme
- Extending our partnerships with organisation such as Cityhive and the Diversity Project, to help champion a diverse and inclusive investment industry

Investing in systems and data

We work with a number of external well-established and recognised data providers to access raw data. The full list of our data providers can be found in Annex 2. The raw data feeds into our in-house tools and systems, allowing us to build and support our sustainability convictions.

Zooming in: cybersecurity risk

In 2022, we developed a new and innovative approach to address cybersecurity risks in our equity portfolio-management process. We are supported by a specialised external cyber technology provider which uses data about known cybersecurity vulnerabilities provided by the the Cybersecurity and Infrastructure Security Agency (CISA). We are now able to screen companies for "basic cyber hygiene," represented by the CISA Known Exploited Vulnerabilities Catalog. We alert exposed companies to their known, exploitable vulnerabilities and encourage them to update their software in order to prevent hacks.

Partnerships

We continued to strengthen our collaboration with SystemIQ, a leading advisory firm specialising in the system-level changes required to overcome the global sustainability challenges we face and solutions. The Lombard Odier Group is a Strategic Capital Partner in SystemIQ. The firm provides independent, objective advisors to our sustainability and investment teams to deepen our understanding of the likely path and implications of the sustainability transition, and to provide robust, third-party validation of our research and processes.

At the Building Bridges sustainable finance conference in Geneva, we announced a landmark multi-year partnership with The Enterprise for Society Center (E4S), to foster sustainable finance research, with a particular focus on the transition to a circular economy. The full list of our partnerships and associations can be found in Annex 3.

Zooming in: Alliance to End Plastic Waste (AEPW)

We have also entered a partnership with the Alliance to End Plastic Waste to develop and launch a private-equity strategy for institutional investors that aims to reduce plastic waste and greenhouse-gas emissions in the plastic value chain (by investing in innovative materials, improved collection, sorting and recycling, and reducing the use of petroleum feedstock). The strategy maps the potential environmental impact of plastics on the planetary boundaries framework to capture externalities, such as carbon emissions, hazardous waste, deforestation, and biodiversity loss, as far as possible. Whenever we identify companies with possible negative externalities, the stewardship and investment teams work together to engage them.

Sustainability approach

› Principles mapping: 1, 2, 4, 8, 9, 10, 11, 12

Lombard Odier has a long heritage of sustainable investing. The need for companies to adapt to long-term structural trends is not new. They have been doing it for centuries, and we, at Lombard Odier, have recognised this basic principle for over 220 years. This is a key part of our DNA as a firm, which runs through everything we do, whether that is managing our clients' assets, or running our own firm. Above all, our independent partnership structure allows us to focus on the long term.

At Lombard Odier, we are convinced that the transition to a sustainable economic model will be underpinned by innovations – and it is here that investors have a central role to play. Across all sectors, the transition to a Circular, Lean, Inclusive and Clean (CLIC®) economy is offering unrivalled opportunity, as early-stage innovation flourishes and established businesses look to build-out sustainability-related infrastructure. The size of this opportunity – which is of a similar scale to the industrial revolution but unfolding at the speed of the digital revolution – is leading to a paradigm shift across the finance industry.

The ongoing transition promises to affect all economic sectors, across all geographies and is accelerating rapidly. This is already evident in the rising uptake of renewables, electric vehicles, heat pumps, and a growing range of other, disruptive technologies. These shifts in markets are driven by innovation and falling costs and are accelerated by regulatory packages and the impact of carbon markets. As has been the case for past technological revolutions, the transition to a greener, cleaner economy will unfold at a much faster pace than many of us realise today, and its impact will reverberate throughout the economy.

With the endpoint of the transition increasingly clear to us, in the shape of the CLIC® economy, as investors we must understand the key system transformations that will

Fig.2. LOIM's sustainability timeline

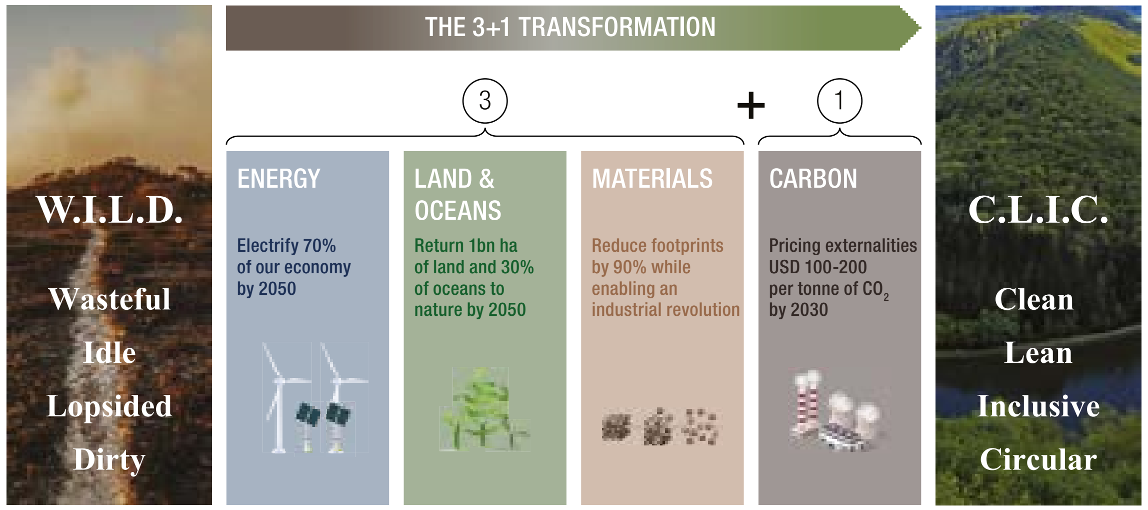
Source: LOIM. For illustration purpose only.

define the investment landscape in the coming decades. At Lombard Odier, we believe the transition will play across four key system changes, which we refer to as Energy, Land and Oceans, Materials and Carbon.

- **Energy:** The energy needs of entire industries will be electrified, as we move from a 20% electricity supply to a 70% supply by 2050. Electricity production from renewable or other zero-carbon sources will be ramped up, fossil fuel power plants will be phased out.
- **Land and oceans:** Food systems will transform to make more with less. Precision and regenerative farming will increase yields while boosting soil health, consumption will shift towards calorie sources that require less land and freshwater use, and distribution innovations will cut food waste. Pressure on agricultural land and forests will lift, allowing millions of hectares to be restored to nature.
- **Materials:** Less will be extracted, more will be recycled and re-used. Through innovative new materials, more efficient recycling, low carbon secondary materials and service-based business models we will break the link between production and resource extraction.
- **Carbon:** Carbon will be priced efficiently, and carbon markets will become more robust and more deeply embedded across sectors. Carbon credit schemes that fail to demonstrate their promised real-world impacts will fall from favour. Structurally increasing prices will incentivise the shift to low carbon technologies.

Fig.3. Our 3+1 systems change framework

Our view on the environment transition framework



Source: LOIM. For illustration purpose only.

The ongoing sustainability revolution invites us to rethink the way we invest. More than ever, sustainable investing must become a matter of conviction. As investors we must develop a clear roadmap as to how the transition will unfold, across key sectors, regions, and themes.

In this, we must continue to be led by a science-based approach. By understanding the key environmental pressures that render our current economy so wildly unfit for the future, we may begin to identify the business model changes and technologies that will play a role in its transformation. By understanding the economics and drivers behind these demand-side and industry levers, we may begin to pinpoint the inflection points in the economy and understand when new, disruptive business models may break into mass markets, unlocking new markets and profit pools in the process.

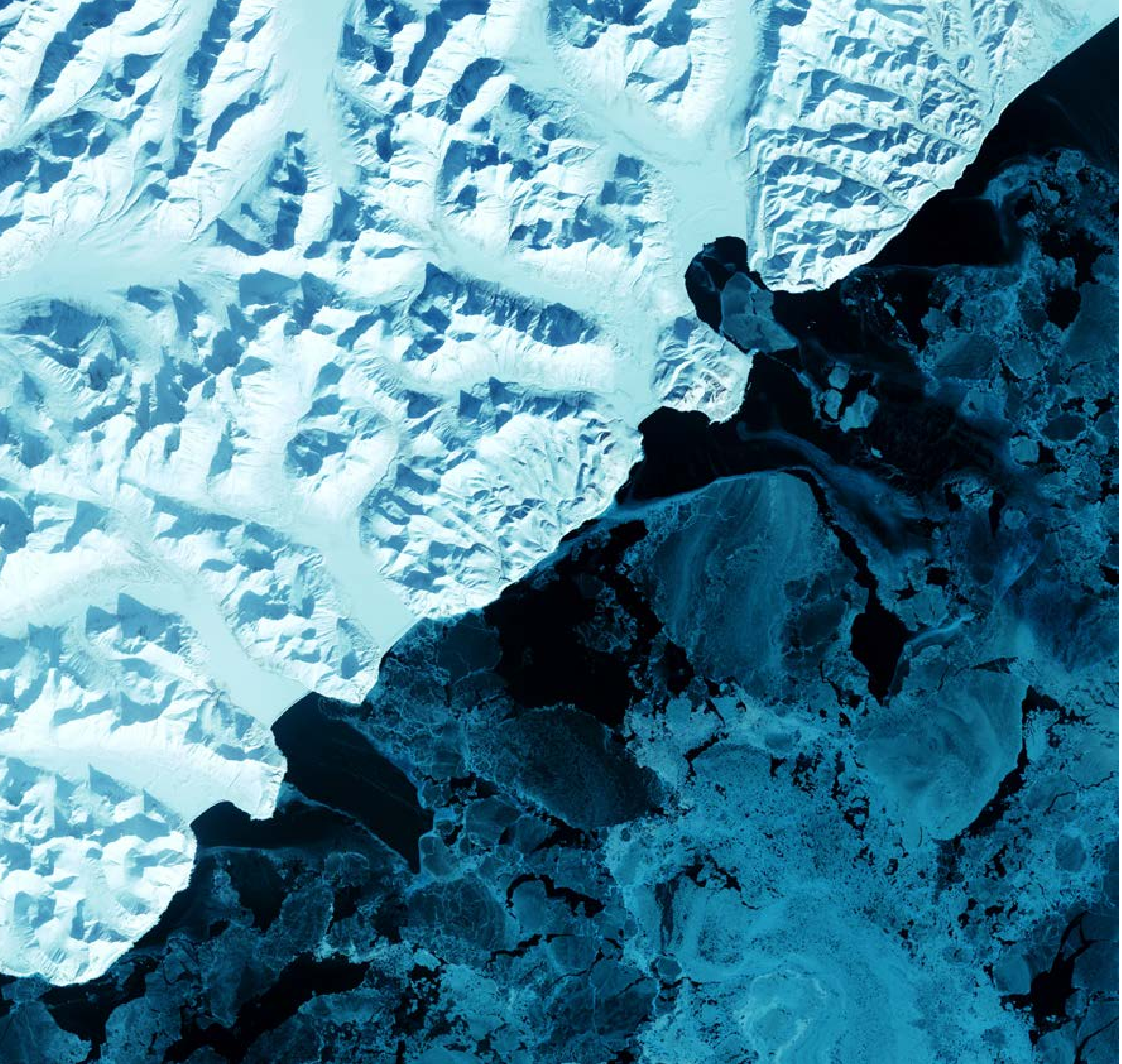
Tackling these challenges requires the right mindsets, organisation and resources. At Lombard Odier, our investment conviction into the nature of the transition and the investable opportunities that it will create has been at the heart of our efforts to expand our internal capacity and our ecosystems of industry and academic partners and thought leaders.

Through the right investment strategies, we believe we may express these convictions across asset classes. The scale of the transition will require us to fundamentally rethink the deployment of our capital, in a manner aligned to the transition and taking due account of its financial implications, both on the downside and on the upside.

Following these convictions, we have embarked on a journey to develop our range of investment strategies that seek to invest in companies that will enable and accelerate the transition to a CLIC® economy.[2] In all these strategies, we seek to leverage our in-house research, and the insights gathered with the help of our research partners, such as SystemIQ, to delve deeply into the value chains and disruptive changes across individual sectors.

> “Transitions across energy, land and oceans, materials and carbon markets are fundamentally reshaping our economy, the markets in which we operate and – by extension – will require a rethink of the way we deploy capital in the economy.”
>
> **Jean-Pascal Porcherot,**
> **Lombard Odier Managing Partner and Co-Head of LOIM**

[2] Through our growing range of strategies, we are now able to offer our clients exposure to investable opportunities across energy, land and oceans, material and carbon markets, described in the next section.



Addressing systemic risk

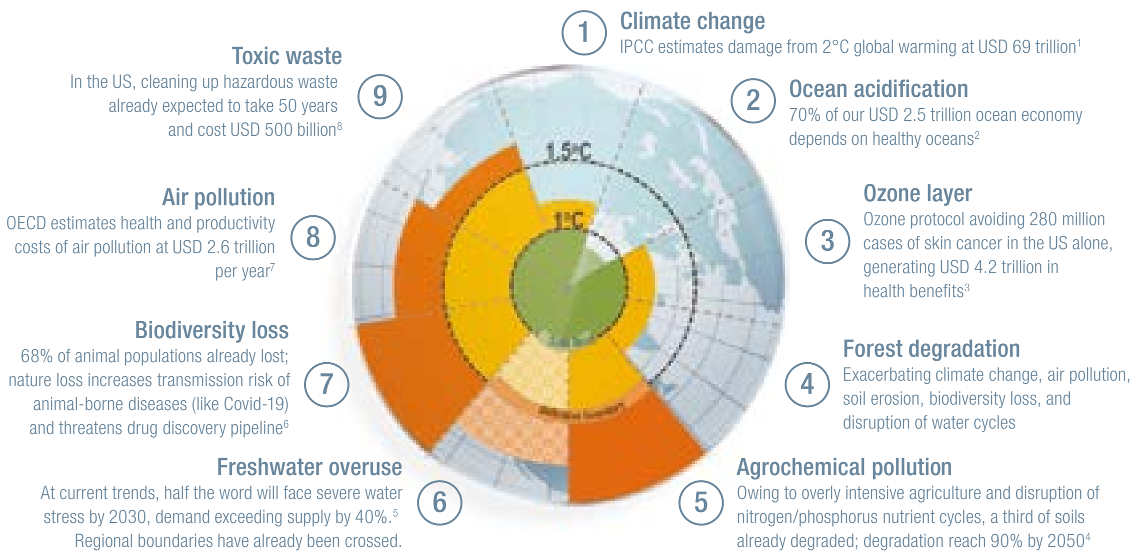
› Principle mapping 4, 8, 9, 10, 12

LOIM is an independent group and we do not invest in proprietary capital. Today, the transition to a sustainable economy is a major source of risk and opportunity. We recognise the interconnected character of climate change with other environmental issues, such as land use, pollution, freshwater consumption and biodiversity. As we see the transition to a sustainable economy as a major source of risk and opportunity; aligning portfolios with companies that are making demonstrable progress in the right direction is central to our investment and risk management approaches, and aims to address systemic risks and promote a well-functioning financial system

Systemic risks: planetary boundaries breached

Scientists have demonstrated the existence of nine planetary boundaries[3] that define the limits within which geological and planetary conditions favourable to human development can thrive. Once crossed, these boundaries risk pushing the world across irreversible tipping points, destabilising our biosphere and, hence, our economy. In 2022, separate groups of researchers have concluded that a fifth planetary boundary – related to toxic pollution – has also been crossed, as well as a sixth one, related to modification of freshwater systems. Although change is already underway, we must accelerate the transition if we are to reverse the breaches of planetary boundaries before it's too late. What is required is a transformation resulting in a nature-positive economy that closes the loop on our ecological footprint, maximising the lifespan of nature's resources and minimising the adverse impact of our activities on the natural capital that sustains our society and economy.

Fig.4. Planetary boundaries : transgressing the limits of stability



[3] The planetary boundaries are: Climate change, Ocean acidification, Ozone layer, Forest degradation, Agrochemical pollution, Freshwater overuse, Biodiversity loss, Air pollution and Toxic waste.
Source: LOIM analysis; based on Rockstrom et al (2015), updated based on Transformation is Feasible Report by Randers, Rockstrom et al (2018); LOIM analysis; [1] IPCC Global Warming of 1.5C report (2019); [2] World Wildlife Fund and Boston Consulting Group (2015); [3] BBC/EPA; [4] FAO (2015); [6] Jones et al. (2008); [7] OECD (2016); [8] Trucost (2013). For illustrative purposes only.

Through our sustainable investment framework[4], we seek to define which companies make a substantial contribution to the environmental objectives of the EU taxonomy, while considering whether the company's activities can cause any significant harm, and furthermore assessing the governance standards of the company.

At the same time, through our roadmap and wider sustainability research, we seek to identify those companies that not only accelerate necessary environmental transitions, but are also positioned for the transition to act as a financial tailwind to their business model.

Whenever we identify companies with possible negative externalities, the stewardship and investment teams work together to engage them.

Alignment to the climate transition: ice cubes and burning logs

Focusing on low-emission sectors prevents the capital flows needed for heavy emitters with credible decarbonisation targets to fulfil their aims, and therefore obstructs the transition. Favouring today's low emitters also prevents the universe of Paris-aligned firms from expanding and can create concentration risks, making this approach financially unfit for purpose.

We developed the concepts of 'ice cubes' and 'burning logs' to illustrate our investment and engagement approach to net zero and we categorise companies into four groups: ice cubes, burning logs, low-and-lower carbon emitting, and low-carbon laggards. Ice cubes are high-emission companies that are pursuing credible decarbonisation trajectories in line with the Paris Agreement. Burning logs are high-emitting firms that are not rapidly decarbonising. We do not automatically exclude companies classified as burning logs, but we want to have additional confidence that their activities and services are supporting the decarbonisation of other companies and broader positive environmental outcomes. Low-and-lower carbon-emitting companies are generally in industries that are already low-emitting and are reducing emissions further. Finally, low-carbon laggards are generally in low-emitting industries but not yet aligned with the Paris Agreement.

Ice cubes can be fit for investment, with other fundamentals considered, because they benefit from the transition to a net-zero economy. Given the amount of greenhouse gas (GHG) emission reductions they are making each year, they are effectively cooling our environment.

On the contrary, burning logs are highly polluting companies that are not reducing their GHG emissions, or are not demonstrating any ambition to do so, and risk having business models that are no longer fit for the net-zero economy of tomorrow. They are preventing the world from reaching internationally agreed emission-reduction targets and are heating up the environment. They are also highly exposed to transition and liability risks. We may include a limited number of burning logs in our portfolios, with the objective of engaging with them and persuading them to align with the Paris Agreement.

[4] Please refer to SFDR section for more details.

Tools to address systemic risks

Lombard Odier Portfolio Temperature Alignment (LOPTA) is our proprietary ITR metric, launched in 2019. LOPTA quantifies the risks created by the climate transition for individual securities and portfolios, delivering an intuitive, forward-looking temperature metric to investors.[5] It can be used to assess a company's temperature trajectory and its degree of alignment with the industry-level decarbonisation pathways implied by the Paris Agreement. LOPTA assesses carbon footprint and temperature trajectory simultaneously, enabling us to determine if a company's carbon footprint is moving in the right direction, and if its speed of decarbonisation is fast enough to align with the relevant sector's expected transition to a lower carbon economy.[6]

We have continued to regularly revised and update our LOPTA methodology, with the latest update in December 2022, including updates to companies' pledges and decarbonisation objectives, various data improvements, and the introduction of an improved framework to assess the credibility of company targets – allowing us to give reduced weight to company pledges where these are not backed by clear indicators of progress or implementation.

> “Consequently, by investing in ice cubes, we are promoting the transition to a more sustainable, CLIC®, economic model, which serves to mitigate climate change-related risks.”

[5] We extract forward-looking signals from decarbonisation targets or commitments so our emissions predictions reflect the most up-to-date information. We monitor company targets set through the Science-Based Targets initiative (SBTi), Climate Disclosure Project (CDP) or Renewable Energy 100 (RE100). As part of this process, we also assess if companies' commitments are sufficiently credible and feasible to warrant integration into our dataset. To define the rate of decarbonisation each company must achieve, we have outlined pathways for over 160 industries and 6 global regions. These tell us how quickly these sectors need to cut emissions to keep within a given level of global warming. While these assessments are built on climate scenarios underlying the Intergovernmental Panel on Climate Change 's (IPCC) Global Warming of 1.5°C report, we have elaborated on these for additional granularity. For each company, we then compare their forecasted emissions with the respective pathway and assess the implications for the remaining carbon budget. Any overshoot or undershoot from the carbon budget is quantified, from which we derive the final, implied level of global warming, expressed in degrees centigrade. In aggregating company-level ITR to fund-level ITR, we consider the size of each company's emissions to reflect the level of contribution to decarbonisation in the real world. Any company representing a larger share of emissions in the real economy will be given larger weight in the fund-level ITR aggregation. As such, we can produce a single, easy-to-use metric for the implied impact of owning a portfolio from a carbon emissions perspective.

[6] The Portfolio Alignment Team, which is aligned with the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD), issued a report featuring LOPTA as a robust and sophisticated tool.

Zooming in: Climate Transition[7] equity strategy

Launched in March 2020 to capture one of the greatest challenges and opportunities of our times – the climate transition – this actively managed strategy invests in 40-60 carefully selected firms that are well-aligned to environmental transitions towards a net zero economy and wider transitions across energy, land and oceans and material systems. This includes companies with business models that are able to accelerate these transitions, and where the transition may unlock new growth opportunities or profit pools, acting as a financial tailwind. The companies in this fund may include solution providers – offering the technologies, services and solutions to accelerate transitions across the wider economy – as well as transitioning leaders in high-impact industries, where these' companies environmental strategies may position them to improve their overall market position.

Zooming in: TargetNetZero Global Equity strategy[8]

Our TargetNetZero equity strategy has a wide range of climate objectives and targets growth opportunities, while aiming to mitigate the transition and physical risks associated with climate change.

The portfolio includes companies already targeting net-zero CO_2 emissions by 2050, as well as those without such targets but which may be become aligned through regulatory action, investor engagement and market changes. Within the high-emitting sectors, the strategy overweights issuers that can credibly contribute to a reduction in global CO_2 emissions and the eventual achievement of net zero by 2050. Just as importantly, the strategy underweights exposure to companies unlikely to achieve these objectives. This forward-looking decarbonisation approach maintains a level of diversification in line with the MSCI World index as it identifies leaders and laggards of the climate transition in all sectors of the economy, including hard-to-abate industries.

[7] Climate Transition is a sub-fund of the Luxembourg UCITS-SICAV, Lombard Odier Funds. From 1 May 2023, this strategy will be renamed 'Planetary Transition'. Please refer to "Annex 6 – Fund Overview" at the end of the document for more details about their inherent risks, fund features and their ESG approach.

[8] TargetNetZero Global Equity is a sub-fund of the Luxembourg UCITS-SICAV, Lombard Odier Funds. Please refer to "Annex 6 – Fund Overview" at the end of the document for more details about their inherent risks, fund features and their ESG approach.

Case study 1

Headline	Energy business
Asset classes	Equities
Specific themes	Decarbonisation plan
Region	North America

Engagement background

The company, a US energy business, is involved in coal, oil and gas activities; however, it is currently divesting from coal and transitioning to more sustainable energies. The exposure to coal is 7.5% (below the 10% threshold of our exclusion policy) and the company has net-zero science-based targets; however, we still need to ensure it is on track to reach carbon neutrality by 2050. The firm generated a temperature of 1.3° in our ITR methodology and had a carbon intensity of 4527t CO_2e /MUSD invested. Between 2015 and 2020, the company reduced its emissions by 18% and closed or converted several coal powerplants. Given the company emission's trend and targets for 2025, we expect it to continue to decarbonize at a rapid pace, leading to a good score according our ITR tool.

What did we discuss and ask for?

The engagement raised more questions and concerns on our side, especially on the company's decarbonisation strategy. The company is shifting its business model from electricity production to electricity retail, meaning carbon emissions will move from scope 1 to scope 3 upstream. However, the company does not include purchased energy in its scope 3 emissions, leading to a possible misreporting or non-reporting of most of its emissions.

In addition, it is unclear if the company will reach its 1.5° 2025 targets, which have been verified by the Science Based Targets initiative (SBTi), as it will not have fully exited coal before 2030. The company does not have an SBTi-approved net-zero commitment, even if they have communicated this. The firm explained that SBTi's requirements have changed, but this situation remains unclear and we are seeking clarification.

We also sought more information through a follow-up e-mail about the energy mix the company is targeting through power-purchase agreements (PPAs), and the specific part dedicated to renewables. But the company could not give a precise answer – even though it is aware this will impact its decarbonisation strategy.

On coal, we confirmed that the firm plans to exit coal on the long run, but it does not have a set timeline for this and is waiting for regulations to become stricter to progress on its exit strategy. In any case, the firm does not plan to close its Texas coal plants before 2030, which casts serious doubt on its ability to significantly reduce emissions in the future.

Engagement outcome

As it appeared that the carbon data and scope breakdown did not properly reflect the company's situation, we decided, along with portfolio managers and the sustainability teams, to override the company's rating in our ITR tools to better account for its activities. The company's scope 1 target was manually set to 'emissions will stay level until 2030' to reflect its slow coal-exit strategy. It will lead to an important correction of the firm's temperature to 4.4° (against 1.3° prior to engagement).

In addition, we contacted our carbon data provider, Trucost, to enquire about the company's unexpectedly small scope 3 upstream emissions; as the company is purchasing most of the electricity it sells, it should have the CO_2 emissions of said electricity in its scope 3 upstream. As this represents 80% of the company's revenue and electricity is still very carbon intensive in the US, this should lead to a very large scope 3 for the company, whereas according to Trucost, the firm's scope 3 emissions represent less than 4% of the total emissions.

We will continue to engage with the company in 2023 to learn what the discussions with the SBTi will have yielded and if the company has made any progress on disclosing its scope 3 upstream emissions.

Nature-related risks

Today, over 50% of our economy is moderately or highly dependent on natural capital. 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.

Deforestation challenge

At COP26 in late 2021, world leaders pledged to end the loss and degradation of natural forests by 2030, and to restore 350 million hectares of degraded landscapes and forestlands. To fulfil these goals, a 10% annual reduction of forest loss is required. This will entail the transformation of the agro-industrial sector – the primary driver of forest loss, with 50% attributed to cropland expansion (largely in the production of palm oil, soy, beef, cocoa, coffee, rubber and food fibre), and a further 40% to livestock grazing. The remaining forest loss is associated with other infrastructure developments in areas of forests (e.g., mining, energy).

In 2022, we saw an increase in supportive product regulation. The US FOREST Act, which seeks to ban products linked to illegal deforestation, has been introduced to the Senate, and an Executive Order was passed addressing national forestry resources, entitled: "Strengthening the Nation's Forests, Communities, and Local Economies". Similarly, the EU successfully banned all products linked to deforestation from being sold across the bloc.

The impacts of these policy improvements are now becoming evident within the finance sector. Following on from the CDP's (Climate Disclosure Project's) inclusion of deforestation and commodity exposure in scope 3 emissions data, investors are now backing the Nature Action 100 initiative aiming to improve corporate reporting on biodiversity; this was previously used to collect data on biodiversity impacts in the mining sector in 2019. In addition, the UN has made the case for biocredits – measurable, traceable and tradeable units of biodiversity – as a means of increasing conservation financing.

Through our in-house expertise, we assess exposure to and analyse performance against deforestation challenges across companies using a unique set of metrics, including data on exposure to land-use controversies in operations and supply chains, geospatial data that identifies companies operating in highly sensitive biodiversity areas (such as pristine forest, and both terrestrial and marine protected areas), and satellite imagery for detection of deforestation events. To do this, first we map companies' revenues with potential deforestation risks, both through dependencies on forest-related commodities and associated land-use impacts. Once the level of exposure is assessed, we evaluate whether the related company has deforestation and biodiversity policies in place. The management score indicates whether the company has a strong deforestation or biodiversity policy, and if there are any concerns regarding its implementation as seen through land-use controversies or operations taking place within areas of high biodiversity value.

Some adjustments were made to the metric in 2022, resulting in a more precise filtration of the areas with forest coverage and high conservation values. As regulations for deforestation-free products are being adopted in US and EU, we expect companies to start disclosing more supply chain data, such as the volumes and areas of origin of the commodities procured. Over the coming years, we plan to integrate this information into the tool, both to adjust the exposure of these companies (considering whether the procurement of raw materials is related to areas with known high forest risks) and to monitor their progress toward meeting forest-management targets. Meanwhile, we aim to collect this information where available to help us understand the companies' progress and continue engaging on increased transparency

The designation of protected areas is an important policy tool to halt biodiversity loss. Though some progress has been made in increasing the extent of protected areas, there are still some challenges, such as a lack of governmental resources for conservation management and weak enforcement of national regulations. The new requirements under the Sustainable Finance Disclosure Regulation (SFDR) make it mandatory for investment firms to disclose the Principal Adverse Impacts (PAIs) of their portfolios. For biodiversity loss, the indicator required corresponds to the share of investments with sites in or adjacent to protected areas. Lombard Odier's 'high biodiversity area' tool seeks to assess the percentage of operational assets that a company has within any type of protected areas and therefore the land uses allowed.

Zooming in: Natural Capital[9] equity strategy

Through this strategy, we seek to address the challenges of our current take-make-waste economy, and the excess impact it has on our planet and its natural capital. Excess resource extraction, inefficient production processes and forms of consumptions, and high volumes of mismanaged waste are but some of the challenges facing our economy. Our Natural Capital strategy embraces global opportunities focused on both the circularity of industry and the circular bioeconomy.

As of the end of 2022, approximately 18% of the portfolio was invested in companies developing solutions that help alleviate pressures on land use, and a further 22% of the holdings were being assessed on their forest-management practices due to the materiality of their operations and products.

In 2022, we chose to focus our engagements on the topic of forest management, having already predicted a growing and necessary momentum in the fight against deforestation.

We have researched detailed information about the approaches of the investees 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 have been 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.

[9] Natural Capital is a sub-fund of the Luxembourg UCITS-SICAV, Lombard Odier Funds. From 1 May 2023, this strategy will be renamed 'Circular Economy'. Please refer to "Annex 6 – Fund Overview" at the end of the document for more details about their inherent risks, fund features and their ESG approach.

Case study 2

Headline	French cosmetic company – natural capital
Asset class	Equities
Specific themes	Deforestation, traceability, packaging
Region	Europe

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.

Zooming in: The circular bioeconomy

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.

One such Living Lab is the Amazon Sacred Headwaters Initiative in Ecuador and Peru. In Spring 2022, Lombard Odier and the CBA joined the initiative on a breath-taking journey in the region of the sacred headwaters of the Amazon river. Together, we aimed to build a shared vision among indigenous communities, global organisations, governments, philanthropists and investors in protecting the region, tackling industrial-scale resource extraction and living in harmony with nature.

"Lombard Odier gives us valuable insights into how the financial sector operates, which helps us better understand how we can successfully attract capital to sustainable solutions. Meanwhile, the CBA can help Lombard Odier by providing intelligence from a network of organisations, scientists, and companies operating on the ground in different parts of the world to restore and use nature sustainably.

"Indeed, one of the great opportunities of the circular bioeconomy is its potential to provide jobs and inclusive prosperity in a territorial context. The ways in which biological resources, such as forests and agricultural land, are managed and distributed across territories make it much easier to inclusively distribute jobs, infrastructure, and prosperity than do those of fossil resources. Nevertheless, to unlock this potential, it is vital that we collaborate with local communities and businesses to co-design, co-develop, and co-manage the land and value chains that will be established in the future. We must also combine scientific knowledge and innovation with the valuable ancestral knowledge we can gain by managing landscapes in partnership with local and indigenous communities."

Dr. Marc Palahi
Chair of the Circular Bioeconomy Alliance and
Director of the European Forest Institute

Food systems-related risks

While not having received very much attention, Agriculture, Forestry and Other Land Use ('AFOLU') is arguably one of the primary drivers of planetary boundaries transgressions, accounting for 24% of GHG emissions, 90% of forest degradation, and 25% of biodiversity loss. There are two key issues, underpinning this:

1. **Land clearance.** As of today, humanity has cleared 50% of all habitable land to make way for agriculture; about 5 bn hectares of land are used for agriculture. Clearing land for agriculture is the leading cause of deforestation and has an incredibly negative effect on biodiversity. It is also a large source of carbon dioxide emissions.

2. **Land use.** Modern agricultural techniques rely on ploughing and tilling the land, which releases carbon stored in the soils, while the overuse of fossil fuel-based fertilisers pumps more emissions into the atmosphere. To make matters worse, our current food-system model is incredibly inefficient, whereby almost 80% of all agricultural land is used to produce meat and dairy products alone. In exchange, this 80% of land returns just 20% of global calories and 37% of protein.

The solution to AFOLU's problems is simple: by 2030, we need to return 1 bn hectares of land to nature. To do so, agricultural land – which now claims 50% of all habitable land on earth –must shrink by 20%.

The transition to new food systems entails four key changes:

1. Producing more plant-based foods and fewer animal-based foods

2. Producing plants to feed humans, rather than to feed animals to feed humans ('cut out the middle cow')

3. Changing how we produce foods, by replacing conventional agriculture with regenerative and precision agriculture

4. Transforming our distribution systems to eliminate food waste

Underlying this transition are three key themes: sustainable food production, sustainable food consumption, and cross-cutting enabling solutions. We estimate that new food systems will represent a USD 1.5 trillion annual profit pool by 2030.

As the world transitions to a new model that can nourish a growing population while helping to restore planetary boundaries, we foresee major shifts in the risks and return profiles of hundreds of listed companies operating across the food and agricultural value chains.

Through stewardship efforts, we encourage companies to set clear, measurable objectives addressing financially material issues and to align with the industry standards and expectations for non-financial disclosures.

Zooming in: New Food Systems equity strategy[10]

2022 has been a game-changing year for food systems- challenging long-standing paradigms. On the back of supply chain disruption as a result of Covid-19, war in Ukraine has led to food price inflation in the EU of 18%. 9.7 million adults in the UK are now food insecure. Such acute pressures on our food system, combined with longer term challenges of adapting to climate change and the decline of ecosystem services (pollinator species declined by 70% in Germany in the last three decades); creates an environment ripe for disruption.

The Lombard Odier Food System Roadmap is critical to visualizing future food systems; defining the key system changes and tracing their path back to today. This roadmap helps us to avoid under-appreciated investments risks, and to capitalize on under-valued opportunities. The Roadmap recognizes major changes in both the foods consumed in future and in the systems that will produce them. In particular the agricultural system of today is behind the curve in the adoption of information technology and biotechnology, which will catalyze the 3rd agricultural revolution.

Furthermore, regenerative agricultural practices can help to deliver current and future demand for food by restoring soil ecosystems that have rapidly been degraded in recent years. Soil Organic Carbon (SOC) is the main indicator of soil health; increases in SOC improve soil structure, enhance water and nutrient cycling and retention, and contribute to carbon sequestration from the atmosphere, all whilst providing a healthy ecosystem for biodiversity. The need to increase SOC concentrations is already recognised in global policies and targets, and going forwards, SOC has the potential to be used as an indicator of the health of agricultural systems.

The New Food Systems strategy, launched in July 2022, is a well-diversified, high-conviction portfolio of 35 to 50 quality companies selected from a universe focused on three sub-themes with a clear focus on capturing the upside of the sustainability-driven transformation of food systems: sustainable food production, enabling solutions and sustainable food consumption. Through stewardship efforts, we encourage companies to set clear, measurable objectives addressing financially material issues and to align with the industry standards and expectations for non-financial disclosures.

[10] New Food Systems is a sub-fund of the Luxembourg UCITS-SICAV, Lombard Odier Funds. Please refer to "Annex 6 – Fund Overview" at the end of the document for more details about their inherent risks, fund features and their ESG approach.

Stewardship framework

› Principles mapping: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11 and 12

Stewardship continues to be placed at the heart of our sustainability vision and ambition. Through stewardship, we seek to move companies at scale and depth towards sustainable business models. Our stewardship approach is designed to focus on addressing sustainability-related challenges and risks, as well as those that are most financially material on a sector and industry basis. The stewardship framework, which was revamped in 2021 and made effective in 2022, has allowed us to discharge our responsibilities by providing specific scope on vision, priorities and objectives in a CLIC®-aligned manner. In carrying out stewardship, we have sought to address the three key priorities below:

1. Encourage 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. It is our duty as responsible sustainability-focused investors to encourage them in this direction. We define transition pathways in alignment with our CLIC® vision, which reflects the change underway at the level of the economy that affects sectors and industries.

2. Promote and uphold 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.

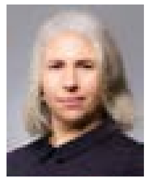
3. Manage controversies

As investors, we are faced with unexpected but also in-the-making 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. Divestment always remains an option open to us, but we regard it as the last step in our stewardship escalation mechanism

The LOIM stewardship framework comprises four key documents: our Stewardship Statement, Engagement Policy, Proxy Voting Policy, and Corporate Governance Principles and Proxy Voting Guidelines.

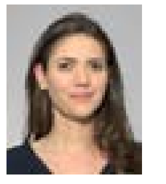
1. The LOIM Stewardship Statement sets our overall rationale for carrying out stewardship, our stewardship objectives, and describes our stewardship implementation framework. Please see Annex 4 to read the 2022 Stewardship Statement
2. Our Engagement Policy sets out our approach to engagement activity, linked to our priorities
3. The Proxy Voting Policy defines the scope and process for proxy-voting activity
4. Our Corporate Governance Principles and Proxy Voting Guidelines, define our corporate governance and sustainability expectations and how we are likely to vote when they are not met.

Stewardship team



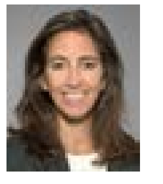
Rebeca Coriat, Head of Stewardship

Stewardship architecture, policy development and implementation, engagement framework and delivery, proxy voting.



Anouchka Miquel, Stewardship Analyst

Engagement, proxy voting and reporting. Focus areas: natural capital, biodiversity.



Caroline Putman-Cramer, Stewardship Analyst

Engagement, proxy voting and reporting. Focus areas: climate transition and social issues.

Fig.5. Annual stewardship policy updates: an overview

The overarching aim of our stewardship work continues to be to seek to create sustainable long-term value. As part of our annual policy review update, and in line with our sustainability vision and ambition, in 2022 we carried out a review of the stewardship documents and implemented several changes, highlighted below. These were approved by both the Policy and Documentation and the Stewardship Committees, and are publicly available on our website. The structure and approach remain unchanged. The updates reflect our alignment of stewardship with the 3+1 systems changes. The links to the online documents reflect these updates, because these versions supersede the previous ones.

Document	2022	2023
Stewardship statement	Three key stewardship priorities: · Encourage companies to align themselves to sustainable transition pathways · Promote and uphold best-in-class business practices · Manage controversies	Two stewardship objectives: · Promote alignment with the sustainability transition · Support and push companies to align themselves with financial opportunities affected by the transition
Engagement Policy	Engagement frameworks linked to each of our stewardship priorities (Oxford Martin Principles and our Corporate Governance Principles)	Engagement priorities: Engagements linked to promoting alignment with the sustainability transition and companies' financial positioning vis-à-vis the transition
Proxy Voting Policy	Proxy operations	Proxy operations
Corporate Governance Principles and Proxy Voting Guidelines	Inaugural Corporate Governance Principles based on five key pillars: leadership, remuneration, disclosures, share capital management and shareholder resolutions	Addition of cybersecurity and explicit links with our 3+1 framework were added as vital considerations influencing how we are likely to vote

Engagements

› Principle mapping: 3, 4, 6, 9, 10, 11, 12

Definition

There are many ways to describe, consider and count engagements. At LOIM, we define an engagement as the sum of all interactions during a specified reporting period on one issue and with one company.

As an active asset manager, engagement is how we open and maintain continuous and constructive dialogue with a company throughout the investment lifecycle, and across different asset classes. The outcomes of our engagements influence our investment views, thereby ensuring a circular and integrated approach. We discharge our engagement work under the direction of the LOIM Engagement Policy.

Our driving principle is to use engagement to move companies at scale and depth towards sustainable business models. We approach engagement using science-based analysis and on a company-by-company basis. Our activities are based on the transition pathways and trajectories for each industry mapped by the LOIM sustainability research team. These aim to promote the transition to an economy that is climate-aligned, nature-positive and circular. As such, our engagement approach targets the key systems changes necessary for the transition to a CLIC® economy.

Engagement enables us to help companies adapt their business models to the transition, recognising that each company needs a different and tailored engagement programme to encourage progress along its individual pathway.

Process

During 2022, we selected engagements using the following criteria, which are described in our 2022 Stewardship Statement, and with respect to LOIM portfolio exposure:

1. Encourage companies to align to sustainable transition pathways
2. Promote and uphold best-in-class business practices
3. Manage controversies

Regular screening of LOIM assets under management and portfolio holdings are conducted with the help of the tools developed by the sustainability research team to assess companies' alignment with our sustainability framework. The themes and tools have been described in section Investment and Integration. Companies selected are then discussed with concerned portfolio managers, our risk team, analysts and sustainability experts to confirm the need for engagement and to define appropriate objectives with tangible and measurable outcomes. Subsequently, we start a dialogue with the company when we seek to influence its sustainability profile, as per the transition roadmaps established by our sustainability research team.

Our dialogue with companies include:

- Setting strategic objectives that build long-term sustainable business models
- Promoting good corporate governance, including strong corporate cultures and effective and appropriate remuneration and incentives, which should be aligned with the long-term strategic objectives
- Ensuring that companies have understood and incorporated in their business strategy the practices required to move towards a net-zero and nature-positive economy
- Minimising externalities and maximizing positive impact consistent with that model
- Prioritising the achievement of strategic objectives over short-term performance
- Implementing high-quality business practices, particularly on supply chains
- Communicating transparently and producing high-quality disclosures and reporting
- Managing risk effectively, as seen from the perspective of multiple stakeholders
- Developing and maintaining strong stakeholder relationships
- Managing an appropriate capital structure, through a process of sound capital allocation

Interlocutors

Our dialogue with companies can be undertaken in a variety of ways, from one-to-one calls, meetings with board members and executives (e.g. Chairman, Senior Independent Director, other Non-Executive Directors, CFO, CEO), investor relations, ESG and/or sustainability teams, to periodic investor calls, meetings, written dialogues, conversations during pre-offering capital markets roadshows. Interactions can also take place through collective or coalition investor initiatives.

Engagement tracking

LOIM's stewardship IT infrastructure has been designed and built precisely to capture the impact that stewardship helps us create in our investments and sustainability transition convictions.

Our system comprises two main tools, 1) stewardship notes and 2) an engagement tracker. Both are proprietary systems, built in-house and customised to support our engagement needs and ambitions.

- The stewardship note is created jointly by stewardship, sustainability, and investment teams after each engagement interaction. The most important sections of the note are the 'outcomes' and 'engagement outlook'. These assessments tell us whether the engagement objectives have been achieved. Notes are published on our Bloomberg internal interface; all research notes are available and shared among investment teams across asset classes
- The engagement tracker monitors: unique identifiers for engaged companies, exposure across our funds, engagement objectives, engagement outcomes, and engagement outlook on an interaction-by-interaction basis. It also allows us to ensure timely follow up and serves as a database for future reporting.

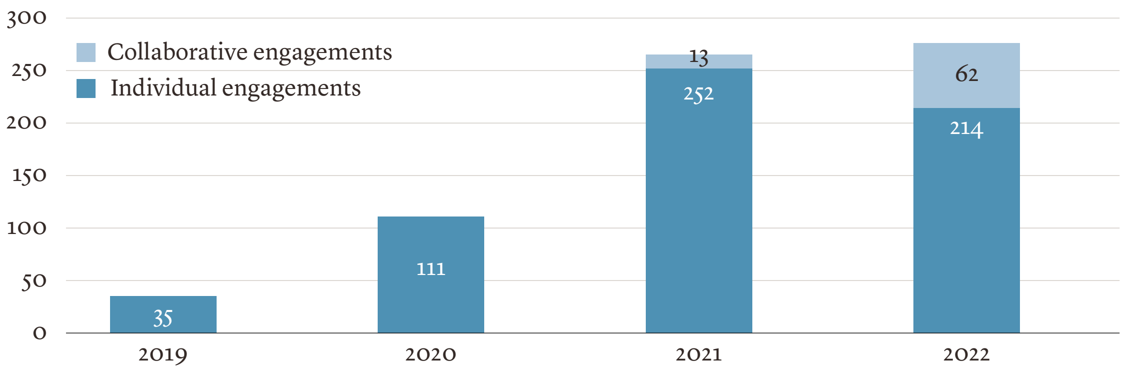
Data fields in our engagement tracker are directly fed and updated by each stewardship note that is uploaded onto Bloomberg. In 2022 we worked to improve data automation within our infrastructure.

We seek to keep regular contact with companies so that we can track long-term progress with defined goals over a multi-year framework. The tracking of engagement objectives also allows us to change and update them depending on the company's reaction and progress. We acknowledge the pace of change is dependent on many factors, such as the magnitude of the request, the timeline for the change, regulatory developments or the company's willingness and readiness to implement change.

In the following charts we present a high-level, historical view of LOIM engagements. The breakdown by region remains stable and representative of the exposure of LOIM's assets under management. The increase in collaborative engagements in 2022 was driven by our aim to undertake a greater number of collective initiatives.

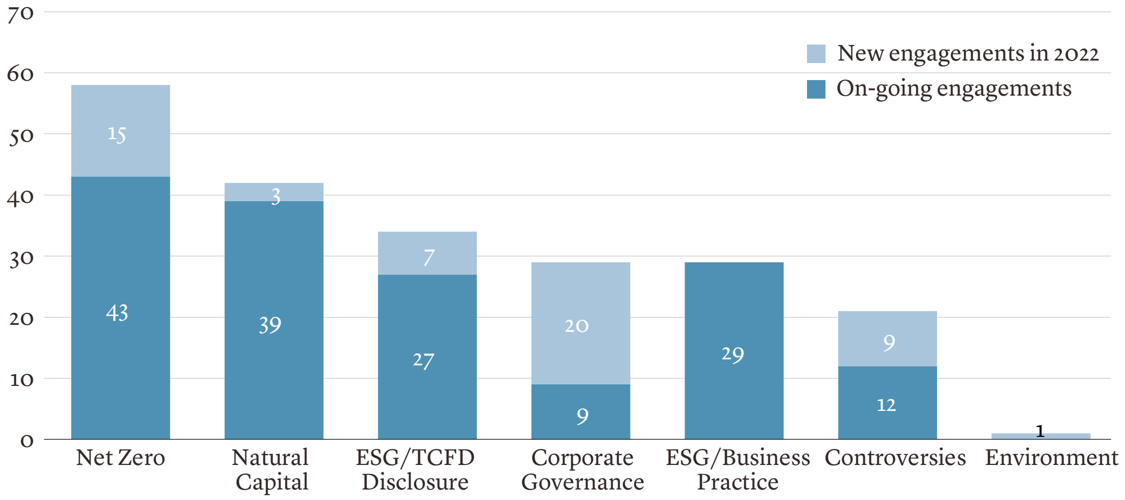
Please read the important information at the end of the document.
Lombard Odier Investment Managers · Stewardship Report 2022

Fig.6. Total number of engagements, 2019-2022



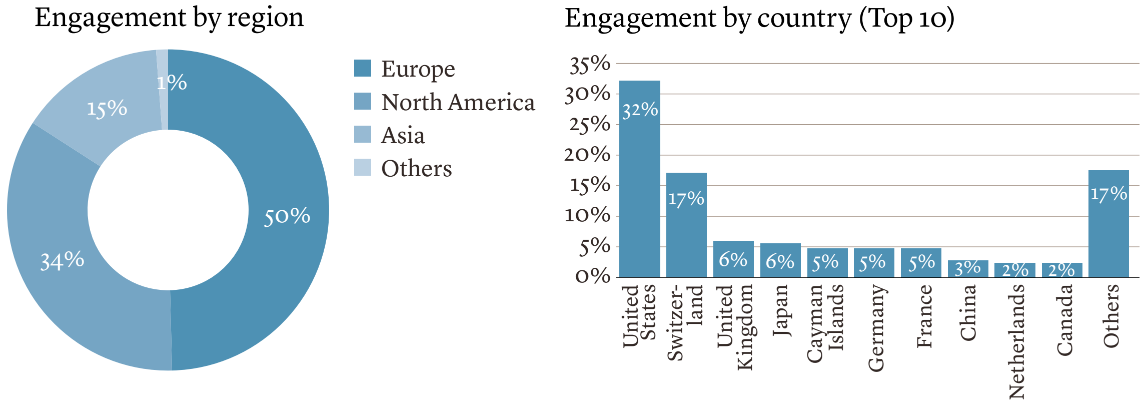
Source: LOIM. For illustrative purposes only. Data as at 31 December 2022.

Fig.7. Individual engagements by primary issue, 2022 (excludes collective engagements)



Source: LOIM. For illustrative purposes only. Data as at 31 December 2022.

Fig.8. Engagement by region and country, 2022

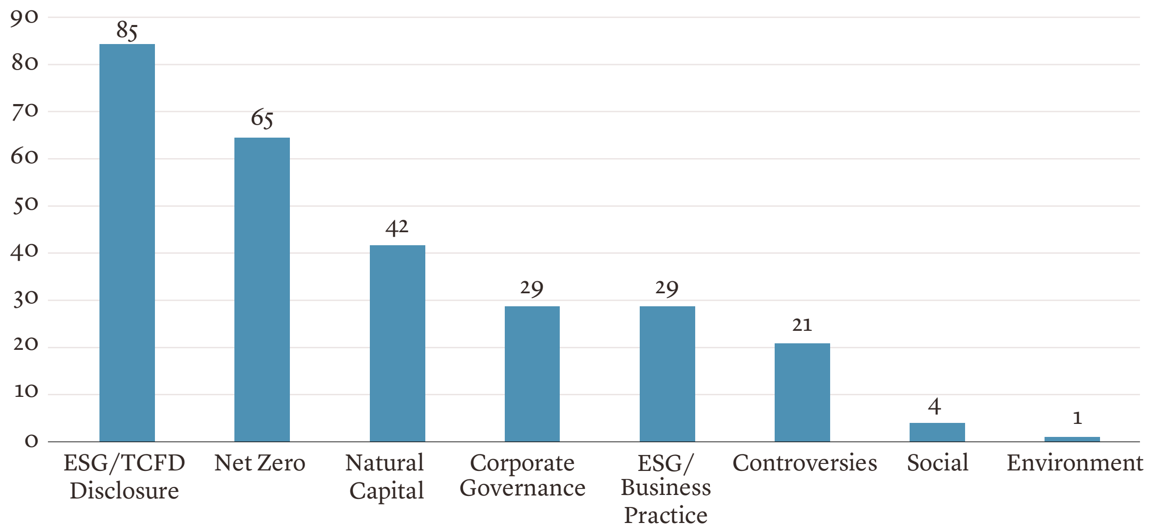


Source: LOIM. Data as at 31 December 2022.
Note: Cayman Islands and Bermuda have been categorized within Europe.

Figure 9 shows the main issue triggering an engagement, in line with our 2022 priorities. A deep ESG analysis of the company's business practices is systematically conducted, including the accountability of the board and senior management for the company's sustainability strategy and performance.

In 2022, the most prevalent issue triggering an engagement was the need for improved ESG/TCFD disclosures. Indeed, we believe adequate disclosures and transparency are essential for companies to be assessed alongside their entire sustainability profile, as well as for them to be prepared for future legislation – notably regarding carbon data disclosure. On net zero and natural capital, we continued to pursue the specific asks started in 2021, seeking to promote company alignment to sustainability pathways.

Fig.9. Engagements by primary issue, 2022



Source: LOIM. For illustrative purposes only. Data as at 31 December 2022.

Case studies

In early 2022 we produced an internal framework to ensure all asset classes and strategies were covered by our engagement activities, which in turn are aligned to our stewardship priorities. We divided this framework between firmwide and fund-specific engagements goals.

The section below describes our individual and collaborative engagement work in 2022 and features our achievements. We have organised the information according to the scope of engagement (either firm-wide or fund-specific) and our stewardship priorities (1, 2, 3), and included a reference to collaborative engagements. Further, we also provide a selection of case studies via a 'zooming in' section to show more granularity about our engagement activity.

Stewardship priority 1.
Encourage companies to align themselves to sustainable transition pathways.

Engagement scope: firm-wide

Thematic: Biodiversity/nature positive

Subcategory: Deforestation

2022 engagement goal: Address deforestation issues

2022 achievement: We engaged two companies on controversies related to deforestation. In both cases, our concerns were mitigated and the engagement outlooks became 'neutral' as each company could still increase its traceability provision with the use of, for example, geospatial tools. As products retrieved from drills and especially timber activities are very sensitive, we sought confirmation that the companies are only operating in well-regulated countries and are conducting strong on-site controls.

Thematic: Biodiversity/nature positive

Subcategory: Biodiversity loss (waste and pollution within the animal-protein sector)

2022 engagement goal: Address biodiversity risk linked to mismanagement of manure

2022 achievement: LOIM joined a coalition led by the FAIRR Initiative of 80 investors representing USD 23 tn in combined assets under management that share an interest in nature- and biodiversity-related financial risks and opportunities within the animal-protein sector. The first engagement campaign focused on manure management. At the end of 2022, a letter was sent to the 12 targeted companies to expose the risk of manure mismanagement and raise specific questions to ensure the companies are addressing those risks. LOIM revised the draft letter for companies where we had exposure through our investment. We are supporting investor for one company; a call will be held to discuss the letters with each company involved in early 2023.

Thematic: Climate

Subcategory: Net zero

2022 engagement goal: Engage burning logs in hard-to-abate sectors

2022 achievement: We targeted burning-log 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. The remaining companies were based in Asia: while phasing out the many coal-power generating assets in the West that are reaching their end of life might be feasible, the challenge here is to retire the large coal-powered capacity added in the last 20 years, particularly in China and India. Today, China represents 46% of the world's global coal-power generation capacity, of which 43% is less than 10 years old and 86% less than 20 years old. Assuming a standard 40-year lifespan, most of these assets are not due for retirement until after 2040.

Thematic: Climate

Subcategory: Net zero

2022 engagement goal: Continuous progress on the Climate Action 100+ framework

2022 achievement: We are currently involved in three Climate Action 100+ collaborative engagements. We are a co-lead investor in one engagement and a supporting investor in the remaining two. Case study specifies outcomes

Thematic: Climate

Subcategory: Net zero

2022 engagement goal: SBTi campaign – CDP

2022 achievement: Increased corporate commitments to net-zero. For the 2021-2022 campaign, LOIM was among 220 supporting 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.

Thematic: Social

Subcategory: Just transition

2022 engagement goal: Seeking to ensure inclusion of just-transition considerations in net-zero strategies

2022 achievement: The just-transition concept has been addressed within net-zero engagements, especially regarding coal-exit strategies. Outcomes were very positive, with the companies engaged having plans for employees involved in employment activities that are bound to disappear as the world warms. Although these work activities might vary, companies are developing training programmes to help ensure a just transition. For two of the companies engaged, we were pleased to see that the just transition is now part of their decarbonisation plans. Some countries have also started to develop national just-transition plans to address this challenge.

Please read the important information at the end of the document.
Lombard Odier Investment Managers · Stewardship Report 2022

Engagement scope: fund-wide

Asset-class: Equities, Convertibles and Alternatives

Fund range: Funds with the Towards Sustainability' label [11]

Subcategory: Net-zero

2022 engagement priority: Corporate transitioning in the energy sector

2022 achievement: 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 the US electric utilities sector. Its renewable energy portfolio includes offshore and onshore wind, solar photovoltaic capacity and storage. But the company has not verified its targets with the SBTi. We will maintain this engagement and engage with the remaining companies in 2023.

Asset-class: Equities

Fund range: High Conviction – Article 8 funds with minimum commitment to making sustainable investments

Subcategory: Specific thematic

2022 engagement priority: Issues material to the thematic

2022 achievement: Two outcomes described below

Natural Capital equity strategy[12] – deforestation

A deforestation engagement campaign was conducted on the strategy's holdings. We assessed all companies' exposure to forest management (mainly finding sensitivity in the agribusiness and mining sectors) and engaged accordingly. Biodiversity policies and processes were discussed to ensure nature preservation. 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 material to its origin, and on the use of geospatial tools under development. This campaign will continue in 2023.

Climate Transition equity strategy[13] – SBTi campaign

Between July and November 2022, we undertook 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 in the future, the absence of such targets will hinder companies, possibly becoming a source of reputational risk. We reached out to 19 companies on the need to define targets and ideally have them certified by the SBTi or equivalent. By the end of 2022, three calls had been held with companies and one had provided explanations in writing. The explanations received were partially acceptable: companies 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. Given our success rate for responses of about 26%, we are still in the process of analysing the impact of this approach and whether we will undertake similar efforts in 2023.

[11] The Towards Sustainability Label requires engagement with fossil fuel activities.

[12] From 1 May 2023, this strategy will be renamed "Circular Economy".

[13] From 1 May 2023, this strategy will be renamed "Planetary Transition".

Asset-class: Equities and Fixed Income

Fund range: Systematic – Article 8 funds with minimum commitment to making sustainable investments

Subcategory: Net zero

2022 engagement priority: Engaging on companies' decarbonisation strategies and credibility to review weightings within portfolios

2022 achievement: 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 and therefore influence the weightings of companies within the portfolios (ie. overweight if the score improves and underweight if it does not). The ITR score of 8 companies was revised following engagement. It led to an improvement of the ITR score at four companies and deterioration for the remaining ones.

For companies in the hard-to-abate sectors where reaching net zero is still not scientifically possible, we emphasised the need for carbon neutrality – for instance, by challenging their offset strategies, or emphasis on intensity-based reductions rather than absolute reductions.

For **TargetNetZero Equities**, net zero was one of the most prominent subjects discussed in engagements, leading 18 discussions for the European strategy and 33 for the global strategy. For engagements where net-zero was not the main topic, we also discussed companies' decarbonisation plans in 50% of cases for the European strategy and 48% for the global strategy.

In contrast, for **TargetNetZero Fixed Income**, net zero was not necessarily the most-discussed issue. It represented three engagements out of 17 for the European strategy and 15 out of 33 for the global strategy.

Asset-class: Equities, Convertibles, Fixed Income

Fund range: Sustainable mandates

Subcategory: Specific thematic

2022 engagement priority: Issues material to the thematic

2022 achievement: integration and collaboration on client priorities & net zero. For this specific mandate (French investor), the client has a special focus on social aspects and, since 2022, on climate and have joined the Climate Action 100+ initiative. We pursued our engagement using the Climate Action 100+ benchmark assessment as a reference with an airline company, at the specific request of the client. We are somewhat disappointed at the lack of near or mid-term decarbonisation targets, while we can understand the challenges given the effects of the pandemic and the risk of recession. They said they will need another 6-12 months to set targets. Sustainable Aviation Fuels is a big limiting factor (due to costs) and in the meantime they are working on improving operational efficiency and their offsetting strategy.

Asset-class: Equities and Fixed Income

Fund range: High conviction – Swiss strategies

Subcategory: Net zero

2022 engagement priority: Strengthen awareness and alignment with new regulation

2022 achievement: delivery of practical actions for companies to improve their decarbonisation strategy. From 2024, large Swiss firms will be legally bound to report on their climate-related risks. We engaged with 11 companies to facilitate awareness and action. Lombard Odier has also contributed to the Swiss Climate Scores working group, ensuring our approach and methodology are aligned with government expectations. We presented our ITR methodology to the companies for them to understand which specific actions they can undertake to improve their decarbonisation strategies.

Zooming in: Climate Action 100+

Reflecting upon the past five years of climate engagement, Climate Action 100+ has played a significant role in accelerating the net-zero journeys of focus companies yet recognises that they all need to go further and faster to support efforts to limit global temperature rise to 1.5°C. In particular, the lack of credible short- and medium-term decarbonisation strategies across the majority of focus companies needs to be tackled. So too does the clear lack of capital-allocation commitments towards climate-change mitigation. This presents the initiative – and its signatories – with a clear challenge and opportunity for Phase 2, which will run until the end of this decade. Going forward, the initiative will maintain its focus on largely the same companies and sectors, while updating its goals to reflect the move beyond disclosure and towards real-economy decarbonisation.

At the end of 2022, 92% of focus companies now have some level of executive oversight, and 75% of companies have now committed to net zero by 2050 (versus only five focus companies at the end of 2017, when Climate Action 100+ was launched).

LOIM has been a Climate Action 100+ signatory since 2020 and we are currently involved in three collaborative engagements – one of which we are co-lead investor, and we are supporting investors for the remaining two. Below is a case study illustrating one of these engagements.

In addition to taking part in the above-mentioned collaborative engagements, LOIM has also used proxy voting as an escalation mechanism with several companies through the Climate Action 100+ initiative (please refer to the Escalation section).

Climate Action 100+ engagements

Please see case study 11 in the Escalation section

Zooming in: CDP 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 strived to increase the number of companies in our portfolios with credible net-zero targets. For the 2021-2022 campaign, LOIM was among 220 supporting financial institutions representing USD 29.3tn in combined assets. The 1,610 companies targeted by the campaign were based on the CDP Climate Change High-Impact Sample comprising 2,237 companies, representing the most impactful in market value and/or GHG emissions terms.[14]

As a result of the campaign, between September 2021 and September 2022, 213 companies joined the SBTi; 38 have had their near-term targets approved and 96 companies have committed to net zero. For more details on the campaign results, see CDP's Final Progress Report: 2021-2022 campaign.

Case study 3

Headline	Swiss financial company – net zero
Asset class	Systematic equities, equities, systematic fixed income, fixed income, multi-asset
Specific themes	Say-on-climate, scope 3, Net Zero Banking Alliance
Region	Europe

Engagement background

The company proposed a say-on-climate resolution, presenting its net-zero transition plan at its 2022 Annual General Meeting. This plan was criticised for its lack of strong scope 3 targets (representing most of its carbon emissions) and weak divestment policies on highly polluting sectors, such as coal. The plan was however aligned with the Net Zero Asset Managers initiative, of which the bank is a founding member.

What did we discuss and ask for?

The company organised a say-on-climate roundtable, attended by several investors 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 key gap and weakness in their proposal – namely, 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 challenge. We encouraged them to join the SBTi to accelerate the process.

What was the outcome?

Following the engagement and a conversation with Share Action, a charity promoting responsible

[14] https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/586/original/CDP_Science-Based_Targets_campaign_–_progress_report_2021-22.pdf?1666699727

investment through shareholder resolutions and voting), we voted 'for' the say-on-climate resolution as we recognised the strong governance and efforts the company has put into developing it, and the fact that it is aligned with the Net Zero Banking Alliance requirements, of which, we are aware, has limitations. Despite the concerns (see below), on balance, we decided it was more constructive to support the resolution and continue to address the 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.

Stewardship priority 2
Promote and uphold best-in-class business practices

Engagement scope: firm-wide

Thematic: Climate

Subcategory: ESG/TCFD disclosure

2022 engagement goal: Engage companies with insufficient data disclosure or misleading data

2022 achievement: We joined the CDP non-disclosure campaign 2022. Across all three themes (climate, forests and water), 388 out of the 1,466 companies targeted through the campaign responded. This generated a response rate 2.3 times greater than those companies not engaged by financial institutions, illustrating the influence of direct engagement. LOIM acted as lead, sending the letter directly to four companies. Of these, one company submitted the climate questionnaire, one did not reply, one replied saying it was considering submission (but did not submit the questionnaire by the July deadline) and one declined to respond to the CDP questionnaire.

Engagement scope: fund-wide

Asset-class: Equities, Convertible and Alternative

Fund range: Funds with the Towards Sustainability' label

Subcategory: ESG/TCFD disclosure

2022 engagement priority: Address lack of disclosures

2022 achievement: We engaged five companies with no ESG score; typically, such companies have recently gone through an IPO and are not yet covered by ESG data providers. For one company, LOIM was the first investor to discuss the need for and the importance of ESG reporting. We gave the company concrete advice for its ESG programmes and information for it to be well captured by ESG data providers. Of the five companies, two are now rated (one with a A- rating and the other C-). For these engagements, we consider the objectives to be achieved. One company is still not rated but produced its first, very comprehensive sustainability report in 2022, and the objective is therefore also achieved. One engagement was closed due to a lack of reply and the last one is ongoing.

Asset-class: Equities, Fixed Income and Convertibles

Fund range: High conviction- Article 8 and 8 Article 8 funds with minimum commitment to making sustainable investments

Subcategory: ESG rating bottom quintile

2022 engagement priority: Improve rating

2022 achievement: On ESG business practices, we continued the efforts started in 2021 but did not begin any new engagements on this as a main issue for 2022. Those engagements usually take time as the company first needs to understand what its weaknesses are, implement concrete actions, demonstrate results and lastly for the ESG data providers to capture those outcomes.

Asset-class: Equities

Fund range: High conviction- Article 8 and 8 Article 8 funds with minimum commitment to making sustainable investments

Subcategory: ESG rating bottom quintile

2022 engagement priority: Improved corporate governance

2022 achievement: For high-conviction equity strategies, any intention to vote against a management resolution proposed at an AGM was communicated to the concerned company. This led to 20 engagements in 2022.

Asset-class: Equities

Fund range: Swiss strategies

Subcategory: Corporate governance

2022 engagement priority: Improved corporate governance

2022 achievement: Of the 20 new companies engaged on corporate governance, 14 were Swiss. Another company we engaged with was still open from the engagement which had started in 2021. As a Swiss asset manager, LOIM places particular emphasis on promoting best practice in governance in Switzerland. We have developed strong relationships with some companies over time and actively participate in discussions linked to corporate governance, such as remuneration policy and shareholder rights. As engagements on corporate governance are usually short, at the end of the year all were closed with the following outcome: objectives were achieved in 53% cases, partially achieved in 33% cases, not achieved in 7%, and for the remaining 7% of cases, there was a lack of reply (representing only one company).

Asset-class: Alternative

Fund range: Article 9

Subcategory: Private credit

2022 engagement priority: Climate disclosures and diversity and inclusion

2022 achievement: Companies understood the importance of climate disclosures, and of incorporating them and ESG disclosures into their day-to-day operations. Therefore, portfolio companies will increase diversity among staff in both employee populations and within boards of directors. They will start disclosing these sustainability metrics in June 2023.

Zooming in: CDP non-disclosure campaign, 2022

In 2022, LOIM was among a record 260 financial institutions, representing nearly USD 30 trillion in assets, who participated in CDP's non-disclosure campaign. Among the key takeaways from this campaign are:

- 388 out of the 1,466 companies targeted through the campaign responded, representing a response rate 2.3 times greater than those companies not engaged by financial institutions and illustrating the influence of direct engagement.[15]
- The Non-Disclosure Campaign runs in parallel to the main CDP disclosure request and targets companies that have failed to respond to previous requests to disclose from CDP.
- This 'opt-in' campaign allows CDP signatories to directly engage with companies and seek disclosure with the backing of other like-minded financial institutions.
- The aim of the campaign is to allow financial institutions to use their influence and position to achieve higher rates of companies responding to CDP's disclosure request. We can observe that companies failing to disclose are more likely to complete the questionnaire for the first time after being directly engaged by financial institutions rather than just CDP requesting on their behalf.[16]
- In 2022, the number of companies targeted on climate change increased only marginally, whereas the companies engaged on forests and water security increased significantly, to 35% and 51% respectively.
- Through the campaign we actively engaged with companies in our portfolios to begin disclosing TCFD-aligned data through CDP. LOIM co-signed letters to 51 companies, requesting them to submit the CDP questionnaire on climate, forests or water. LOIM acted as lead, sending the letter directly to four companies. Of these, one company submitted the climate questionnaire (but not the water one, which we also deem material to the company), one did not reply, one replied by saying they were considering submission (but did not submit the questionnaire by the July deadline) and one declined to respond to the CDP questionnaire. For more information on the overall campaign results, see the 2022 CDP Non-Disclosure Campaign Results Report.[17]

Zooming in: corporate governance engagements

Please see Proxy Voting, Escalation and Conflicts of Interest sections

[15] https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/764/original/CDP_2022_Non-Disclosure_Campaign_Report_18_01_23.pdf?1674225832

[16] https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/764/original/CDP_2022_Non-Disclosure_Campaign_Report_18_01_23.pdf?1674225832

[17] https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/764/original/CDP_2022_Non-Disclosure_Campaign_Report_18_01_23.pdf?1674225832

Case Study 4

Headline	A US renewable energy operator - ESG/TCFD disclosure
Asset class	Alternatives
Specific themes	ESG strategy, reporting
Region	North America

Engagement background

The company is a developer, co-owner and operator of virtual power plants (VPP) across multi-family residential locations that provides residents with access to resilient low-carbon power. The company has a particular focus on low-to-moderate income energy consumers and is committed to increasing energy equality at multi-family communities through onsite community solar and storage. Besides providing a source of clean energy, VPPs have been recognized a strong catalyzer to increase energy resiliency in the United States, in specific its energy storage component can help provide communities energy during blackout periods in regions that may be affected by climate events or energy demand peaks that the system.

What did we discuss and ask for?

Following an initial Due Diligence Questionnaire, we had several conversations with the company to help them 1) identify the most material sustainability metrics for the business; and 2) ensure their inclusion in their operations. Throughout the process we highlighted the importance of doing it at an earlier stage in its development so that they would become completely embedded into the business strategy and operations. Our conversations were particularly focused on the renewable energy generated, the energy stored in the batteries, and GHG emissions. After identifying the key sustainability metrics to report against, we asked the company to include the metrics into their recurring reporting.

What was the outcome?

The engagement confirmed our view that the company's senior management has a clear mission to increase access to affordable and reliable clean energy. In addition, the company designed and integrated a platform that provides real time data on their energy production, battery usage and state, and ESG metrics such as GHG emissions avoided.

Stewardship priority 3
Manage controversies

Engagement scope: firm-wide

Thematic: Controversies

Subcategory: Controversies 4/5

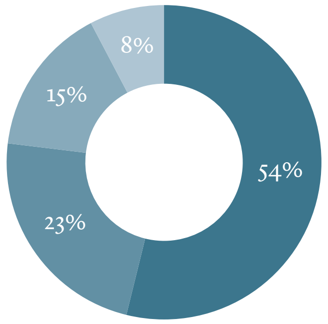
2022 engagement goal: Engage companies held with significant threshold subject to controversies levels 4/5 (new level-4 status) and 5/5 (all companies)

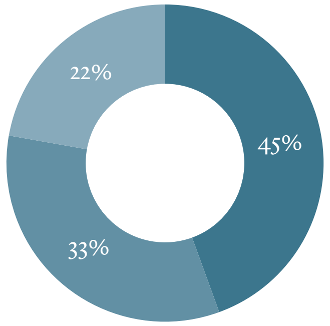
2022 achievement: Nine companies were engaged in addition to the 12 already under engagement. In 2022, we proactively engaged companies subject to controversies level 5/5 and companies which have seen their controversy level increased from 4 to 5, but we also received some requests from investment teams which sometimes want a view on on-going controversies before investing in a new company. A wide range of controversies has been addressed in 2022, from deforestation and biodiversity impact to human rights issues.

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

Controversies are usually long-lasting; we therefore mainly rely on our outlook, which we review after each interaction. At the end of 2022, we closed nine engagements with mitigated results; for 45% of the companies we achieved our result and could mitigate the controversy, compared to 29% where we found the controversy level to be justified and could not realistically foresee any improvements from the companies. For the engagements remaining open, the engagement outlook is a strong forward-looking indicator for portfolio managers and analysts within their company assessments and selection.

Fig.10. Outlooks for engagements focused on controversies, 2022





Source: LOIM. For illustrative purposes only. Data as at 31 December 2022.

Case study 5

Headline	Utilities company – social controversy
Asset class	Equities
Specific themes	Deforestation, traceability, packaging
Region	Europe

Engagement background

Our team flagged the company due to a level 3 controversy, which was found when undertaking a "Do No Significant Harm" (DNSH) assessment of the company.

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. Moreover, several investors had divested and placed this company on their exclusion lists as a result. Therefore, we sought to engage with the company to better understand its approach to human-rights due diligence (HRDD), including its willingness to consult concerned communities in a meaningful way; how it handled the controversy and what mitigating measures or new policies it has put in place to avoid similar situations in the future.

What did we discuss and ask for?

The company had carried out a social and environmental impact assessment in 2019, and in 2020 a proper HRDD assessment, which was carried out by a third party. The latter recommended to the company that it apply the highest health and safety standards during the construction phase; provide access to grievance channels for the local community; provide training for the local population and carry out a consultation of the latter regarding the planned solar energy project.

The consultation was performed by another independent third party; some stakeholders were consulted actively, in the local language and involving the local municipality. Two main concerns were raised: i) that people didn't have the skills to work on the construction project and ii) people wanted to ensure grievance channels were put in place, which they were. These two issues were mostly addressed by the company. The issue was regarding a de facto political group, which was not included in the consultations. The independent third party carrying out the consultation apparently advised the company it was not worth consulting them as they were prone to saying no.

We tried to understand why the company chose to hire a third party for the exercise when the object of the consultation was to build rapport and gain people's trust. The firm explained it was to guarantee the independence of the assessment and the reasons why it was perceived that way. They wanted people to feel open to responding honestly. They have raised this with the third party; discussions are on-going. They are contemplating contesting the advice given.

Following the controversy, HRDD is still not standard practice, although they usually carry out a social/economic /environmental study and a social and environment impact assessment (with a specific team in charge of this). In the company's recent Human Rights policy review, the section on local communities was expanded. The business also evaluates 100% of suppliers from an environmental, safety and human rights perspective. If a risk is flagged from an ESG perspective, it is presented to the risk committee to decide whether to go forward with the investment.

What was the outcome?

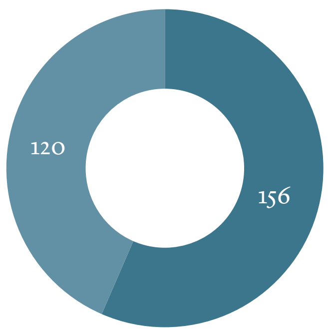
There was a sense of mea culpa during the engagement call; today, things would surely have been done differently. The incident seems to have resulted more from a lack of awareness rather than any ill intention. Our questions were well received, and the company listened to our perspective and recommendations. Certain questions received vague answers, raising questions on social-issues oversight and board-level accountability, but we received clearer answers to our pending questions sent via email. The company has improved its Human Rights policies; it is actively trying to mitigate the fallout from this investment and, at the least, this experience has served to heighten awareness about human rights and social issues. We are confident that stakeholder engagement would be better handled in the future, if only to avoid a similar situation and resulting reputational risks.

After having formalised the stewardship approach in 2021, a review of all LOIM engagements has been conducted as of 31 December 2022, because we have had a sufficient timeline to assess achievements on initial objectives. At 77% of all engagements, objectives were fully or partially achieved, with the remaining 23% reflecting either objectives not being achieved or a lack of response.

We remain conscious that engagement success is usually multifactorial, and the success cannot be attributed solely to our actions.

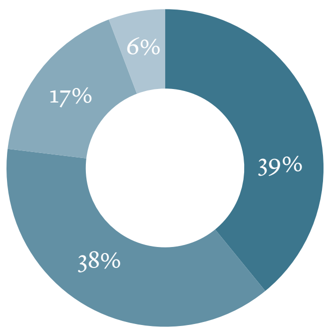
Fig.11. 2022 engagements: status and outcomes

Engagements by status end of 2022



- Closed engagements
- On-going engagements

Quantitative outcome for engagements closed in 2022



- Objectives achieved
- Objectives partially achieved
- Lack of responses
- Objectives not achieved

Source: LOIM. For illustrative purposes only. Data as at 31 December 2022.

Fig.12. Main engagement case studies

Case study	Company	Stewardship priority	Main issue	Specific themes	Region	Asset classes	FRC Principles Mapping
1	American energy company	Encourage companies to align with sustainable transition pathways	Net zero	Decarbonisation plan	North America	Systematic equities, Systematic fixed income	4, 9
2	French cosmetic company	Encourage companies to align with sustainable transition pathways	Natural capital	Natural capital, deforestation, traceability, packaging	Europe	Equities	4, 9
3	Swiss financial company	Encourage companies to align with sustainable transition pathways	Net zero	Say on climate, scope 3, Net Zero Banking Alliance	Europe	Systematic equities, Equities, Systematic fixed income, Fixed income, Multi asset	4, 9
4	US renewable energy operator	Promote and uphold best-in-class business practices	ESG/TCFD disclosure	ESG strategy, reporting	North America	Alternatives	7, 9
5	European utilities company	Manage controversies	Controversy	DNSH, human rights, local communities' relationship	Europe	Systematic fixed income, Systematic equities, Alternatives	7,9
6	Dutch automobile company	Promote and uphold best-in-class business practices	Corporate governance	Remuneration	Europe	Equities	7, 9,12
7	German pharmaceutical company	Promote and uphold best-in-class business practices	Corporate governance	Remuneration	Europe	Equities	7, 9,12
8	French utilities company	Promote and uphold best-in-class business practices	Corporate governance	Remuneration	Europe	Equities	7, 9,12
9	Swiss real estate company	Promote and uphold best-in-class business practices	Corporate governance	Shareholder rights	Europe	Equities	7, 9, 12
10	UK bank	Encourage companies to align with sustainable transition pathways	Net zero	Climate strategy	Europe	Equities	4, 9, 12
11	US forestry and paper industry company	Encourage companies to align with sustainable transition pathways	Net zero	Net-zero commitment and decarbonisation strategy, climate lobbying activities, climate	North America	Systematic equities	4, 9, 10, 11
12	Airline	Encourage companies to align with sustainable transition pathways	Net zero	Carbon emission reduction targets, Sustainable aviation fuels	Asia	Convertibles	4, 6, 9

Source: LOIM. For illustrative purposes only. Data as at 31 December 2022.

Collaborative

LOIM closely monitors all regulatory frameworks related to investment advice and products. Active memberships in various national and international financial trade associations enable us to provide knowledgeable inputs, voice opinions, and embrace innovation and regulatory change promptly. Through collaborative engagements, we address material issues and leverage the power of joint investor action. The campaigns we participate in are carefully selected to ensure alignment with LOIM stewardship priorities. Companies' exposure to LOIM assets under management, LOIM expertise in the thematic or industry, and existing relationship are reviewed before committing to any lead or co-lead role.

Fig.13. Summary of campaigns supported in 2022

Initiative/lead organisation	Description of campaign	LOIM role
Aviva/Storebrand and ChemScore	Initiative asking the 50 largest chemical companies to phase out and substitute persistent chemicals and disclose the volume of all hazardous chemicals they produce	We supported the campaign and co-signed letters to manufacturers of hazardous chemicals. ChemScore's rankings of companies can be read here; media coverage of the initiative is available here.
CDP non-disclosure campaign	This campaign sought to drive further corporate transparency around climate change, deforestation and water security by encouraging companies to respond to CDP's disclosure request	Through the campaign, 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.
CDP science-based targets campaign	The goal of this campaign is to drive the world's highest-impact companies to set science-based targets in line with the Paris Agreement target 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 strived to increase the number of companies in our portfolios with credible net-zero targets.
Ceres	We joined Ceres's Valuing Water Finance Initiative, targeting 72 companies with large water footprints to better manage this resource.	We joined Ceres's Valuing Water Finance Initiative, targeting 72 companies with large water footprints to better manage this resource.
Climate Action 100+	Focused on ensuring the world's largest corporate GHG emitters take necessary action on climate change.	LOIM has been a member since 2020. We are co-lead of one engagement group and a supporting investor in two groups (one of which we joined in 2022).
		LOIM participated in the strategy consultation aiming to enhance the Net Zero Company Benchmark for the next phase of the initiative.
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.	We became members in January 2022 and joined an engagement stream focused on sustainable proteins. In addition, LOIM participated in the expansion of a campaign on manure mismanagement (to be rolled out in 2023).
	Biodiversity program aimed at promoting sustainable practices in animal agriculture and reducing its impact on ecosystems and biodiversity.	We joined the biodiversity – Biodiversity and Nature Risks initiative.
Finance for Biodiversity Pledge	A commitment by financial institutions to call on global leaders to protect and restore biodiversity.	LOIM has been a members since 2020. We co-authored an engagement and proxy voting guide on Biodiversity.
Forum pour l'Investissement Responsable (FIR)	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.	We supported the FIR letter to the French regulator to include a mandatory say-on-climate vote.
IIGCC	Global investor membership body focusing on climate change	We contributed to developing the Net Zero Stewardship Toolkit.
IIGCC Global Investor Statement to Governments	Delivers the strongest-ever investor call for governments to raise their climate ambition and implement robust policies.	LOIM co-signed the Statement to Governments on Climate Crisis (published on 13.09.2022)
IIGCC Net Zero Engagement Initiative	An initiative to scale and accelerate climate-related corporate engagement. By expanding the universe of companies engaged beyond the Climate Action 100+ focus list, including those across the demand side, the objective is to help investors align more of their portfolio with the goals of the Paris Agreement.	LOIM signed on to the initiative in December 2022; the launch took place in March 2023.
Principles for Responsible Investment	The world's leading proponent of responsible investment.	We provided input and knowledge to the PRI's circularity brief, Closing the loop: Responsible investment and the circular economy.
Rathbones	Collaborative engagement that targets 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.
ShareAction Deforestation legislation in US	Draft US Legislation aiming at prohibiting agricultural commodities entering the U.S. market from being sourced on land that was illegally deforested and requiring traceable supply chains.	We co-signed deforestation-related legislation in the US, through a letter organised by ShareAction (NY and California bills).

Policy maker/sovereign working group

Engaging with policy makers is crucial to create regulatory frameworks that will benefit companies engaged in the sustainability transition. 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 contributing to the Swiss Climate Scores where we contributed expertise on the management of climate risks and opportunities in investment portfolios.

Zooming in: The ESG in Credit Risk and Ratings Initiative

The PRI's ESG in Credit Risk and Ratings Initiative aims to enhance the transparent and systematic integration of ESG factors in credit-risk analysis. The initiative does this by facilitating dialogue between credit-ratings agencies (CRAs) and investors to cultivate a common language, discuss ESG risks to creditworthiness and bridge disconnects. The initiative kicked off with the launch of the Statement on ESG in Credit Risk and Ratings, which so far is supported by more than 180 investors managing over USD 40 tn and 28 CRAs. Four reports have been published as part of the initiative and over 20 forums organised around the world for credit practitioners.

LOIM was member of the advisory committee. The role includes participating in the monthly/bi-monthly working group meetings, providing feedback to the working group and taking an active role in facilitating the discussions between CRAs and investors.

Zooming in: Swiss Climate Scores

The Swiss Climate Scores establish best-practice transparency on the Paris Agreement-alignment of financial products to foster investment decisions which contribute to reaching the climate goals.

Lombard Odier was one of two providers for the implied temperature rise (ITR) methodology and has been actively involved in shaping the Swiss Climate Scores. Our sustainability experts were part of a technical working group seeking to:

- Define the scope of what an eco-label could look like
- Recommend indicators that should be included on the label
- Refine the minimum criteria for all of the indicators on the score card, for instance in highlighting the need for verified near-term targets (in addition to any longer-term net-zero pledges)

Our interventions, alongside those of other participants, helped to achieve a much more prominent role for forward-looking approaches, including commitments to net zero, management progress towards net-zero goals and credible climate stewardship.

We emphasised the importance of methodological transparency when disclosing ITR figures and the necessity of a more forward-looking approach to assess a companies' climate score within a portfolio. The inclusion of the 'global warming potential' indicator for methodology providers was a great outcome, of which we were a driving force.

Through our commitment, we hope the Swiss Climate Scores retained greater alignment and allow for improved benchmarking between different funds today.

Fig.14. Initiatives and working groups that LOIM participates in

Associations and initiatives	Status	Member since
ABPS-ABG Juristengruppe	Member	1997
ABPS-ABG Working Group Sustainable Finance	Member	2020
Swissbanking Commission for Legal and Compliance (KOREKO)	Member	1912
SwissBanking Working Group Disclosure	Member	2021
SwissBanking Working Group Sustainable Finance	Member	2020
SwissBanking Working Group Taxonomy	Member	2021
Task Force of Association of the Swiss Private Banks	Member	1997

Source: LOIM. For illustrative purposes only.

Proxy voting

› Principle mapping: 1, 2, 3, 4, 7, 8, 9, 10, 11

Exercising voting rights is a fundamental responsibility as active stewards of our clients' economic interests. Voting appears as a key theme throughout this report, and we see it as the common thread that triggers and cements integration and stewardship.

Voting on behalf of our clients allows us to express our view on critical matters affecting our investee companies, and also companies' impact on societies and the environment. In doing so, we consider a range of matters such as strategy, corporate governance, share capital management, shareholders' rights, audit issues, transparency, disclosure, remuneration, social and environmental matters and, importantly, companies' alignment with the economy-wide sustainability transition. Any change we encourage companies to make through exercising voting rights (or related engagement) is intended to improve a company's long-term performance. Accordingly, our voting decisions favour proposals that in our view tend to maximise clients' long-term shareholder value and are not influenced by conflicts of interest. These principles reflect our belief that sound and solid corporate governance structures and the effective management of social and environmental risks create frameworks within which a company can be run in the long-term interests of its shareholders and stakeholders.

Voting guidelines

We have discharged our proxy voting activity in 2022 by implementing our Proxy Voting Guidelines. As described in our previous Stewardship Reports, in late 2021 we published our inaugural Corporate Governance Principles and Proxy Voting Guidelines, which became effective for meetings taking place on or after 1 March 2022.

These principles state our corporate governance and sustainability expectations for the companies we invest in. They were articulated to pursue the three key objectives listed in the 2022 stewardship statement, linked to our sustainability vision. Each of these corporate governance and sustainability principles are tied with a corresponding proxy voting guiding principle.

The Guidelines focus our efforts on five major areas of corporate governance: leadership, transparency, remuneration, share capital and shareholder proposals. We have identified these areas as the key pillars through which to analyse companies and push for accountability and improvements, where necessary.

This approach allows us to use proxy voting to support a sustainable transition. Our final votes take into account prior and current engagement and company responsiveness but will always rely on the initial corporate governance principles. We continue to take into account different regional best practices as we accept the varying approach to optimal and unique corporate governance structures, which can be context-dependent. However, we still assert our views on the desired approach, aligned with international best practice and the expectations of stakeholders. We rely on two main global governance standards: the G20/ OECD Principles of Corporate Governance (2015) and the ICGN Corporate Governance Principles (2021).

Process

We use Institutional Shareholders Services (Europe) S.A. (ISS) to provide operational, record-keeping, research and reporting services. In 2022, we moved to ISS' Sustainability Policy as our parent policy for ISS research. We took this decision following extensive comparative analysis of the different ISS policies, as we concluded that it was the closest benchmark to our sustainability vision and mission.

We have established a two-pronged approach in harnessing ISS research. Firstly, we use ISS sustainability research report, which triggers written analysis and recommendation for each proxy vote, based on ISS's Sustainability Policy. Secondly, based on our Proxy Voting Guidelines, we have built, together with ISS, a custom-vote recommendation report. Sustainability issues and companies under engagement are referred to the stewardship team for further oversight. Once the team have reviewed the materials, and engaged where necessary, votes are cast. We work closely with investment and sustainability research teams to ensure full alignment.

Material events are systematically referred to the relevant portfolio management team for a voting decision, such as merger agreements, reorganisation/ restructuring plans, joint-venture agreements, plans for liquidation and spin-off agreements.

Clients may request to override in-house guidelines. A client may propose to vote differently from ISS and our own custom recommendations on any topic as long as the vote is motivated and justified. Once we are satisfied that the proposed vote is free from conflicts of interest and the rationale is sound, we seek to instruct it on behalf of clients.

When voting mandates are required by our clients, we implement our Proxy Policy, operationalised through our Proxy Voting Guidelines

Our voting records are publicly available. They are updated on a quarterly, retrospective basis.

Securities lending

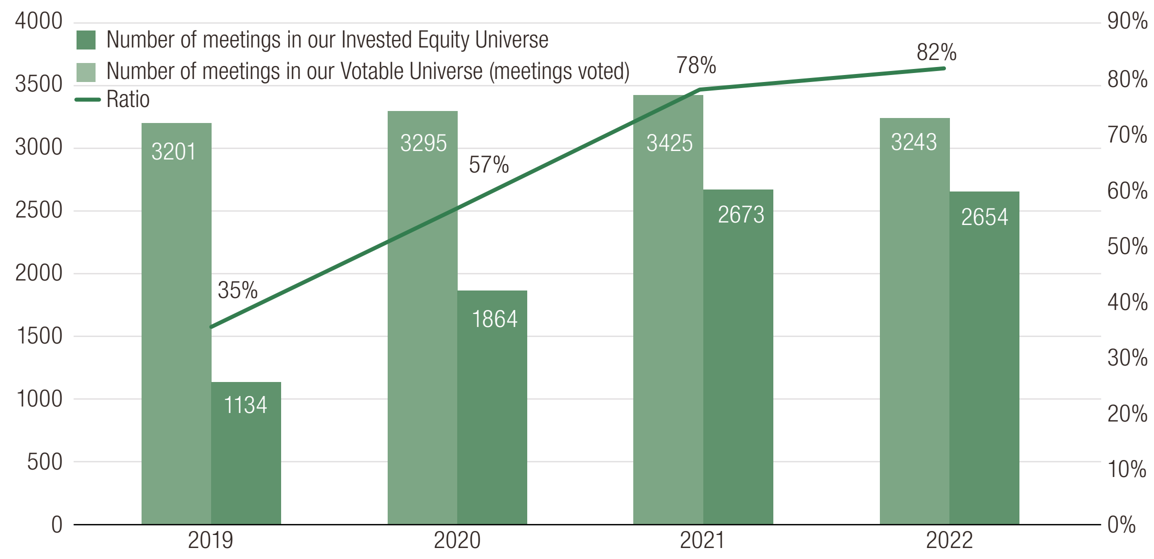
LOIM's securities-lending activity had been suspended since March 2020, as per the latest prospectus of the umbrella SICAV LO Funds as of 30 September 2022. It states that none of the sub-funds are engaging in securities lending so that LOIM may fully implement its stewardship policy, including exercising voting rights for engaging companies directly.

Voting coverage

We aim to cast votes on all meetings where our holding exceeds a certain threshold or where issues of particular importance arise. Since 2019 we have sought to progressively increase our voting coverage. The expansion of the votable universe has been achieved by lowering the threshold that triggers a company's inclusion within it. In 2019, the triggering threshold was 1% of a fund's NAV, culminating in the current threshold, first implemented in 2021, set at USD 100,000. As a consequence, the ratio between our invested equity universe and meetings voted[18] has significantly increased from 35% in 2019 to 82% in 2022.

Since 2019, we have instructed votes on 100% of our votable universe. We also cast votes outside our votable universe on certain M&A or sustainability-related general meetings that we identified as of importance. Figure 15 shows the evolution of our votable universe within the LOIM invested equity universe.

Fig.15. Evolution of votable universe versus invested equity universe



[18] "Invested equity universe" includes meetings for every company we hold. "Votable universe" includes meetings for every company we hold where we hold at least 100,000 USD. Within our votable universe, we vote 100% of our meetings. Source: LOIM. For illustrative purposes only. Data as at 31 December 2022.

2022 Proxy voting[19]

During the 2022 calendar year, LOIM reviewed, analysed and instructed votes at 2,654 shareholders' meetings, including more than 31,781 voting items across 58 different markets. We voted against management on at least one resolution at 63.6% of all meetings voted. On a per resolution basis, we voted against management at 13.35% of all resolutions.

Fig.16. Total number of meetings voted by region

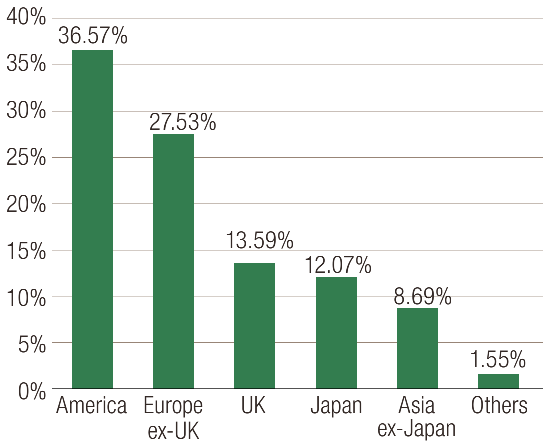


Fig.17. Meetings voted by market (top 5)

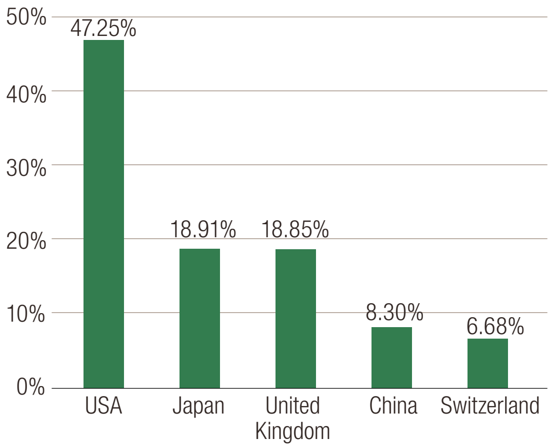


Fig.18. Vote breakdown on a per meeting basis

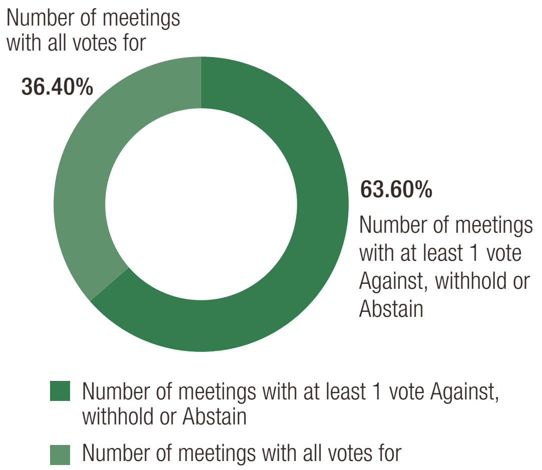
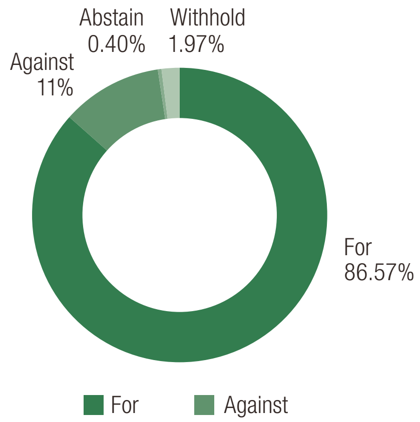
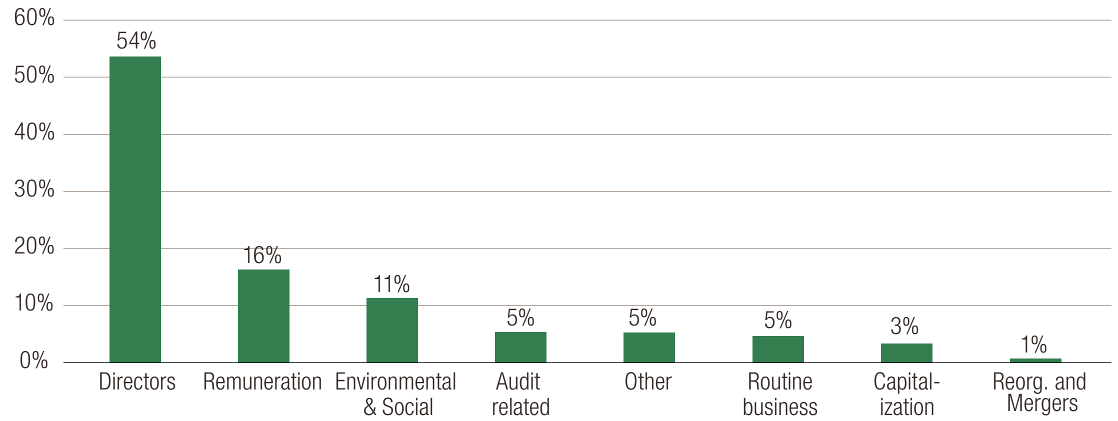


Fig.19.Vote breakdown on a per resolution basis



[19] In relation to fixed income assets: we do not seek to change the terms of a company's contracts with third parties; As part of a financial review of a company's balance sheet, we can ask for additional information relating to a trust (assuming it is of significant size on the company's balance sheet); As debt holders, we expect to enquire about a substantial reduction in the recoverable amount of a fixed asset; Long-term assets (often the biggest amount on a company's balance sheet) are particularly at risk of impairment. This would result in the impairment the issuer's capital; As debt holders, we are duty-bound to review the prospectus outlining the terms of the credit instrument. Source: LOIM. For illustrative purposes only. Data as at 31 December 2022.

Fig.20. Votes against by category



In total, 95% of all votes cast were successfully processed, forwarded and received by issuers. Although we voted all meetings in a timely manner, at 143 shareholder meetings (5% of meetings) a range of operational issues meant that the issuer did not successfully receive our votes. Reasons for the unsuccessful forwarding on of the votes include Power of Attorney, share blocking, sub-custodian issues, no holding at custody date and other technical matters. As in previous years, an audit of these unvoted meetings has been provided to us by our service provider, including an explanation for each missed meeting, together with remedial action.

What changed in our voting in 2022?

LOIM's proxy voting activity for meetings taking place on or after 1 March 2022 was implemented in accordance with the 2022 Corporate Governance Principles and Proxy Voting Guidelines. The corporate governance and sustainability expectations that we have defined translated into an increased level of oversight and subsequent votes against. To illustrate the increased level of oversight, figure 21 shows the evolution of our votes on a per resolution basis since 2020 and variation from 2020 to 2022:

More specifically, we have also analysed the resolution category where the majority of our votes against has occurred: (re)election of directors. This category relates to the leadership pillar in our proxy guidelines, which we see as the cornerstone for effective and successful governance structures, and also for facilitating, allowing and promoting a successful sustainability transition.

Fig.21. Evolution of proxy votes on a per resolution basis, 2020-2022

	2020	2021	2022	2020-2022 Variation
Meetings with at least 1 vote against	40%	62%	64%	+ 59.00%
Breakdown of votes per resolution				
For	92.3%	91.13%	86.57%	- 6.21%
Against	6.8%	7.58%	11.06%	+ 62.65%
Abstain	0.24%	0.41%	0.40%	+ 66.67%
Withhold	0.67%	0.87%	1.97%	+194%

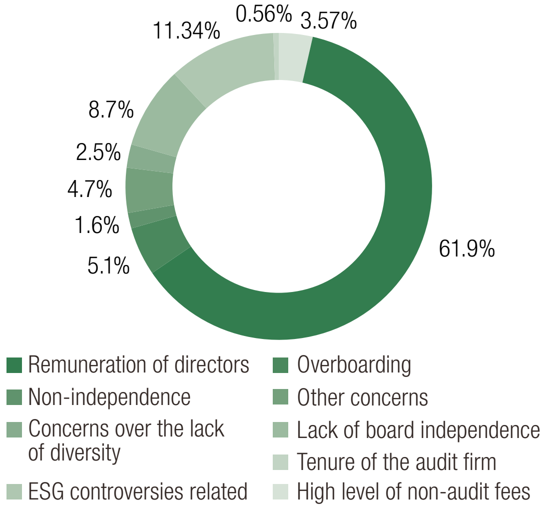
Source: LOIM. For illustrative purposes only. Data as at 31 December 2022.

We have analysed the reasons why we voted against (re)election of directors, as illustrated in figure 22. The votes against were by driven by the following concerns: overboarding, audit issues, sustainability issues/ controversies, lack of overall board independence, and lack of sufficient committee independence. The analysis accurately reflects our strict views regarding time commitments for directors, sustainability issues, and the independence required at the committee level.

Looking ahead: changes made to improve 2023 proxy voting activity

Between September and December 2022, we carried out the annual update of our proxy guidelines and policy. The 2023 guidelines apply for meetings taking place or on after 1 February 2023. Following an in-depth review of the guidelines, market expectations best practices, we applied minor editorial changes and then proceeded to update the guidelines in line with our 3+1 systems-change framework.

Fig.22. Breakdown of votes against directors, 2020-2022



Source: LOIM. For illustrative purposes only. Data as at 31 December 2022.

Case studies

Below we provide the rationale for some of our voting decisions across the ESG and sustainability spectrum during 2022, our assessment of how our voting may have impacted company's strategies, and how our approach to stakeholder engagement helped raise the profile of these issues.

Review of the 2022 AGM season

ESG and sustainability have become the prevalent words at the majority of 2022 AGMs across markets. Investors and companies have been contending with a myriad of ESG and sustainability matters. Investors keep adding demands and expectations to the standard governance requirements. At the same time, strong and appropriately set up governance has become the channel through which investors are now addressing weaknesses on environmental and social matters.

Through proxy voting, investors are starting in earnest to hold companies accountable on the governance of climate change, and the governance of biodiversity, with explicit ramifications for audit and remuneration committees, external auditors and remuneration plans. We saw the 2022 proxy season as a phenomenal exercise in balancing ever more ESG and sustainability building blocks.

In Europe, we saw an (almost) explosion of management-tabled climate-transition proposals on ballots, while the number of climate-related shareholder proposals stayed more or less stable since 2020. We saw the earlier 202-2021 shareholder climate proposals as the seed for the 2022 growth of management proposals on climate. In the US, the 2022 season had the most social-related proposals in recent years, and they represented the largest category of all submissions in 2022. This was driven by the recent and elevated societal interest in DEI as well as an ambition to promote human rights. For the environment and climate subcategory, we highlight that 2022 saw two phenomena: 1) these proposals became more prescriptive, and thus received less support; and 2) many were withdrawn due to settlement with the target company.

Case study 6

Company	Dutch automobile company
Topic	Remuneration
Resolution	Approve remuneration report
LOIM vote	Against
Result	Failed; 52.1% votes against

Context and discussion

At the AGM of a Dutch automobile company, we were concerned by the remuneration report resolution. The previous remuneration report (AGM 2021) had also received low support levels (55% of votes in favour). We had several concerns, regarding quantum in the ordinary plans, the granting of exceptional awards, the granting of undisclosed termination packages, and the overall governance process followed by the Remuneration Committee to arrive to these decisions. Our voting guidelines state that we do not normally accept the granting of retention awards, nor the additional of additional plans. For all existing plans, we expect disclosure of performance and metrics, assessment of performance against targets and the absence of vesting given below-medium performance. The lack of alignment with our stated expectations led us to vote against.

Result

Following the failed resolution, the company made a significant effort to reach out to investors to understand their views and preferences, and it took important steps to address them: change in peer group that is now less US-focused and more global; improved disclosures on the one-off retention scheme for the CEO, removal of Restricted Stock Units from the LTIP and replacement with performance-based awards beginning with the 2023 award; and no vesting below median performance, effective from the 2023 grant. The breadth and depth of changes introduced following engagement after the failed resolution highly exemplifies the impact that the vote had on the company, compelling it to undertake an extensive dialogue with shareholders and implement significant changes.

A year on, we are satisfied that a significant part of our goals – to improve alignment between pay and performance and remove discretion – have been achieved. We will continue to hold the company accountable to our pay and performance considerations and escalate votes in the future if deemed necessary.

Case study 7

Company	German pharmaceutical company
Topic	Remuneration
Resolution	Approve remuneration report
LOIM vote	Against
Result	Failed; 75.9% votes against

Context and discussion

At the AGM of a German pharmaceutical company, we were concerned about the remuneration report resolution given the following specific issues: lack of challenge and stretch in targets, apparent use of discretion by the Remuneration Committee to exclude litigation costs from the 2021 payout, pension costs and low levels of transparency. Our vote guidelines signal as areas of concern (inter alia): committee discretion, disclosures that do not allow the assessment of pay outcomes, and non-inclusion of non-financial factors into pay outcomes. The lack of alignment with our stated expectations led us to vote against.

Result

Following the failed resolution, the company made a significant effort to reach out to investors to understand their views and preferences, and it took important steps to address them. The Chair of the Board and the Chair of the Remuneration Committee participated in investor engagement and an action plan was published by the company to address the different and varied issues gathered during the exercise. We welcome the responsiveness of the company and the several commitments it has taken. Inter alia, they are: improve disclosures and transparency, expansion of the Human Resources Committee to also deal with compensation matters, improved overlap and membership amongst other board committees, and to establish a new process for target setting and target attainment.

The breadth and depth of changes introduced following engagement after the failed resolution highly exemplify the impact that votes against had on the company, compelling it to undertake a dialogue and implement significant changes. This was of particular relevance to us as we had also been engaging with the company on the issue of controversies, and the AGM shaped several of our concerns into actionable items. As an organisation, we have reached some of our goals with this vote, and we will continue to hold the company accountable to our pay and performance considerations and escalate votes (targeting remuneration committee members, the chair of the board, or discharge of the board) in the future if deemed necessary.

Case study 8

Company	French utilities company
Topic	Remuneration
Resolution	Approve remuneration policy of chairman and CEO from 1 January 2022 to 30 June 2022
LOIM vote	Against
Result	Resolution was withdrawn

Context and discussion

We were concerned by a remuneration resolution seeking shareholder approval for the remuneration policy for the Chairman and CEO for part of the year. Aware of the controversial proposal, which included metrics and targets rewarding an acquisition twice (through short and long-term plans), and waiving of pro-rating considerations following departure, the company engaged with shareholders to discuss the proposals and explain its rationale for them. During the engagement, we highlighted that, in line with our Proxy Voting Guidelines, departing executives should be rewarded for time served and variable pay must be pro-rated. We advised the company that we would vote against the resolution, as the proposal was not aligned with best market practice, nor was it in the interest of shareholders.

Result

Ultimately, the company withdrew the resolution before the AGM. We understand that the voting intentions communicated by numerous shareholders, as well as early vote instructions showing very limited support for the resolution, may have impacted this decision. As such, we reached our goals. We will continue to monitor and assess remuneration resolution disclosures and requests at the 2023 AGM, and commend the company for not going ahead with the initial remuneration plan, thereby fully taking into account what it perceived to be the sentiment of the majority of the shareholders.

Case study 9

Company	Swiss Real Estate Company
Topic	Remuneration
Resolution	Amend articles re: AGM convocation and agenda
LOIM vote	For
Result	Passed; 98% votes for

Context and discussion

We were concerned by a resolution to amend Articles of Association as it would deteriorate shareholder rights, by making it more burdensome to add items to the agenda. The threshold for item inclusion was proposed to be increased from 0.33% of the share capital to 0.5% of the share capital. The proposal was in parallel to reducing the threshold for calling a General Meeting from 10% to 5% of the capital. The company initially considered this change to be in the best interest of all shareholders, given that the percentage provided for a consistent relative hurdle was in line with the revised Swiss Corporate Law as of January 2023. During the engagement, we advised the company that this explanation had not mitigated our concerns, and based on the new threshold (0.5%), shareholder rights had been negatively impacted. We advised the company that we would vote against the resolution as the protection of all shareholders' rights is a key tenet of our proxy guidelines.

Results

Following consultation with other shareholders and proxy advisors, the company amended its Notice of Meeting by partially adjusting the resolution and lowering the threshold to allow shareholders to add an item to 0.25% of the capital, instead of the 0.5% initial proposal. We welcomed the compromise and willingness of the company to engage with shareholders, and voted for the resolution.

On this occasion, our proxy activity prompted an escalation, through engagement activity, which led to overall better shareholder access rights. The resolution received overwhelming support, with more than 98% of votes for, and as an organisation, we reached our goals.

Zooming in – Climate resolutions

A steep learning curve for all

There has been an ongoing acceleration (exponential in the last 12 to 18 months) of the climate conversation – demonstrating stronger understanding, urgency and escalation tactics amongst investors. The growing trend we have witnessed, where companies table say-on-climate proposals, has had the positive effect of triggering more engagement around climate and clearer views among investors about what 'acceptable' means.

Investors are reporting higher engagement rates on climate specifically. Investors' demands for companies to develop credible, science-based transition pathways have also been reflected in proxy voting agencies' policies and vote recommendations. Collaborative engagement networks and the rise of specific proxy voting alerts that flag weaknesses in transition plans (as well as highlight strengths) have contributed to adding specific engagement-led nuances into voting.

Has this led to greater or less support for imperfect transition plans? AGM data would seem to indicate that shareholders in 2022 tended to give higher support to management-tabled climate transition plans and lower support to shareholder-tabled climate transition plans than in previous years, while at the same time, we observed how the level of support for management resolutions has decreased compared to previous years.

What does this mean? It remains to be seen, but we continue to think that investors' engagement plays a pivotal role in our support plans that do not tick all the boxes – as long as, through ongoing engagement, the concerns can be acknowledged, understood and potentially mitigated through improved climate strategies. Equally, investors are getting more comfortable with holding directors accountable for lack of action and progress, and as such, the full suite of voting options across agenda items comes in support of poorer transitions or lack of plans.

Comparing climate resolutions over a three-year period

We have undertaken an innovative analysis of LOIM and wider market voting on climate transition resolutions on two companies to test our conclusions regarding climate-related votes in the 2022 AGM season. The conclusion we reach is that there is an increased maturity of investors' approach and demands, and an increasing focus on engagement. Further, we consider that, taken in isolation, votes for or against may not be as meaningful as in the past. Our conclusion, based on a very limited sample – which we hope to expand in 2023 – would suggest that the engagement/proxy voting continuum is more needed than ever in order for companies to go from climate procrastination to climate action.

Fig.23. LOIM analysis of votes on Barclays climate proposals

Proposed	2020	2021	2022
By management	**Approve Barclays' commitment in tackling climate change:**	**NA**	**Approve Barclays' climate strategy, targets and progress 2022**
For	99.9%		80.8%
Against	0.1%		19.2%
Resolution passed?	Yes		No
LOIM	For		Against
Aligned with market	Yes		No
Key takeaway	Significant reduction in shareholder base support of a management-tabled climate transition proposal (caveat: there is a one-year gap)		
By shareholders	**Approve ShareAction requisitioned resolution**	**Approve market forces requisitioned resolution**	**NA**
For	24.0%	14.0%	
Against	76.0%	86.0%	
Resolution passed?	No	No	
LOIM	For	Against	
Aligned with market	No	Yes	
Key takeaway	Moderate increase in shareholder opposition of a shareholder-tabled say-on-climate resolution (year-on-year)		

Fig.24. LOIM analysis of votes on Shell climate proposals

Proposed	2020	2021	2022
By management	**NA**	**Approve the Shell energy transition strategy**	**Approve the Shell energy transition strategy**
For		88.7%	79.9%
Against		11.3%	20.1%
LOIM		For	Against
Aligned with market		Yes	No
Key takeaway	Significant reduction in shareholder base support of a management-tabled climate transition.		
By Shareholders	**Request Shell to set and publish targets for GHG emissions:**	**Request Shell to set and publish targets for GHG emissions:**	**Request Shell to set and publish targets for GHG emissions:**
For	14.4%	30.5%	20.3%
Against	85.6%	69.5%	79.7%
Resolution passed?	No	No	No
LOIM	Against	Against	For
Aligned with market	Yes	Yes	Not completely, but the market direction is changing
Key takeaway	Overall: Moderate/significant increase and decrease in shareholder support of a shareholder-tabled say-on-climate resolution (year-on-year)		

Source: LOIM and publicly available disclosures.

We have collected, collated and analysed our own proxy voting data, the rationales we used for arriving at the vote conclusion and instruction each year, and whether our voting was aligned or not with the final vote result for each management or shareholder resolution. By doing so we draw the following preliminary conclusions:

- Each year, voting is informed by more specific requirements placed on the company. What was enough and appropriate in 2020, is no longer enough in 2022. This reflects the exponential increase in shareholders' expectations of companies and their depth of commitment, action, and boldness.
- An initial and early management-tabled say-on climate resolution generally attracts a high level of support. This serves the purpose of sending the signal to the board that a majority of shareholders acknowledge the initial, 'early mover' progress. However, lack of comprehensive action appears to erode support in subsequent management-led proposals.

Case study 10

Context and discussion

Company	UK Bank
Topic	Climate strategy
Resulution	Approve the company's climate strategy, target and progress in 2022
LOIM vote	Against
Result	passed; 80.8% votes for

A UK bank tabled a proposal seeking shareholder approval for its climate strategy, targets and progress. Ultimately, we decided to vote against this proposal because of several key weaknesses we identified:

- It did not provide a detailed plan for after 2035 and up to 2050
- The company had not improved its policies on fracking and oil sands – this approach left the company as one of the two European banks not committed to excluding financing for oil sands projects
- The resolution did not commit the company to a regular say-on-climate shareholders' vote
- The company's disclosed targets were not SBTi-approved at the time of voting
- Several sectors (real estate, automotive) were excluded from its financed emissions considerations

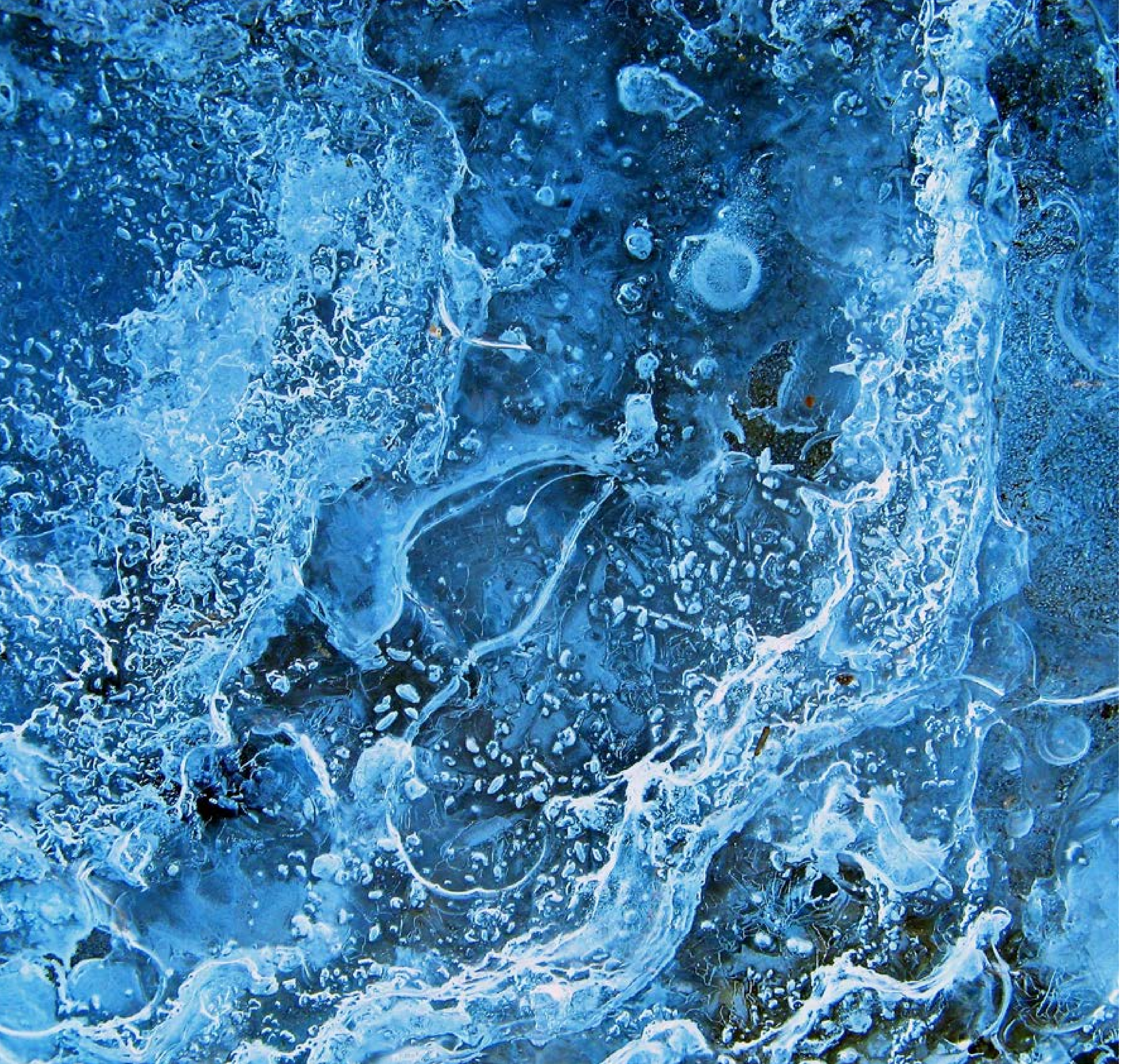
In reaching our decision, we had to balance the progress the company has made in recent years on its climate strategy (including underwriting, expanded sector financed emissions reduction targets), its responsiveness to shareholders on climate (and other concerns), as shown, among other actions, by its proactive submission of a Climate Strategy Resolution with the concerns described above that ultimately tilted the balance to a vote against. We took this view because, overall, we believed not enough climate strategy progress had been achieved at the time of voting. We understand that other shareholders not supporting the resolution shared similar concerns.

Results

The company acknowledged both the level of support received while also noting that there is a wide range of views across shareholders regarding the extent and depth of its climate strategy. It also committed to continue its engagement with shareholders during the year.

We believe that our votes against the resolution may have had a role in the company's announcement later in 2022, and in 2023 that it was a) increasing its own equity capital investment in global climate start-ups, in order to support the transition; and b) its commitment to not provide financing to companies generating more than 10% of revenues from oil-sands exploration (production or processing of assets) or from the construction of new oil sands exploration, production or processing, as well as not providing financing for the construction of pipelines whose primary use is the transportation of crude oil.

We welcome this policy development as this was a key missing element in the 2022 resolution. While the commitment still does not go far enough, we believe that it is the first step in the right direction. We will continue to engage with the company and express our satisfaction or dissatisfaction at the 2023 AGM.



Escalation

› Principle mapping: 2, 3, 4, 5, 7, 8, 9, 10, 11, 12

The LOIM Engagement Policy includes a specific section on our escalation approach. Our guiding principle is that constructive, private dialogue is more effective and adds more value in the long term than a reactive decision to divest, although we are prepared to exit holdings and/or exclude companies from our universe.

Stewardship as a process

We take a measured approach to stewardship, as we understand that some of our requests – such as setting science-based decarbonisation targets, committing to the protection of biodiversity, and integrating both into the strategy of a business – involve slow and lengthy processes.

We believe in, and stand ready to commit time and resources to, the belief that constructive, private, non-confrontational dialogue tends to be more effective. Within the category of stewardship, we will give a company no less than one and a half years to make progress and ideally meet our expectations before we escalate our approach to more public fora. We may increase the intensity of the engagement (for example, by speaking with the Chair, Senior Independent Director and/or Senior Sustainability Officers), but we are committed to giving our investee companies time to ensure transitioning plans.

Before committing to-escalation, we maintain dialogue with companies and look for evidence of progress, even if the steps are small. Our IT stewardship infrastructure allows us to accurately keep track of progress on ongoing engagement.

We see divestment as a last resort, an escalation strategy to be used after:

a. Exhausting enhanced and intense engagement (individual, followed up by collaborative engagements)

b. Appropriately using our vote to hold boards accountable for a lack of action, both by voting against the most relevant management resolutions, supporting shareholder proposals seeking to address the issue and through filing or co-filing shareholder proposals. Specifically, on (co)-filing shareholder proposals, our escalation approach prescribes a careful and measured process to ensure that internal due procedures are followed and are not expedited unless specific circumstances require this.

In addition to, and separate to the above, our actions can also include expressing concerns through the company's advisors, making a public statement in advance of a shareholder meeting, speaking at a shareholder meeting, and requesting a general meeting. The last step is divesting and excluding a company from our investment universe.

Our stewardship and escalation approach reflect the fact that each company is unique, even if engagement topics are similar. Therefore, escalation actions need to be tailored on a case-by-case basis.

Further notable considerations include:

- We seek to address concerns through ongoing engagement dialogue with our investee companies. These conversations take place between the Investment Analysts and Portfolio Managers, and sustainability and stewardship teams to ensure integration and full internal visibility. In most cases, our concerns are either sufficiently mitigated by extended explanations, or companies agree to look at the issue, report to the board (where conversations do not take place with board members) and report back to us within an agreed timeframe.
- Escalating an 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, or if previous voting and immediate controversies are affecting the stock). Any decision to use tactical voting, co-file a shareholder proposal or divest will require input from the Portfolio Manager, CIO, Stewardship team, Stewardship Committee, Sustainable Investment Committee, and the Legal and Compliance function.
- The Stewardship Committee is the final decision maker for escalation matters

Escalation prioritisation

Our escalation policy has a firm-wide remit. We apply the same policy and approach across all geographies and asset classes in which we invest. All investment teams share the understanding and knowledge that stewardship is a toolbox we use to protect and enhance the long-term value of assets and that includes different escalation mechanisms.

However, we are mindful that in some geographies there are limitations to the rights available to us as investors, the willingness of board members to speak directly with investors, language barriers or obstacles to submitting shareholder proposals. In these cases, we may pursue a collaborative route or fast-track escalation steps (for example, by proceeding directl to a decision to vote 'against').

As described in the sustainability section, we believe that the sustainability transition has become one of the most important drivers of investment risk and return, and our escalation approach reflects this. Underpinning this is our conviction that sound and solid corporate governance structures create the framework within which a company can be run in the long-term interests of its shareholders and stakeholders. In practice, this means our escalation approach may organically be more focused on specific strategies, such as Climate Transition and Natural Capital.[20]

More specifically, we may naturally focus escalations on :

- Companies in our CLIC® range of funds, as they are subject to enhanced discussions, engagements and voting oversight on a wide range of sustainability and ESG considerations
- The two transversal CLIC® themes: the transition to net zero and the protection and regeneration of natural capital
- Corporate governance issues

Voting as an escalation mechanism

Voting continues to be, in our view, the most widely used and practical escalation mechanism currently available to investors. The degree to which the voting process gives voice to investors' concerns on ESG and sustainability factors helps shape not only companies' business practices and business models, but also the resilience of the stock market. Public disclosures of voting records are a phenomenal mechanism showing the power and ability of votes to engender change. We also note that a significant vote against management leads to an engagement outreach exercise by the company to address the reasons for the resolution failing or gaining low support. This tends to yield systemic gains.

Case studies 8 and 9 provide two examples of LOIM's escalation strategy in action. Case study 9 led to changes in the issuer, after which we were able to vote 'for'; case study 8 did not yield the expected result and we voted 'against'. However, the resolution was withdrawn prior to the AGM.

[20] From 1 May 2023, these strategies will be renamed "Planetary Transition" and "Circular Economy" respectively.

Collective engagement and proxy voting as an escalation mechanism

As it was the case last year, in 2022, we used proxy voting as an escalation mechanism with several companies under collective engagement through the work of Climate Action 100+. Each investor-led engagement group has the option of flagging proposals to vote at each AGM (without providing a voting recommendation or intention, thereby removing any concerns about acting in concert). This serves as a tool to indicate to fellow engagers specific votes related to the goals of the initiative, as well as to share information from lead investors or investors co-filing shareholder proposals.

Working within the expertise and knowledge of each engagement group that flagged a resolution at a focus company, we were able to escalate collective and individual concerns about lack of climate action.

Towards companies that were in scope for us, we voted 'for' 11 of the 12 flagged shareholder resolutions. We did not support one of the resolutions because we did not think that the requested alignment of capital expenditure with the IEA Net Zero Scenario could be undertaken without a prior review of the company's strategy to ensure the sustainability of this commitment. This resolution obtained 6.5% of votes in support. Three of the flagged resolutions obtained overwhelming support (94%, 96% and 98%), and another two received considerable support (47% and 51%).

Collaborative engagement as an escalation mechanism

Case study 11

Headline	Forestry and paper industry company – net zero
Asset class	Systematic equities
Specific themes	Net-zero commitment and decarbonisation strategy, climate lobbying activities, climate governance
Region	North America

Engagement background

LOIM joined this collaborative engagement in the context of the Climate Action 100+ initiative as co-lead in 2020. The company did not score well against the Climate Action 100+ benchmark assessment. Topics we sought to engage on included climate governance, climate lobbying practices (transparency and actions), third-party verification of GHG emissions-reduction targets and TCFD disclosures.

What did we discuss and ask for?

2022 kicked off with a call in which the investor group expressed three concerns to the senior managers: 1) a lack of transparency in the company's lobbying activities, 2) the need to incorporate climate metrics into executive remuneration and 3) the need for stronger TCFD reporting, reflecting key areas of the Climate Action 100+ Net Zero Company Benchmark in which the company is underperforming.

The company's carbon footprint changed after they spun out a part of the company and they had to recalibrate their targets, but they were still able to have their targets validated by SBTi. They intend to have a TCFD and SASB index in their next Sustainability Report, in which their transition plans will also be further detailed. They did not respond favourably to a request to meet with board members as they don't put shareholders in front of the board as a rule.

A call was organised in February with the Vice President of Global Relations to discuss climate lobbying in more detail. The investors underlined the need for consistency between a company's discourse and the type of policy they support. The company representatives listened to the investors' concerns and recommendations and said it would regroup with the Chief Sustainability Officer to determine next steps.

Climate lobbying was discussed again in November and the company assured the investors that there will be improved disclosures in the upcoming sustainability report, thanks to investor feedback. On net zero, the company seems reluctant to commit to net zero until it is sure they can achieve it; they are also waiting on Securities and Exchange Commission guidance to ensure compliance. They prefer to focus on short- and medium-term targets to avoid the risk of delaying action towards a long-term target. They are confident they will set a net-zero target – they just cannot say when.

Executive remuneration is an ongoing conversation, and the company said it will publish any changes in the next proxy statement.

What was the outcome?

In January 2022, the company shared the planned inclusion of five key ESG metrics into the personal performance modifier for senior leaders, although had not formally incorporated clear climate-related KPIs. Lobbying practices remain problematic and a focus for the engagement group. In 2022, the company's sustainability report contained TCFD disclosures for the first time.

The collaborative nature of this engagement has been powerful in bringing together different perspectives and in grouping together efforts of the investors involved. In December 2022, LOIM and another investor in the group compared methodologies and analyses of the company, which served to feed into the dialogue and sharpen our case to the company.

LOIM is nevertheless disappointed with the modest progress the company made – particularly its decarbonisation strategy and climate lobbying. Consequently, after the first escalation – a letter sent in October 2021 – we discussed in a December 2022 meeting with our co-lead, the PRI and the whole investor group, possible options for further escalation in 2023.

Conflicts of interest

› Principle mapping: 3, 8, 11, 12

LOIM is committed to the highest degree of professionalism and integrity in doing business. We have an over-arching Group policy addressing conflicts of interest, a specific Conflict of Interest in Stewardship section in our Engagement Policy and a dedicated section in our Proxy Voting Policy.

Group policy

Lombard Odier's Conflicts of Interest Policy specifies that "regulated entities and employees within the Firm are required to take all appropriate steps to identify and to prevent or manage conflicts of interest between them and their clients, or between one client of the Firm and another." The Policy also lists the types of conflicts identified by the Firm (Firm versus Clients, Client versus Clients) and discusses how it manages conflicts of interest, which emphasises the escalation spectrum:

1. Conflicts of interest should be avoided whenever possible
2. When identified, employees have a duty to ensure the fair treatment of all the parties involved and make appropriate disclosures
3. When a conflict of interest cannot be avoided, such conflicts must be disclosed to all parties and reported to Compliance

A key element in Lombard Odier's approach to identifying, managing and mitigating real or perceived conflicts of interest is the governance structure that has been built for its management:

- Key business decisions are taken by the Board or the LOIM Management Committee, and are recorded
- A Remuneration Policy has been established to ensure that there is no unnecessary risk taking and to encourage responsible business conflicts
- The Risk and Compliance Committee, periodically and at least annually, provides a written report to the Board and the Risk and Compliance Committee covering:
  - The operation of the Firm's conflicts of interest policy
  - Identified conflicts recorded in the Firms' conflicts of interest register
  - An assessment of the effectiveness of the organisational and administrative arrangements established to manage conflicts of interest

Our ownership and governance structures further support our architecture for managing conflicts of interest. Lombard Odier is an independent family business owned by six managing partners who represent the seventh generation of bankers managing the firm. LOIM entities are wholly owned subsidiaries of LO Holding SA, a private holding company, structured as a société anonyme (corporation) incorporated in Geneva, Switzerland.

LO Holding SA is wholly owned by Compagnie Lombard Odier SCmA and is a holding company incorporated in Geneva – the managing partners solely own Compagnie Lombard Odier SCmA, therefore no further economic or voting interests are held by external individuals or entities.

Stewardship and conflicts of interest

Given our independent structure, we believe that LOIM is free from some of the conflicts of interests faced by publicly held financial institutions. However, we acknowledge that conflicts of interest may indeed sometimes occur when we discharge our stewardship responsibilities, especially when we vote and engage on behalf of our clients' shares.

We seek to act in the interest of all our clients when we carry out engagement and voting. Our engagement and proxy voting policies include a specific section dedicated to conflicts of interest. Both sections give public shape and recognition to LOIM's practices around conflicts of interest in the stewardship arena, chiefly: we are committed as a fiduciary to all our clients, and we always strive to act in their best interest. As such, we actively identify any potential, real or perceived conflict of interest, manage it and mitigate any risks. We do so to prevent them from influencing our voting decisions, engagement and accompanying investment processes.

Our conflicts of interest in stewardship process is an escalation mechanism, allowing us to move up and down the range of potential actions we may take when we face a real or perceived conflict of interest. It includes three main entry points:

1. **Identification of a conflict:** stock selection, voting analysis or discussion, and instructing final votes, before, during and after an engagement
2. **Assessment of a conflict:** this step helps us ascertain whether the conflict is material enough that it needs to be escalated
3. **Escalation of a conflict:** if deemed necessary, the matter will be escalated first to the respective Portfolio Manager, then to the respective CIO and finally to the Stewardship Committee

For voting, such processes include an override process, whereby our stewardship team is notified of any conflict of interest that would arise in connection with our exercise of voting rights. Since 2021, we have kept a Conflicts of Interest registry, developed and updated jointly by the Compliance and Stewardship teams.

The registry includes six dissimilar categories of scenarios linked to an avoid, control, or disclose rule. It also includes a requirement for controls on the exception list to be documented.

For engagement, such processes include structures that ensure that no investee company is favoured (either by actively including it or actively excluding it) in our standard, policy-led engagement identification and rollout process. Within the engagement itself, we have procedures highlighting the most appropriate interlocutors for certain topics. For example, we will not discuss a remuneration policy with the beneficiaries of the policy, and we will not accept the presence of company advisors during an engagement call.

Conflicts of interest may arise:

- When a portfolio investment is also a client
- Where the interests of two or more of our clients are in conflict
- When an LOIM employee is also a director of an investment
- When investment teams from different asset classes have different views in relation to strategy, capital allocation or distributions

A key outcome of our approach to managing conflicts of interest in stewardship during 2022 was the observation that the same (and very limited) conflicts of interest keep reappearing year-on-year. This would indicate that conflicts of interest are more of a market or structural issue than specific to us, as an asset management firm. Where we can add value and have impact is on how we manage them, with the underlying objective of the long-term interest of all our clients.

Additionally, the conflicts of interest we have faced during the year continue to highlight the extent to which each conflict of interest is indeed unique and that the response must be customised.

We also emphasise that managing conflicts of interest in stewardship is closely aligned with our escalation policy.

During 2022, we have monitored the conflict identification phase to prevent any real or perceived conflict from materialising. This has allowed us to stop conflicts from happening and undertake further escalation. Some of the conflicts we have identified and managed this year include:

Addressing differences in vote recommendations. During 2022 this conflict of interest materialised through three different scenarios:

1. The desired voting instructions of a client being different to those recommended by our proxy voting guidelines. As we prefer not to instruct split voting (which is operationally possible), we engaged with the party to better understand their views and ensure we were not facing a conflict of interest. It became clear that their views were informed, researched, justified, and indeed based on their own engagement with the company. In the end, we instructed votes that reflected this specific client's views, as we were satisfied that they promoted the long-term interest of all our clients.

2. On the other hand, we also received a client request to advise them of our voting intention as well as take into account their views and preferences on how to vote at specific shareholder resolutions. The particular view was on each case driven by their own strategic priorities. This request was different in nature to the one describe above, because it asked for vote intention rationale as well as blending their views into the final vote instructions, wherever possible. Our final votes took into account the long-term interest of all our clients, our own stewardship priorities as well as the engagement activity which mitigated initial concerns. This scenario has led to an internal engagement process that seeks to assess the value of expressions of wish and pass through voting within our proxy voting activities, which continues into 2023.

3. Differing vote recommendations issued by two different investment teams. As above, although we are able to instruct split votes, we have a preference for unified voting to take place in order to emphasise our house view on one particular topic. In order to address this conflict, the stewardship team first engaged internally with each of the portfolio managers. This was followed by a joint meeting and several written communications where, progressively, we were able to find more common ground. Lastly, we had an engagement meeting with both PMs and the company, which allowed all teams to clarify remaining questions before instructing votes.

Share-blocking markets. Again in 2022, against the background of the market turmoil and the need to retain liquidity, we were instructed by one external manager that it did not wish to vote at the upcoming AGMs of companies where share blocking may apply, as it would mean that the related shares would be blocked from trading for a considerable number of days. We reiterated our Proxy Voting Policy for share-blocking markets (we do not vote on 100% of the position, thereby ensuring a minimum degree of trading), as well as our understanding of best practice, which highlights the importance of exercising voting rights to give meaning to the economic rights. The external manager acknowledged the policy and best-practice approach but continued to emphasise the need to retain full liquidity. We thus implemented a 'split voting' approach whereby that particular fund did not vote the shares nor register them prior to voting, thus ensuring that we were respecting the client's wishes as well as voting for the other funds invested in the name.

Conflicted interlocutors. During some corporate-governance engagements in which we aimed to better understand business practices, CEOs or CFOs also joined the meetings. Overall, we think this is positive, as it sends the message that those responsible for implementing strategy are also taking responsibility for ESG and sustainability matters. Our conversations included remuneration matters, at which point, we were resolute in suspending the engagement, explaining that it would not be appropriate to discuss the matters with the beneficiaries being present.

Please read the important information at the end of the document.
Lombard Odier Investment Managers · Stewardship Report 2022

Governance, oversight and risk management

› Principle mapping: 2, 5

To ensure the appropriate integration of our conviction in sustainability, Lombard Odier has comprehensive sustainability governance and oversight with a clear organisation of roles and responsibilities. At the Lombard Odier Group level, our governance of sustainability has two key centres of responsibility:

1. Our Sustainability Steering Forum oversees our sustainability philosophy, investment approach and related policies

2. Our CSR Steering Forum ensures that our non-investment-related actions, operations and policies align with our sustainability values

Supported by our private-ownership structure of six Managing Partners at the Lombard Odier Group level, our sustainability philosophy, investment approach, and related policies are overseen by a Sustainability Steering Forum, which meets at least every two months or more frequently if needed.

The Sustainability Steering Forum is also responsible for agreeing and reviewing the firm's overall objectives for its activities in relation to the sustainability transition. Both forums report to the Board of Managing Partners of Lombard Odier and consist of senior management representatives from across our business, including the wide range of functions involved in developing, managing and promoting Lombard Odier's sustainability research and strategies.

In LOIM, we have additional layers of oversight and governance for the implementation of our sustainable-investment philosophy. LOIM's sustainability governance has two key centres of responsibility:

The Stewardship Committee: oversees and guides our stewardship responsibilities for internally managed funds. The Committee reviews and provides guidance on voting and engagement, serving as an escalation mechanism when necessary, and it is also responsible for the final sign-off on voting and engagement reports to internal boards and committees. The Committee meets on a bi-annual basis and comprises the Head of Stewardship, Head of Sustainability Research, Head of Sustainable Investment, Chief Risk Officer, Senior Representatives of each asset class, Senior Representative of Compliance, Risk and Legal departments, and LOIM Co-CEOs.

The Sustainability Committee: ensures the implementation of our sustainability framework and approach to sustainability, covering our investment policies and features across the portfolios or mandates of each investment team, as well as legal and regulation matters, risk performance, and reporting. The Committee meets on a quarterly basis, and comprises our Head of Sustainable Investment, Head of Sustainability Research, Chief Risk Officer, General Counsel Europe, Fixed Income CIO, Alternatives CIO, Head of Global Sector Research, and LOIM Co-CEOs.

LOIM sustainability governance is integrated and aligned to the sustainability governance at the Lombard Odier group level.

Risk management

We have built accountability into our risk management infrastructure and implemented it throughout the Group. We base our operational risk framework on the 'three lines of defence' model.

For investment team audits, sustainability – including integration of ESG factors, implementation of investment restrictions and engagement activities – is systematically factored in due to the strategic importance of these matters for LOIM. In addition to reviewing the specific processes and controls of the team being audited, audits also include a review and assessment of the risk and governance culture within the team, its IT systems, supporting technology and adherence to applicable policies (including engagement, proxy voting and ESG policies). Formal reporting takes place at the beginning and end of each audit, and if matters arise, they are recorded and actively tracked to completion.

In 2022 LOIM's Internal Audit team reviewed the processes, risks and controls of certain investment teams with a dedicated focus on the practical integration of sustainability in the investment processes. It identified opportunities for the stewardship and sustainability investment teams to further enhance their processes and controls. Management responded positively to the audit and action plans are being put in place to address the audit's findings.

All our employees are educated in managing risk and must complete regular training programmes, including anti-money laundering, code of conduct, information security, and data-protection training. Depending on an employee's role, they may also be required to complete specialised training. Our Group risk taxonomy provides a standard definition of risk types across all our activities and legal entities, and allows for the consolidation of risks according to this definition. We also break down the main strategic, business, reputation, operational and financial risk categories into subcategories where those risks are relevant to Lombard Odier. We regularly assess our risk process as part of our decision-making processes and governance structures.

Our Compliance unit ensures that we conduct our business diligently and fairly. It also ensures that our Group's activities comply with current regulatory and legal requirements, as well as our in-house regulatory codes, such as our Code of Conduct.

Our Risk teams consist of experienced professionals who are wholly independent of the business lines, covering financial, information security, and operational risks. We have included a full description of our restrictions and exclusions in the integration section.

Policy review process

Our sustainability and stewardship policies are reviewed at least once a year and updated on an ad-hoc basis as and when required (e.g., by law, following a new regulation, or following an internal policy update). Many departments are involved in this process. For our stewardship and sustainability framework, this involves:

- Our sustainability experts, to review the policies to ensure alignment with investment beliefs, and for idea generation
- CIOs of investment teams, to gauge the impact proposed changes will have on strategies
- Investment teams provide comments regarding the concrete application of the proposed changes
- The Legal team reviews the policies from a regulatory perspective
- The Policy & Documentation Committee approves the policy

Please refer to Annex 5 for policy information

Fig.25. Risk management: three lines of defence

1st line of defence Business, Operations, IT	In owning and managing their day-to-day risks, our business and support units are our first line of defence.
2nd line of defence Risk, Compliance, Legal	Our Risk, Compliance, and Legal teams represent our second line of defence. They provide an additional safety net against risks by delivering oversight and monitoring (independent controls), defining the risk management framework, providing support and training to the first line of defence, and driving the implementation of appropriate risk and compliance rules and frameworks.
3rd line of defence Internal Audit	Internal Audit is our third line of defence, ensuring independent verification of the completeness, efficiency, and adequacy of our overall internal control system. With an unlimited scope of intervention, Internal Audit reports to the Group Supervisory Board and the Bank's Audit Committee of the Board of Directors.

Investment and integration across asset classes; data providers and monitoring

› Principle mapping: 2, 4, 7, 8

Investment integration

At LOIM, we define sustainability integration as the explicit inclusion of qualitative and quantitative assessments of environmental, social and governance risks and opportunities into traditional financial analysis and investment process and decisions. We have been integrating this data for more than 20 years. In 2022 we took a step further by welcoming trained, in-house financial analysts into the sustainability research team. By doing so, we have fully incorporated sustainability integration into financial analysis, and given practical recognition to our deeply held belief that sustainability will drive the potential for returns.

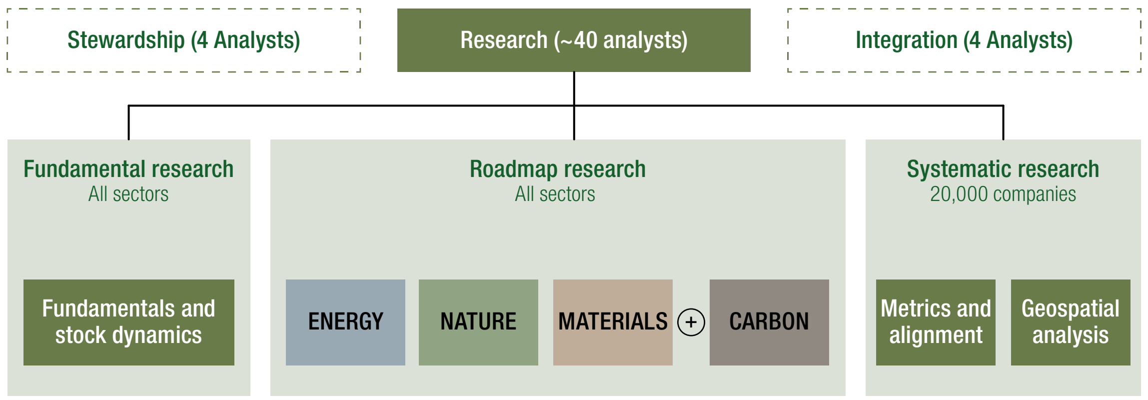
In more detail, the Systematic Research Team develops and maintains proprietary tools to evaluate companies' positioning, bringing together three elements: what is the business (their business model and activities), how they operate (their practices), and where they operate. For this, the team uses different data analysis methodologies, including geospatial analysis and satellite imagery to assess the environmental footprint of companies. Our Implied Temperature Rise metric, measuring the rate of decarbonisation across companies and portfolios, represents one of the key metrics maintained by the team.

The Roadmap Research Team and the Fundamental Research Team work together to define the convictions on how the 3+1 system changes will evolve across sectors, as well as the economic activities that will be scaled up as a result of this transition.

The Roadmap Research Team leads on the research carried out to understand the inflection points on key technologies and business models, identifying shifting profit pools and opportunities for disruptive growth, while the fundamental research team focuses on identifying and prioritising companies with exposure to the relevant activities that are considered. This involves thorough financial analysis to assess the viability of and appropriate valuation for key target companies

The above roadmap and fundamental assessments are separate and complementary to our in-house definition of sustainable investments[21], which focuses on the alignment of companies to the environmental transition independently from the financial exposure they may have to shifting profit pools.

Fig.26. The structure underpinning sustainability and investment integration in research and implementation



[21] Please refer to SFDR section for more details.

We implement a variety of approaches in integrating sustainability in our investments.

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.[22]

Negative screening

- Screening investments for the most unethical or damaging activities (essential food commodities, unconventional oil & gas, tobacco and thermal coal) by applying LOIM's Exclusion Policy.
- Screening investments to identify companies that score poorly on ESG factors relative to their peers, aiming to reduce exposure to the worst company practices. Typical factors that the screening process looks out for include a poor environmental or waste management record, poor labour relations and poor governance issues. This systematic ESG screening and scoring procedure is performed using the Lombard Odier ESG/CAR Industrial Materiality Rating methodology, described above.

Positive screening

Screening of investments to identify companies that score highly on ESG factors relative to their peers. The positive screening process is often used to build portfolios with enhanced sustainability characteristics.

Thematic investing

Investing in businesses contributing to sustainable opportunities aligned to the CLIC® economy and focused on defined environmental and/or social investment opportunities.

Impact investing

Investing in companies with identified intentional and measurable environmental and/or social contributions, as well as financial returns, linked to economic activities performed by portfolio companies and aligned to the definition of impact investing proposed by the Global Impact Investing Network: "Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."

Active ownership:

We apply active stewardship with companies on varied ESG and sustainability topics, either to encourage greater disclosures or to push for change.

Sustainability metrics

We work with a number of external well-established and recognised data providers to access raw data as well as in the context of exclusions and sector restrictions:

- Controversial weapons and tobacco: Sustainalytics
- Thermal coal: Trucost data
- Decarbonisation targets: SBTi, CDP, RE100, Transition Pathway Initiative, and internal data generated by our analyst teams, among others
- Unconventional oil & gas: Trucost and Sustainalytics, as external data providers, as well as internal data generated by our analysts

There are several distinct layers in the sustainability assessment of a company, each of which can impact the investment process. Our proprietary technology platform aggregates sustainability information and ensures it is always up-to-date and readily available to all investment teams. Our data tools include: long-term sustainability metrics, short-term sustainability metrics, impact metrics, ESG metrics, ITR analysis and alignment to the net-zero transition, and exclusions, sector restrictions and product involvements.

[22] Please refer to Annex 5 the a summary of the policy.

Long-term ESG metrics: The investment team undertakes screening of our investable universe using the Lombard Odier ESG/CAR Industrial Materiality Rating Methodology, which encompasses relevant information on various sustainability indicators including greenhouse gas emissions, energy performance, biodiversity, water usage, waste management, social and employee matters, human rights and anti-corruption and bribery. This scoring and rating system is also 'materiality driven', and therefore identifies the most relevant sustainability framework for each industry in order to focus on the most important ESG issues that may affect a particular company. It also aims to distinguish between companies that are merely demonstrating awareness from those that are delivering measurable outcomes (Consciousness, Action, Results - CAR framework). We also use our Materiality Mapping framework to assess the business practice alignment with respective SDGs.

Short-term ESG metrics: These include assessment of Material Breaches of UN Global Compact Principles broadly covering areas of human rights, labour, environment, and anti-corruption.

Impact metrics: We review a company's climate alignment considering carbon emissions and water consumption. For carbon emissions and water usage, we calculate two different metrics:

- First, the intensity ratio, which is the total amount of carbon emissions or water consumption per revenue unit which can be used to compare the carbon and water intensity of a company versus its peers
- Second, we calculate the investment ratio, which is the level of carbon emissions or water consumption per investment unit as a way of identifying a company's accountability and linking it to our investment portfolio footprint

We do not only look at the carbon footprints (the quantity of emissions a company produces at present) but also its temperature alignment (taking into account a company's expected future emissions and the degree of alignment between these emissions and any stated carbon emissions-reduction commitments). This is captured by our internal ITR tool, LOPTA, which is aligned with the final recommendations of the Taskforce for Climate-Related Financial Disclosure (TCFD).

Product involvement: We apply our exclusion and restriction policy to companies that operate in certain controversial sectors, including controversial weapons, tobacco, coal extraction and power generation and unconventional oil & gas.

A full list of our data providers appears in Annex 4.

Zooming in: Cybersecurity portfolio risk management

In 2022 we developed a new approach to address Cybersecurity risks in our portfolio management process. This is joint work with a specialised external cyber technology provider and uses data about known cybersecurity "vulnerabilities" provided by the Cybersecurity & Infrastructure Security Agency. We are now able to screen companies for 'basic cyber hygiene', represented by the CISA Known Exploited Vulnerabilities Catalog. Exposed companies are made aware of their known exploitable vulnerabilities and encouraged to update their software to prevent hacks. We have started with a pilot of 500 companies that we monitor monthly and will expand the universe in the coming years.

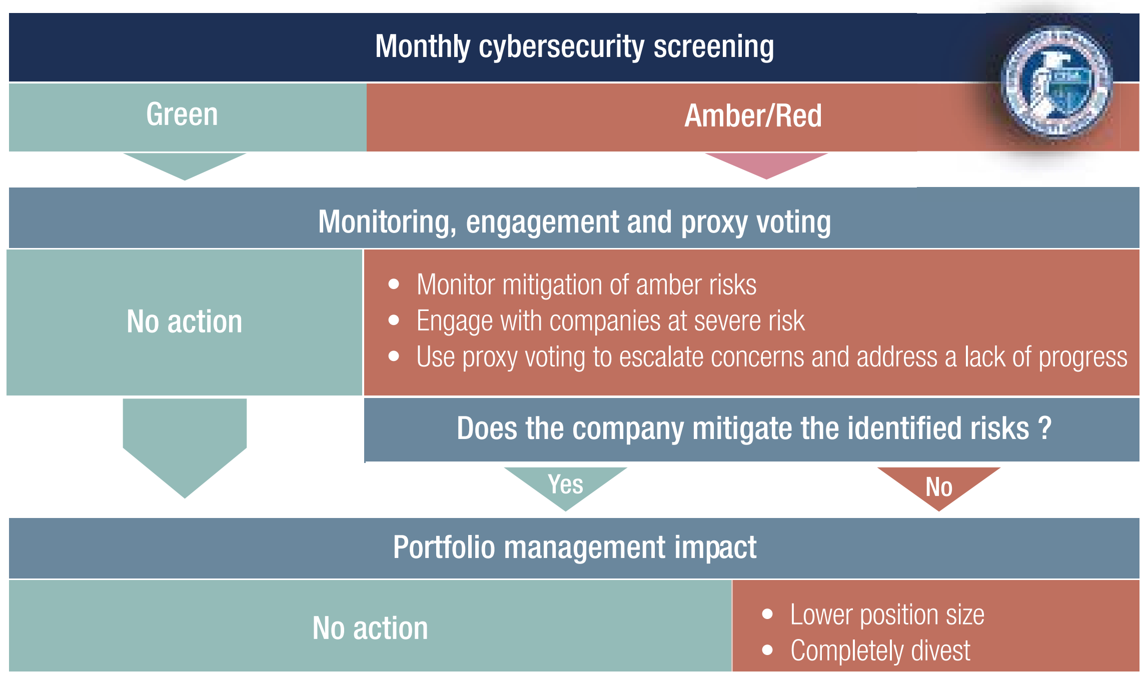
Our monitoring process follows these steps:

1. The cybersecurity screening uses a traffic light system to categorise risks (see figure 27)
2. Companies that score red receive an email indicating we detected a vulnerability and request the company update its software. We describe the vulnerability and the methodology needed to patch the software
3. If we identify four monthly red indications in a row, we escalate our efforts by pursuing an individual engagement
4. If a company continues to screen negatively, portfolio managers can decide to lower the weight (just as with other ESG indicators). If a company is not responsive and the risks accumulate, the position can be exited

Fig.27. The traffic-light categories used in LOIM's proprietary cybersecurity risk screening process

●	Green	The company adheres to basic cyber hygiene and all software is up to date
●	Amber	The company has non-critical vulnerabilities which need to be patched as soon as possible
●	Red	The company is vulnerable to material known exploited vulnerabilities which could result in a hack

Fig.28. LOIM's cybersecurity screening process



Source: LOIM. For illustrative purposes only.

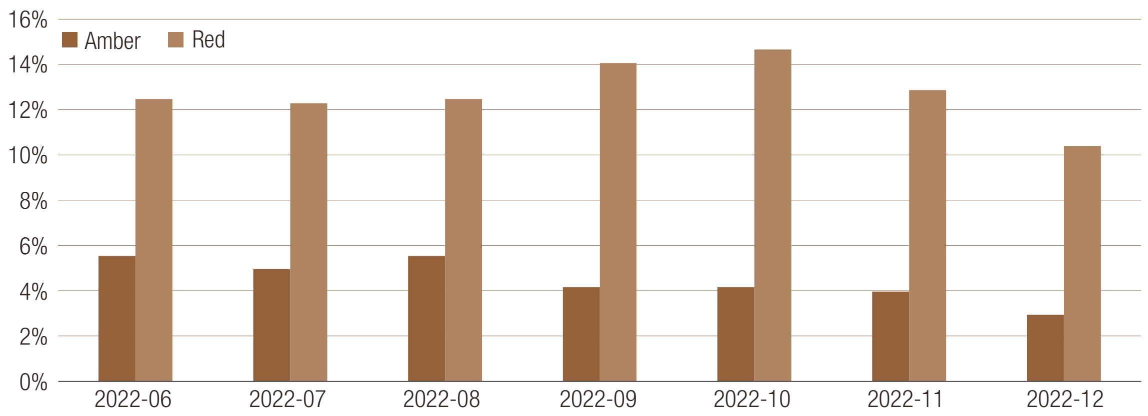
Outcome

The results carried out on our pilot sample of 500 companies, starting in June 2022, show that each month, on average, 4% of the companies score 'amber', while 12% of the companies score 'red'. Figure 29 shows the evolution of these numbers.

Another interesting result is that the number of companies classified as 'red' for at least four months gradually decreases over time (see figure 30). This suggests that companies are, on average, taking action after they are informed of their vulnerabilities.

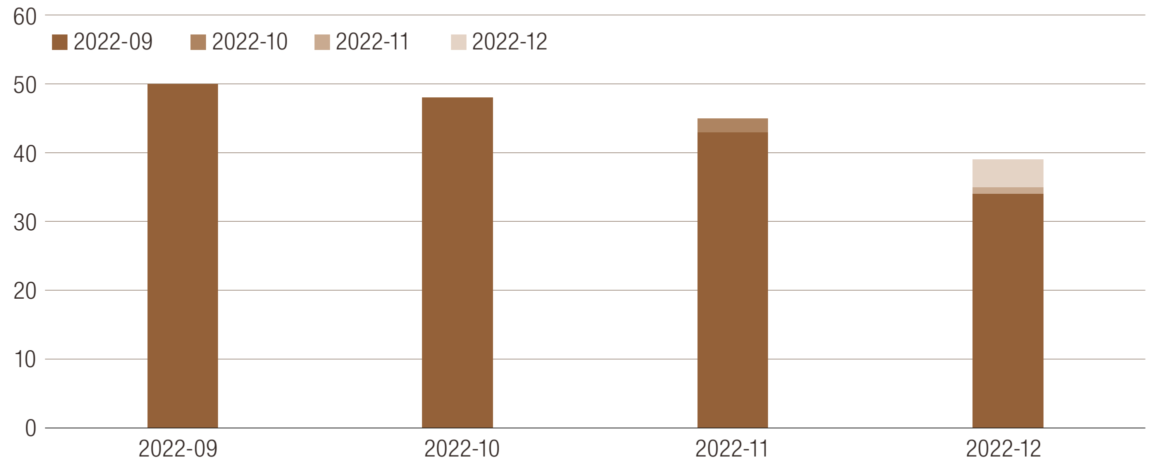
We plan to start reporting on cybersecurity engagement in 2023.

Fig.29. Cybersecurity screening: evolution of 'red' and 'amber' companies



Source: LOIM. Data as at 31 December 2022. Pilot sample of 500 companies.

Fig.30. Number of companies classified as 'red' for at least four months



Source: LOIM. Data as at 31 December 2022. Pilot sample of 500 companies. Companies sorted by the first month in which they were classified as 'red'.

Process

LOIM senior management has appointed an external management firm to assist in identifying the best provider, based on pre-defined needs. They initiate the selection process when we need to contract a new service provider. Once agreed, a shortlist of service providers is developed, and an initial due diligence check is performed. Based on the due diligence review, a service provider is selected and then the negotiation of commercial terms starts. Finally, the proposed service provider is submitted to the Business Committee, constituted by corporate leaders and members of the Board of Directors.

For each new tender, the Lombard Odier group's procurement team is involved and a Due Diligence Questionnaire (DDQ) is sent to the pre-selected providers. This DDQ encompasses a Corporate Social Responsibility (CSR) dimension comprising of a set of questions about its CSR policy, compliance with labour and human rights laws, environmental policy and anti-bribery policy. If answers need further assessment, the Head of Corporate Social Responsibility will intervene in the selection process and examine any identified issues. Our Supplier Code of Conduct informs our providers about our expectations in terms of CSR compliance and our approach to remedial action if standards fall below our expectations. Each supplier is asked to accept or sign our Supplier Code of Conduct when they are contracted by Lombard Odier.

Monitoring service providers

We not only monitor current service providers, but we also maintain dialogue with competing providers to keep up to date about new services and products, those under development, and how they could fit with our data needs. We regularly scope newcomers and existing data providers.

Zooming in: Proxy service provider

We monitor our proxy research provider, ISS, to ensure that a) the recommendations in our custom guidelines are aligned with our proxy voting guidelines and agreed rationales for votes against and b) that votes have subsequently been cast according to our in-house voting guidelines.

We conduct a due diligence every year to review all the areas that pertain to proxy voting; in particular, we carry out an annual vote audit to establish full visibility on votes that we instructed which were not subsequently forwarded, as well as missed or late votes. We then ask our provider to provide an explanation for each 'missed' vote, on a company-by-company basis. The exercise is initiated internally, by the stewardship and proxy operations team, and led by the proxy operations team.

It showed that 95% of all votes cast in 2022 were successfully processed, forwarded and received. The proxy section includes a detailed description. In addition, we continue to engage with our proxy service provider so that we can spot ballots that drop to zero (ballots being generated while we had a position but sold off before the final vote cut-off).

ESG and sustainability data providers

We use a wide range of in-house and external research techniques and sources to collect, verify, enhance, and analyse large amounts of raw ESG data at the most granular level possible. This is critical in making sure our data and analysis is truly investment-relevant so we can construct portfolios that capture opportunities and mitigate risks created by sustainability dynamics. We have in place a continuous monitoring process of all the data delivered and subsequently integrated into our rating system. Together with our market data team, we also review new data offerings throughout the year and add to our database when necessary. More specifically:

Each provider that we use has been audited and compared with peers on two key aspects: their raw data quality and their ability to enrich our in-house methodology. All of the ESG and financial information is collected by our in-house quantitative platform, where the Lombard Odier ESG models are constructed and distributed to the different teams across the Group. Our IT team regularly verifies the quality of the regular and scheduled data delivery and has set up a dedicated ESG data-monitoring platform that allows ESG experts and portfolio management teams to detect any possible anomalies in the data feed (e.g., important changes in the information coverage or critical scores evolution). Companies' ESG analyses are then distributed to the portfolio management teams to build strategies and delegated to relevant teams to monitor the implementation. When any user detects a data issue, they escalate the problem to the team in charge of contacting the data provider to investigate each case.

When the quality of conventional data is deemed insufficient, we use alternative data sources from our own internal research to supplement and enhance our opinion. Despite overall good quality, conventional data can nonetheless show certain weaknesses and gaps in information that we try to overcome by using alternative resources. Our sustainability experts challenge the available data by diversifying information sources (e.g., company websites and media releases). At this level, the benefits of active ownership and open dialogue are key. Our portfolio managers and analysts bring sources of new information with their own knowledge about the companies that they invest in or analyse, which we assess together with the insights generated through engagement.

In addition, our in-house research includes using advanced/alternative technological methodologies to collect and aggregate data from a wide range of sources, including: geospatial data, governmental and nongovernmental organisations, international organisations, data aggregation platforms and the media.

We have seen a clear improvement in recent years in the quality of data provided by rating agencies and data providers. Their responsiveness to new information continues to improve and their reviewing process of newly released companies' CSR, ESG, or sustainability reports is enhanced.

Nevertheless, we still occasionally point out shortcomings to our data suppliers, with regards to:

- Information that is not updated in a satisfactory way, including sometimes excessive delays between the publication of a company new CSR, ESG or sustainability report and their inclusion in the rating. Sometimes new data from updated company reports is only integrated several months after publication
- Environmental data points, such as carbon emissions and water use, are sometimes substantially different given the data provider or are inconsistent (indicating questionable proxy or aggregation methodologies).
- Errors in data-feed deliveries, such as missing data, false identifiers, and large and unexplainable variations in scores

When these situations arise, we contact the technical and research teams of our providers directly to alert them and ask them to implement the necessary changes to improve the quality of the data provided. This is in addition to organising regular meetings with them on these subjects.

If we do not get an immediate and satisfactory response, or if a solution cannot be found quickly (e.g., if we dispute the validity of their environmental data), the ESG team implements corrective measures directly in our data-management system.

Integration and regulation

SFDR classification

The European Sustainable Finance Disclosure Regulation (SFDR) came into effect in March 2021 and established harmonised transparency rules for financial advisors and other participants in the financial market. These rules define how sustainability risks and considerations around adverse sustainability impacts should be integrated into financial processes. The SFDR also imposes more stringent requirements on sustainability risk integration disclosures made by financial services institutions such as banks, insurance companies, pension funds, and investment firms, and focuses on how to account for any adverse impacts on sustainability resulting from investment decisions or financial advice. The main objective is to help investors understand and compare the sustainability profiles of funds. The SFDR is aligned with the European Green Deal, which aims to transform the EU into a modern, carbon-neutral, resource-efficient, competitive, and fair economy.

The regulation stipulates that asset managers must communicate the extent to which they integrate sustainability into their investment strategies, and classify their funds accordingly. Under the new classification, an investment strategy will be labelled under either Article 6, 8, or 9 of the SFDR. Article 8 applies when a financial product promotes, among others, environmental or social characteristics. Article 9 covers products that have sustainable investment as their objective and an index designated as a reference benchmark. Article 6 covers funds that do not meet the criteria for Articles 8 or 9, but which are still required to describe how sustainability risks are integrated into their investment processes. Finally, asset managers may also refer to Article 8+ as a category for an Article 8 financial product that promotes environmental or social (E/S) characteristics, has as its objective sustainable investment and commits to a minimum percentage of sustainable investments.

Please read the important information at the end of the document.
Lombard Odier Investment Managers · Stewardship Report 2022

In line with regulatory templates, Lombard Odier has prepared detailed, comprehensive disclosures for its Article 8 and 9 products. These include, among other information:

- A clear statement of the funds' sustainability objectives
- The performance of the funds against the sustainability indicators that measure the attainment of those objectives
- The performance of the funds against sustainability impact metrics (Principal Adverse Sustainability Impacts (PAIs)), measured by harmonised factors developed by the EU regulator
- Detailed information on the strategies, methodologies, data sources, and actions taken to achieve the sustainability objectives
- The extent to which the investments are aligned with the European Taxonomy for sustainable activities

In regards to the definition of sustainable investment in the sense of SFDR, Lombard Odier uses a pass/fail approach defined at company-level. This framework classifies companies into three categories referred to as Green Star, Grey Star and Red Star companies, with only Green Star companies considered sustainable investment.

Our assessment follows, as required, 3 consecutive tests :

- We assess the degree of contribution a company makes onto one or several of the following objectives: Climate Change Mitigation, Climate Change Adaption, Water use, Circular Economy, Pollution prevention and control, Biodiversity.
- We also assess if a company, outside of its contribution, may generate significant harm to any of the above objectives.
- Finally, we assess the quality of a company's governance standards and make sure it follows best-in-class practices.

This assessment can either be performed fundamentally or systematically. The fundamental assessment allows for an in-depths and extremely precise analysis of a company while the systematic assessment allows to screen large universes of companies.

Towards Sustainability

The Central Labelling Agency (CLA) 'Towards Sustainability' label is awarded to investment products that meet its quality standards for sustainability-focused analyses, exclusions, and stewardship. Ten accredited LOIM funds have received the Towards Sustainability label, which aims to promote socially responsible, convictions related to the transitions and build trust among retail and institutional investors.

Training

Sustainability is central to our approach to investment integration across most of our strategies and asset classes. We consider it essential that our clients and employees are continuously informed on the latest developments, tools and technologies relating to sustainability and ESG integration.

Our sustainability team members facilitate comprehensive webinars (along with producing newsletters, white papers, and commentaries) on general sustainability themes, topical issues, and in-house products. Employees are strongly encouraged to participate in these webinars.

In addition, "Sustainability Lunch & Learn" sessions, which are open to all employees and offer a programme of educational sessions covering all aspects of convictions related to the transition – from our philosophy, news about our capabilities and offerings, and explanations or updates about integration in specific products. They are carefully designed to focus on the most pertinent developments and to ensure high levels of commitment, comprehension, and consistency across our workforce. The 2022 sessions discussed transforming the key systems in our 3+1 framework.

As for stewardship, we conduct annual training for the investment, sales and supports teams to review processes and highlight any changes in the frameworks. One-to-one training is provided for any new team members.

Sustainability education is also included in our induction programme for all new joiners. We continue to increase our focus on sustainability-related items, thought leadership and strategic developments across our intranet and other communications activities, which include hosting internal town halls.

Finally, as part of our Human Resources policy, Lombard Odier encourages its employees to complete industry training programs to support continuous learning (e.g., the CFA Certificate in ESG Investing). This helps to improve skills and overall competence in this area of conviction for LOIM.

Sustainable Finance Disclosure Regulation (SFDR) classifications

Fund sustainability mapping

'Towards Sustainability' label

SFDR Article 9: Dark Green Funds

Art. SFDR 9

Fixed Income
Global Climate Bond

SFDR Article 8+: Green Funds

Art. SFDR 8

Equities	Fixed Income	Alternatives	Convertibles
Natural Capital[23]	TargetNetZero IG Global Corporate	**TerreNeuve**	TargetNetZero Global Convertible Bond
Climate Transition[24]	TargetNetZero IG Euro Corporate		
New Food Systems	LOS TargetNetZero (CHF) Credit Bond		
TargetNetZero Global Equity	LOS TargetNetZero (EUR) Credit Bond		
TargetNetZero Europe Equity	LOS TargetNetZero (USD) Credit Bond		

SFDR Article 8: Light Green Funds

Art. SFDR 8

Equities	Fixed Income	Convertibles	Multi-Asset
Global FinTech	Euro BBB-BB Fundamental	**Convertible Bond**	All Roads
Golden Age	Global BBB-BB Fundamental	Convertible Bond Asia	All Roads Growth
World Brands	Asia Investment Grade Bond	Global Conservative	All Roads Conservative
Global HealthTech	Asia Value Bond	Defensive Delta	
Asia High Conviction	Emerging Markets Local Currency Bond Fundamental		
China High Conviction	Global Government Fundamental		
Emerging High Conviction	Global Inflation-Linked Fundamental		
Swiss Equity	Global Government Long Duration		
Swiss Small & Mid Caps	Short Term Money Market		
Continental Europe Family Leaders	Swiss Franc Credit Bond (Foreign)		
Continental Europe Small & Mid Leaders	The Global Fixed Income Opportunities		
Europe All-Cap Leaders	Ultra Low Duration		
NextGen BioTech	Fallen Angels Recovery		
Generation Global			

SFDR Article 6: Gray Funds

Art. SFDR 6

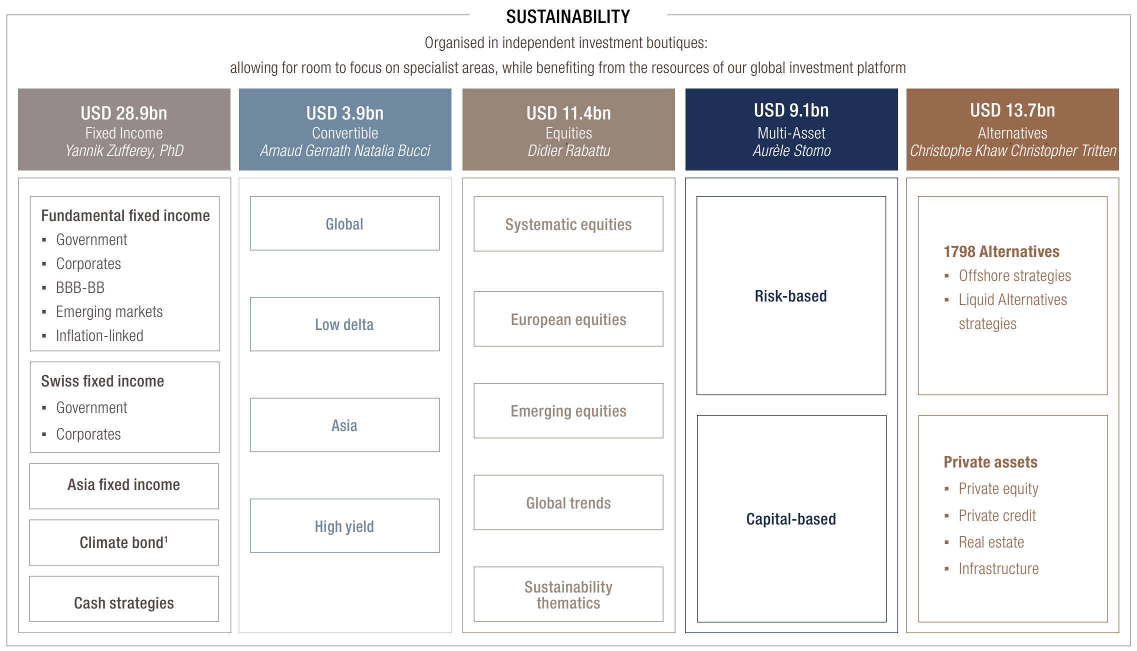
Equities	Fixed Income	Alternatives
Europe High Conviction	Asia Income 2024	Commodity Risk Premia[25]
	High Yield 2023-24	Event Convexity
	The Sovereign Bond fund	

23, 24, 25 From 1 May 2023, these strategies will be renamed "Planetary Transition", "Circular Economy" and "Transition Materials" respectively.

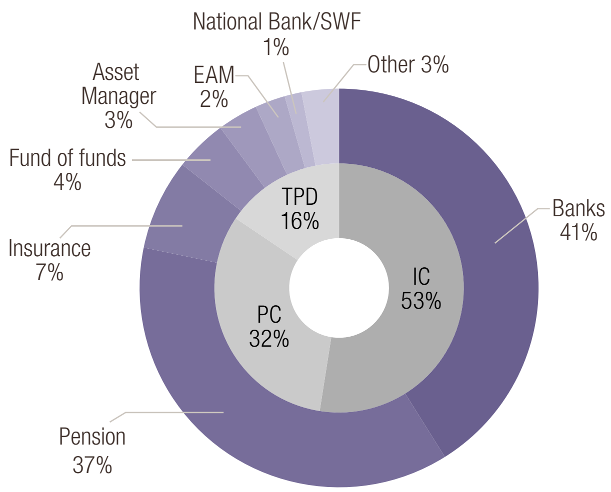
Clients' needs

› Principle mapping: 3, 6, 9, 10, 11, 12

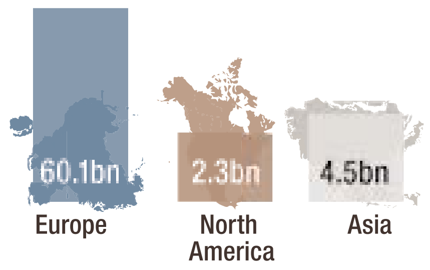
LOIM's investment proposition



AuM by client and sector



AuM by region (USD)



Source: LOIM. For illustrative purposes only. Data as at 31 December 2022.

LOIM's client base comprises a wide range of institutional clients (52.4%, including pension funds, insurance companies, central banks and other), private clients (32%) and third-party distributors (15.6%).

Understanding the needs and expectations of clients is essential for our stewardship work. A key way for us to understand these needs is through DDQs and RFPs that we typically receive at the start of the formal sales process. Through these two channels, we receive clients' views and needs by:

a. The client specifying, in their investment guidelines, that they have an in-house ESG or stewardship policy which we must implement along with the customised mandate or the pooled fund; or

b. By the client's specific questions. In the latter case, the tender document or questionnaire we receive typically provides an outline of the investor's views and expectations of the asset manager or product they are looking for

Case study 12

Headline	Airline company – net zero
Asset class	Convertibles
Specific themes	Carbon emission reduction targets, sustainable aviation fuels
Region	Asia

Engagement background

A client, a French public pension fund, requested us, as one of their asset managers, to engage with an airline company which is one of the highest emitters in their portfolio. This arose from the company not having yet developed a net-zero strategy in line with the Paris Agreement's 1.5°C trajectory. It is also one of the highest GHG emitters in one of our sustainable mandate portfolios. The company, operating in the airline industry, had declared in 2021 its ambition to become carbon neutral, but there was still no clear net-zero strategy nor any GHG emissions-reduction targets.

What did we discuss and ask for?

We had a constructive call in January 2022 in which we discussed the company's declared net-zero ambition. The company said it receives regular questions from investors about its GHG emissions-reduction targets and that the pandemic led to a review of its decarbonisation strategy. We encouraged it to publicly announce its targets to reach net-zero before replying to the next CDP Climate Change survey, so the information can be captured by data providers, but the company was waiting for board approval. At the industry level, the company is participating in many discussions with IATA, investors, sustainability consultants, engaging with NGOs like the Roundtable on Sustainable Biomaterials (RSB), and standard-setting bodies to understand further and implement a viable strategy.

When we spoke again in November 2022, their internal review was still ongoing and hence no targets had been disclosed. At this time, they told us that the focus is on keeping a young & modern fleet, operational efficiency, use of carbon offsets through the CORSIA scheme and the use of Sustainable Aviation Fuel (SAF). A key to decarbonising the industry is SAF, but SAF is very expensive today; as such, the company is still not sure if it is financially sustainable. This is partly why it does not have short or medium-term targets; it is hard to commit to a specific percentage of SAF by a certain date.

The company partnered with government and aviation stakeholders to undertake a study to look at the effectiveness of SAF. The outcome was positive, with an added benefit of positive socio-economic effects. It is an active participant in IATA and other industry initiatives, trying to understand what are the economic levers that could be used to bring down costs. It hopes to learn from the solar-power industry, which started off very costly.

Engagement outcome

The company is feeling pressure from investors to set carbon emission-reduction targets. It appears to have a solid strategy towards operational efficiency, fleet renewal and offsets by participating in the CORSIA initiative. The company is involved in various industry initiatives and engaging with numerous key stakeholders to enhance its thinking. It seems to be conscious of the need to move forward at the working level, but it is unclear whether leadership is providing full support and allocating capital expenditure accordingly. While we can understand the challenges linked to the remnants of Covid and an important recession, it was somewhat disappointing to hear they still do not have any defined near or mid-term targets.

The company said it will need another six-to-12 months to do this, assuring us they are taking small but concrete steps forward. These may not be showing immediate results, but the work will hopefully form the basis of an industry-side approach.

The cost of SAF is a big limiting factor and in the meantime the company is working on improving operational efficiency and its offsetting strategy. The Board needs to be convinced so they are trying to present a case that is financially viable. The company understands investor expectations and is open to hearing our observations and recommendations.

We keep encouraging the airliner to define short and medium-term goals while monitoring progress. We plan to continue to engagement in the second half of 2023 to allow sufficient time for deadlines mentioned in November to crystallise.

Our client service model allows us to be close to our clients and to understand their needs in all areas ranging from investment strategy to engagement and reporting. We maintain a regular dialogue with our clients to ensure we understand their expectations. Where possible in 2022, we maintained in-person meetings and alternatively, calls and video conferences were organised.

We communicate with clients through various means and media, including the reports we produce for meetings and dialogues, as well as by hosting events and participating in highly attended conferences, such as Building Bridges, seminar and webinars. In addition, we also publish insights on various sustainability and stewardship topics and circulate these on social media, which we will continue to do in 2023.

Our stewardship approach seeks to meet clients' needs to the fullest extent, knowing that these may differ and diverge, all while staying true to our institutional values and principles. Open, frank and regular dialogue with our clients is the most effective way to understand their needs and ensure we are meeting their expectations while continuously striving to enhance our communication with them.

LOIM operates in a transparent way with prospects and clients, displaying transparency of process and transparency towards our activities. We present our detailed approach to stewardship and engagement in all product presentations as well as making our sustainability report available to all clients, with live case studies for their review and comments. During regular client discussions, we seek feedback (both verbally and in writing) and encourage clients to

provide us with areas for improvement or best-practice insights and expectations. Insightful discussions are shared at the Monthly Sales Market Heads meetings to collate findings and share appropriately within the business. We often respond to specific client DDQs and RFPs in relation to stewardship and share live demonstrations of our Company ESG Analyser tool. Based on these formal and informal feedback channels, we have continued to develop our approach to stewardship and enhanced the transparency and quality of our reporting.

Moreover, we believe our integrated approach to stewardship and our continuous engagement throughout the investment lifecycle serve to offer the most effective exercises of our active ownership rights and responsibilities, as per client expectations. All insights from our engagement dialogue with companies are used to improve and update our company database and are fed into our investment decision-making processes. Our regular interactions with investment teams allow us to receive – and incorporate into our stewardship approach – expectations and requests received from clients.

Zooming in: Client feedback

Whenever possible, we take the opportunity to discuss feedback on a completed RFP/RFI with the client/prospect (or third party or consultant) afterwards. Below is a sample of some of the feedback received on out TargetNetZero equity and bond strategies:

- Our sustainability approach approach is recognised as a very sophisticated one that includes transitioning companies
- LOIM is one of the few asset managers to incorporate scope 3 emissions and forward-looking metrics in its methodology/analysis
- The Stewardship team is relatively small versus competitors
- Lack of ESG data coverage for emerging markets
- Lack of a strategy with an SFDR Article 9 classification

Following a review of a sample of questionnaires received throughout the year, most stewardship-related questions received were linked to the LOIM framework with a minority targeting specific products, mostly on high-conviction equities strategies. Here are a few excerpts from this review:

- The most detailed and sophisticated questions came from asset managers and investment consultants, as a sub-client category,
- Clients typically request to see our voting, engagement and stewardship policies
- Clients typically request figures about our voting activities and including specific examples of engagement activities with investee companies
- Clients wish to know how we monitor our stewardship approach and ask about related KPIs
- Certain clients require their investment managers to comply with their own in-house SRI policy, including proxy voting issues
- Clients want to see more reporting and transparency on engagement activities from investment managers

- Certain clients place great value on collaborative engagements and encourage us to do more
- Clients often ask whether a specific team is dedicated to stewardship. We received an increasing number of questions regarding engagement on climate transition issues as well as how we vote on specific ESG matters or how we vote with respect to management or shareholder resolutions. We have also been asked whether we undertake our stewardship activities ourselves or whether these are handled by a third party

We perceive our methods for understanding the needs of our clients as being effective. We incorporate clients' views and needs into our offering. For example, as described above, certain clients place great value on collaborative engagements and encourage us to do more. Consequently, and as we agree with the value of collective efforts, we have sought additional opportunities to participate in collaborative initiatives, as demonstrated by the increasing trend in the collaborative engagements section.

Reporting

Governments, organisations and market participants are working to implement and standardise regulations, frameworks, and disclosure requirements for financial-market participants at the corporate, service, and product levels. The aim is to prevent greenwashing and ensure comparability by creating more transparency.

The EU taxonomy is a classification system that establishes a list of environmentally sustainable economic activities towards which capital flows can be directed to achieve the six environmental objectives established by the European Commission:

1. Climate-change mitigation
2. Climate-change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

A first delegated act was published for the first two objectives in 2021, becoming applicable as of January 2022. As soon as the second delegated act is published for the remaining objectives (which was planned for 2022 but has not yet occurred), Lombard Odier will integrate the information.

Sustainability assessments are monitored and reported on through a tailored sustainability report, providing transparency on the responsible investment criteria and impact measures. For funds that integrate ESG, we deliver a monthly sustainability report that includes a comprehensive portfolio screening and comparison with relevant benchmarks and historical trend data. The report includes the following metrics:

- ESG materiality scoring and rating (portfolio and benchmark)
- Aggregated ESG/CAR score by sectors
- Concentration of the ESG/CAR scores in the portfolio per quintile (GICS industry level 2)
- Top-performing, worst-performing and largest five positions
- Product involvement that can be tailor-made to fit the specific ethical values of a client
- Controversy involvement and analysis of the event that impacted the company
- Child labour screening (direct and in supply chains)

- Screening of our exclusion policy on controversial weapons
- Carbon and water intensity trend (three years historical data)
- Carbon/water footprint of the portfolio
- Green/brown shares analysis at portfolio level
- Portfolio temperature alignment to net zero through LOPTA and additional climate metrics
- Investment in thematic bonds (green, social, sustainable, sustainability-linked)
- Full portfolio breakdown

In 2022, this reporting moved online. LOIM launched an online sustainability reporting platform, giving investors access to the sustainability metrics that are most relevant for each fund or strategy they allocate to. This reporting tool provides a flexible, modular interface that illustrates the firm's integration of sustainability indicators and methodologies across its range of financial products. It is also built to support upcoming EU regulation as well as emerging standards, such as the Swiss Climate Scores. Current sustainability modules include:

- Climate metrics
- Thematic bonds
- Exposure to controversies
- Product involvement
- ESG Materiality scores

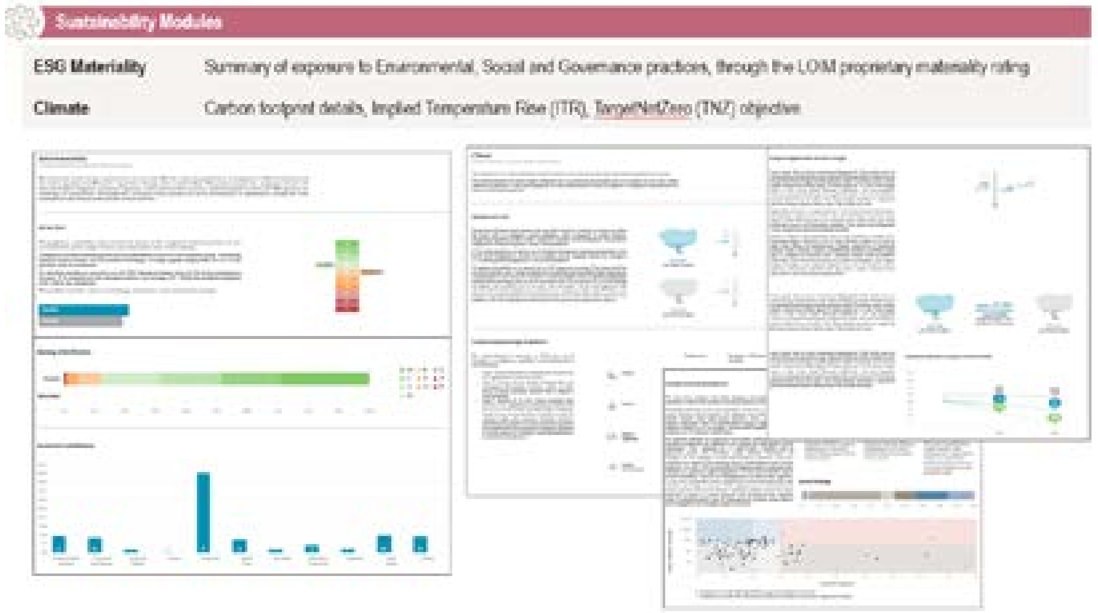
Other modules will be added over time, reflecting the evolution of regulation as well as the progress made by LOIM's teams of investment and sustainability analysts, stewardship specialists, and other investment professionals. It was launched in Q2 2022 internally and has proved very useful for investment teams, among others, and was made publicly available for professional investors on 1 January 2023 (see figure 33).

Fig.32. An overview of EU regulation of sustainable finance

Regulation	Objective	Regulation in one sentence	Timeline	Interaction between regulations
EU Taxonomy	A framework for sustainable" economic activities in the EU"sustainable" economic activities in the EU	The EU Taxonomy defines sustainable economic activities classified by six environmental objectives. The list of eligible activities needs to fulfil strict technical screening criteria to be considered aligned activities	Yet to be finalised. 1st January 2024 for corporate reporting	Taxonomy alignment is one of the parameters to be reported under the SFDR if the fund commits to make sustainable investments of EU Taxonomy alignment is one of the sustainable preferences under MIFID II
SFDR	Transparency and comparability on sustainability reporting obligations towards end-investors	Three main changes are introduced: Classification of funds as Article 6/8/9; Definition of sustainable investment; Sustainable indicators to monitor sustainability risk and performance of funds	1st January 2023 for SFDR level 2; SFDR level 1 came into force on 10th March 2021	Pre-contractual (prospectus) and periodic disclosures will include, among other information: 1. of sustainable investments, 2. of EU taxonomy aligned indicators, including principal adverse impact 3. indicators considered by the fund
MIFID II	Introduction of sustainability preferences for end-investors	End-investors as part of the suitability assessment will need to declare if they have a preference for sustainable investments based on the three sustainability preferences proposed by the regulator	1st August 2022	The 3 sustainable preferences are: · Minimum % of sustainable investment under the SFDR · Minimum % of EU Taxonomy aligned investment · Consideration of principal adverse impact indicators proposed by the SFDR

Source: LOIM as at November 2022.

Fig.33. Screenshot of the LOIM Sustainability Reporting Tool



Source: LOIM. For illustrative purposes only.

Moreover, we provide annual sustainability reports for our CLIC® thematic and TargetNetZero strategies to investors. The reports contain research and highlights on the convictions related to the transition's opportunities for the strategies, and also disclose stewardship interactions. We aim to go beyond traditional ESG metrics and put great emphasis on assessing the positive impact our strategies strive to achieve on issues such as carbon avoidance, waste and sustainable products.

Further reporting commitments

Our investments are treated separately from our business operations. Lombard Odier has been a signatory of the United Nations Principles for Responsible Banking (UN PRB)[16] since 2020 and is committed to aligning our Group, and portfolios, with the Paris Agreement by 2050. In 2022, we reported against the UN PRB's six principles for the first time through a formal self assessment

LOIM joined the **Net Zero Asset Managers initiative** (NZAMi) in March 2021 and our initial target disclosure was published in May 2022.[17] As part of the initiative, we are required to a set a 2030 decarbonisation target, including information about the calibration of the target, on interim targets and the proportion of AUM covered. LOIM is committed to managing 70% of our total AUM (including client mandates and dedicated funds) in line with the net-zero target of a global 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. This target comprises scopes 1, 2 and relevant scope 3 emissions and the methodology is built on the SBTi for financial institutions.

Unfortunately, due to issues concerning the renewal of the PRI reporting framework, our (and all) 2021 PRI assessment (based on activities in 2020) was severely delayed and the reporting for 2021 was eventually cancelled. Therefore, in 2023, we will report on calendar year 2022. Lombard Odier received an A+ rating for the Strategy & Governance module in the 2020 UN PRI Assessment Report. Detailed scores for all modules are available upon request.
The assessment can be found here.

[16] The Principles for Responsible Banking are a framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement. The framework consists of 6 Principles designed to bring purpose, vision and ambition to sustainable finance. They were created in 2019 through a partnership between founding banks and the United Nations. Signatory banks commit to embedding these 6 principles across all business areas, at the strategic, portfolio and transactional levels.

[17] See the Initial Target Disclosure Report (we reported through CDP) here; LOIM's commitment is published on p53.

Zooming in: Swiss climate scores

The Swiss Federal Council launched the Swiss Climate Scores for climate transparency in financial investments on 29 June 2022. The Swiss Climate Scores establish best-practice transparency on the Paris Agreement-alignment of financial investments to foster investment decisions that contribute to reaching the (Paris Agreement and Switzerland-committed) climate goals. For now, use is voluntary basis and intended to make investment decisions more efficient, providing investors with greater awareness of the climate impact of their holdings as well as the benefit from exposure to economic opportunities in the transition to net zero.

They are based on six scores that can be categorised into current situation and future situation assessments, and which foster investment decisions that strive to reach ambitious climate goals. They are:

1. GHG emissions (related to portfolio carbon intensity and portfolio carbon footprint)
2. Exposure to fossil fuels activity, giving investors a metric related to potentially stranded assets
3. Verified commitments to net zero
4. Management to net zero
5. Credible climate stewardship score
6. Global warming alignment score (only for data providers)

Over the next few years, the Federal Council will regularly review these scores and adapt them to the latest international findings, where relevant, to ensure they represent best practice in terms of climate transparency.

Lombard Odier has added a regulatory module featuring the Swiss Climate Scores to its Sustainability Reporting Tool, covering all funds. To see how our Climate Transition strategy[26] performed on the scores, click here.

[26] From 1 May 2023, this strategy will be renamed "Planetary Transition."

Annex 1 – Sustainability staff

Colleague	Areas of expertise	In the Industry since
	Sustainability Research and Stewardship Team	
Elise Beaufils *Deputy Head of Sustainability Research*	Qualitative and quantitative modelling, carbon research, data science, machine learning, portfolio analysis, portfolio reporting	2018
Rebeca Coriat *Head of Stewardship*	Stewardship architecture, policy development and implementation, engagement framework and delivery, proxy voting, stewardship reporting	2008
Joshua Felgate *ESG Analyst*	Qualitative analysis, fundamental research, portfolio analysis	2014
Johan Gaillard *Quantitative Analyst*	Economics, corporate finance, private market, data science, sustainable finance	2021
Laura García Velez *Quantitative Analyst*	Geo-information science, earth observation, climate science, physical risk, environmental engineering	2013
Alexandre Garrett *Senior Sustainability Analyst*	Fundamental research and analysis, commodities, materials	2017
Matija Gergolet *Head of Fundamental Research*	Fundamental research, equity analysis, energy, materials, utilities, metals and mining	1999
Gérard Guerdat *Sustainable Equities Analyst*	Fundamental research, equity analysis, technology, hardware, semis, software	2008
Dr Foort Hamelink *Senior Solutions Manager*	Quantamental investment solutions, data science, ESG integration, carbon pricing, factor investing	1990
Max Hannam *Sustainable Equities Analyst*	Fundamental research, equity analysis, health care, industrials, utilities	2016
Dr Thomas Hohne-Sparborth *Head of Sustainability Research*	Economics and Econometrics, data science, climate change, circular economy, mobility, supply chains, mining	2008
Emi Hu Quantitative Analyst	Quantitative modelling, data science, portfolio analysis, risk management, corporate sustainability data, implied temperature rise	2018
Lauren Irwin *Sustainability Analyst*	Power and packaging markets	2022
José Lazúen *Senior Sustainability Analyst*	Environmental economics, energy and transport markets	2016
Khangzhen Leow *Senior Sustainability Analyst*	Quantitative analysis, climate change, emissions, Paris Agreement, carbon pricing, abatement costs	2009
Sarah Manvel *Assistant*	Organisation, communication, time and diary management, proofreading and copyediting	1999
Anouchka Miquel *Stewardship Analyst*	Stewardship engagement, natural capital, biodiversity	2016
Charlie Parker *Quantitative Analyst*	Quantitative modelling, data science, portfolio analysis, risk management, corporate sustainability data, implied temperature rise	2019
Kyllian Pather *Sustainability Analyst*	Transport markets	2022
Maddie Phillips *Quantitative Analyst*	environmental impact assessment, environmental science, biodiversity, conservation, geospatial analysis, remote sensing	2022
Caroline Putman Cramer *Stewardship Analyst*	Stewardship engagement, climate transition & net zero, social issues	2021
Uebe Rezeck Filho *Sustainable Equities Analyst*	Fundamental research, equity analysis, consumer discretionary products, industrials and machinery	2003
Maeva Siga *Quantitative Analyst*	Data science, data analysis, quantitative metrics, climate change, temperature analysis	2021

Colleague	Areas of expertise	In the Industry since
	Sustainability Research and Stewardship Team	
Barthélémy Simon *Quantitative Analyst*	Data science, data analysis, quantitative metrics, climate change, temperature analysis	2020
Salomé Sommer Sustainable Research Analyst	Food systems, sustainable finance, packaging, green bonds	2021
Dominic Tighe Senior Sustainability Analyst	Climate metrics, policy, economics, power and energy systems	2016
Dr Michael Urban Chief Sustainability Strategist	Sustainable finance, planetary economics, electrification, food systems	2011
Maria von Prittwitz und Gaffron Senior Sustainability Analyst	Energy engineering, energy markets, wind power technology, buildings, energy technology, water	2017
Matthew Watkins Senior Sustainability Analyst	Food systems, buildings, impact assessment	2012
	Corporate Social Responsibility	
Ebba Lepage Head of Corporate Social Responsibility	Strategy and execution, net zero pathway, carbon footprint, B Corp, UN PRB, client and employee engagement	2007
	Sustainable Investment Team	
Adriana Becerra Cid Sustainability Manager, Private Assets	Strategy and integration of sustainability within private assets, including impact assessment and stewardship	2017
Guillaume Levannier Sustainable Investment Manager	Sustainable investment policies and how to implement them across asset classes	2013
Marta Pernich Sustainable Investment Manager	Integration of sustainability in investment processes across asset classes	2013
Maxime Perrin Head of Sustainable Investment team	Integration of sustainability in investment processes across asset classes, definition fund sustainability narrative and of appropriate reporting and disclosures framework. Cooperating in the definition and launch of new funds, products and solutions	2021
	Experts from our Investment Boutiques	
Peter Burke-Smith *Junior Portfolio Manager*	Portfolio management and sell-side experience, with a sustainability focus and academic background in environmental science	2018
Victoire Carous *Portfolio Manager*	Private equity investments	2011
Alina Donets *Portfolio Manager*	Long-only investment funds, public equity investing, sustainable and thematic investing, ESG integration, stewardship, equity research	2012
Pascal Menges *Head of Equity Research and Investment Process/Client Portfolio Manager*	Equity research, valuation, capital markets, portfolio management	1996
Ashton Parker *Head of Credit Research*	Fundamental credit analysis, credit portfolio management	2000
Paul Udall *Portfolio Manager*	Global equity sustainability portfolios, specifically targeting climate change and disruptive clean tech	1995

Colleague	Areas of expertise	In the Industry since
	Sustainability Research and Stewardship Team	
Conor Walsh *Portfolio Manager*	Global equities, value investing, sustainable investments, fundamental analysis	2007
Erika Wranegard *Portfolio Manager*	Credit portfolio management, sustainable investments, sustainable bonds, ESG integration in credit analysis	2011
Yannick Zufferey *Client Investment Officer, Fixed Income*	Fixed income strategy, portfolio management	1999
Lorenzo Bernasconi *Head of Climate and Environmental Solutions*	Carbon markets, environmental markets, nature-based solutions, climate finance, decarbonisation solutions	2000
Ruben Lubowski *Chief Carbon and Environmental Markets Strategist*	Compliance and voluntary carbon markets, climate policy and finance, environmental market modelling, natural climate solutions, agriculture, forests and land use	1992
Rhys Marsh *Portfolio Manager*	Sustainable private credit platforms, finance lending platforms, solutions-based origination	2005
Peter Pulkkinen *Portfolio Manager*	Sustainable private debt investments across infrastructure and renewable energy, project and asset-back finance	1993

Annex 2 – External data providers

Provider	Focus	Speciality
ISS	Proxy vote research and vote execution	Provides research, analysis and recommendations for proxy voting, as well as the platform for vote execution
Insightia	Shareholder voting intelligence	Provides comprehensive, aggregated and easily comparable information on global voting
Sustainalytics	Primary ESG data provider	Provides comprehensive ESG raw data, research and analysis on a large universe, carries out controversy monitoring, products/activities involvement tracking
Inrate	Environmental data and metrics for Swiss companies	Provides comprehensive ESG raw data and flags controversies involvement with a specific focus in our home market, especially on small and mid-caps
Trucost	Environmental data provider	Provides data that helps us to measure the environmental impact of our investments (greenhouse gas emissions scope 1,2,3 used to calculate the carbon footprint of our portfolios and compare their carbon intensity, water consumption, waste generation, NACE sector involvement, electricity generation and consumption by types of sources, air and water pollutants, physical risks)
Carbone 4	Climate change adaptation	Provides carbon impact metrics with induced emissions and emissions savings data
CDP	Collective CDP database	Provides detailed data on companies' carbon emissions and climate change strategies
Exiobase	Global, detailed Multi-regional Environmentally Extended Supply and Use / Input Output database	Database provides granular data in terms of sectors, products, emissions and resources for all the countries covered, including 43 countries, 163 industry sectors, and 200 product categories
FactSet GeoRev	Companies' revenue breakdown .	2 packages: · GeoRev: geographical exposure of companies' revenue · RBICS: revenue breakdown by activity.
Equileap	Gender equality data & insights	Provides essential intelligence and insights into the social performance of companies; its gender equality research provides the gold standard gender metrics allowing us to assess the risk and opportunities presented by gender (in) equality in global markets.
RepRisk	ESG and business conduct risks	Assesses risk exposure of companies related to ESG issues using data-science and media-monitoring
Kynd	Cybersecurity risk management	Helps firms understand and prevent cyber risks with its pioneering technology; provides up-to-date expert insight into a company's cyber risk exposure from tech that's regularly scanning, allowing it to quickly identify cyber vulnerabilities.
IPCC	Academic Research	Global Carbon budget
Climate Works centre	Academic Research / Policy Advisor	Global Carbon budget. Climateworks is working across four physical systems of the economy that produce emissions, and three systems that enable emissions reduction.
NGFS	Academic Research	Climate Transition Scenarios and modelling
Various Climate Initiatives	Companies' decarbonization targets	Besides, we also use data from Renewable Energy 100, Science Based Targets initiative, Transition Pathway Initiative, Principles for Responsible Banking, Net Zero Asset Managers, Net Zero Asset Owners

Annex 3 – Partnerships, associations

Through both Lombard Odier Group and its operational entities, LOIM is part of the following initiatives, organisations and associations:

Associations and Initiatives	Status	Member since
Aligning data to increase accountability	Participant	2021
B Corporation Certified	Certification	2019
Business for Nature	Member	2020
CDP (formerly Carbon Disclosure Project) on Climate Change, Forests and Water)	Member	2004
Ceres - Valuing Water Finance Initiative	Member	2022
Circular Bioeconomy Alliance (CBA)	Founding partner	2020
Climate Action 100+	Participant	2020
Economic Dividends for Gender Equality (EDGE)	Member	2014
Energy Transitions Commission	Member	2019
EUROSIF	Member	2021
FAIRR	Member	2022
Finance for Biodiversity Pledge	Member	2020
Forest Investor Club	Founding member	2021
Glasgow Financial Alliance for Net Zero	Member	2021
Global Impact Investing Network (GIIN) Investor's Council	Founding partner and active member	2012
Institutional Investors Group on Climate Change (IIGCC)	Member	2018
Natural Capital Investment Alliance (NCIA)	Founding member	2021
Net Zero Asset Managers initiative	Signatory	2021
Sustainable Finance Geneva (SFG)	Active member	2008
Sustainable Markets Initiative	Member	2020
Swiss Secretariat for International Finance (Climate scoring initiative)	Participant	2021
Swiss Sustainable Finance (SSF)	Founding partner	2014
Task Force on Climate-Related Financial Disclosure (TCFD)	Supporter	2019
Task Force on Nature-Related Financial Disclosure (TNFD)	Member	2021
Terra Carta	Supporter	2021
UK Stewardship Code	Signatory	2021
UK Sustainable Investment and Finance Association	Member	2021
UN Global Compact	Participant	2018
UNEP Principles for Responsible Banking	Signatory	2020
United Nations Principles for Responsible Investment (UN PRI)	Signatory	2007

Industry Associations	
Alternative Investment Management Association (AIMA)	Member
Asset Management Association Switzerland (formerly SFAMA)	Member
Association Européenne des Institutions Paritaires (AEIP)	Member
Association of the Luxembourg Fund Industry (ALFI)	Member
European Fund and Asset Management Association (EFAMA)	Member
International Capital Market Association (ICMA)	Member
The Investment Association	Member
Pensions and Lifetime Savings Association (PLSA)	Member
UK Finance	Member

Annex 4 – LOIM 2022 stewardship statement

At LOIM, we believe the sustainability transition will be a major driver of risks and returns for the foreseeable future. The world is on the brink of a profound transition. Our prevailing economic model is wasteful, idle, lopsided, and dirty (WILD). It is unsustainable in the long term and built on a linear take-make-waste model that excessively extracts materials, including fossil fuels, ores, and minerals. However, we see evidence that the next economic revolution has already begun. A powerful feedback loop of forces including regulatory pressure, market forces and technological innovation, investor capital re-allocation and consumer preferences is starting to force a rethink of business models. This transition to a circular, leaner, more inclusive and cleaner economy (CLIC™) will unlock trillions in untapped value, in our view. The transition from a WILD to a CLIC economy represents a move from a value-destructive economy, to a value-creating economy, and is set to be a key investment driver for the foreseeable future.

In this transition, we are firm believers in the importance of stewardship. This is a crucial approach to protect and enhance the long-term sustainable value of the assets entrusted to us by our clients, and an indispensable tool to achieve lasting impact beyond financial returns. Through active ownership, we aim to help companies better align themselves to sustainable transition pathways, which are net-zero, nature-positive and fair. We promote and uphold best-in-class business practices and aim to manage controversies. We believe this combination is the cornerstone for businesses to thrive over the long term. This means that through stewardship, we make a positive contribution to the CLIC™ economy.

We discharge our stewardship responsibilities through engagement across asset classes and through voting. We enter a dialogue with companies, engage with them and use our votes (when applicable) to help guide them towards more sustainable business models and best-in-class business practices. We use this dialogue to enhance our understanding of a company's sustainability, allowing us to feed it back into our investment analysis.

Voting and Engagement, tools of our stewardship effort:

We understand and use voting and engagement as constituents of our stewardship continuum.

Through engagement, a meaningful two-way conversation, we seek to build trust with our investee companies. It is a crucial, integrated approach throughout the investment lifecycle that seeks to ensure our companies are aligned with the sustainability challenges they face. We first seek to understand where companies are in the sustainability transition process and then respectfully and constructively suggest the changes, we believe are necessary. Through engagement, we raise issues, seek to understand how the company can react to them and how it engages itself in an internal process to address them.

As a baseline, voting allows us to hold management accountable at least once a year and express and convey our views and preferences, even if no prior engagement has taken place. Enhanced voting, that is voting against a management resolution, or for a shareholder proposal following an engagement is one of the more powerful stewardship escalation mechanisms we have at our disposal, given the legally binding nature of most resolutions that are put to a vote; the readiness and availability that companies display around shareholders' meetings season; and the fact that a company will have full prior visibility on the rationale for the vote against. This vote against may trigger further engagements, allowing us to incorporate a stewardship outlook into our financial analysis.

Overarching objectives of our stewardship effort:

As a responsible investor, we are duty-bound to engage and vote to shape sustainable companies generate value over the long term. Using stewardship, we specifically aim to reach three key objectives.

1. **Encourage companies to align themselves to sustainable transition pathways**
   Adopting a sustainable transition pathway is crucial for companies to maintain and increase their value over the years to come. It is our duty as responsible investors to encourage them in this direction. We define transition pathways in alignment with our CLIC vision, which reflects the change underway at the level of the economy that affects sectors and industries.
2. **Promote and uphold 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.
3. **Manage controversies**
   As investors, we are faced with unexpected but also in-the-making 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 and the remedial action that can be taken. Divestment always remains an option open to us, but we regard it as the last step in our stewardship escalation mechanism.

Annex 5 – LOIM policies

https://www.lombardodier.com/home/rethink-sustainability/sustainable-investing.html

Annex 6 – Fund overview

LO Funds – Climate Transition

Investment objective

- The Sub-Fund is actively managed. The MSCI World TR ND index is used for performance comparison as well as internal risk monitoring purposes, without implying any particular constraints to the Sub-Fund's investments. Securities targeted by the Sub-Fund can be similar to those of the index to an extent that varies overtime but their weighting is expected to materially differ. The performance of the Sub-Fund may deviate materially from that of the index. The Sub-Fund invests in equity and equity related securities issued by companies worldwide (including Emerging Markets) whose growth will benefit from regulations, innovations, services or products related to the global fight against or adaptation to climate change.
  The Fund is not a guaranteed product. There is no guarantee that the investment objective will be reached or that investors will reach a return on capital. Investors may risk losing part or all their initial investment (risk of capital loss).
- **Benchmark:** A proxy benchmark has been identified for performance comparison **– MSCI World ND USD.**
- **Minimum recommended holding period:** 5 years
- **Sub-fund launch date:** 17 March 2020
- Sub-fund reference currency: USD.
  When the reference currency of the Fund or class is different from the currency of your country, currency fluctuations may have a negative impact on the net asset value, performance and costs. Returns may rise or fall due to currency fluctuations.
- **Countries of registration:** AT, BE, CH, DE, ES, FI, FR, GB, IE, IT, LI, LU, NL, NO, SE

Risks

RISK AND REWARD PROFILE

1	2	3	4	5	6	7

Lower risk — Higher risk

The summary risk indicator assumes you keep the product for 5 years.

- **Main risks (non-exhaustive list):** Equities, Small and medium sized capitalisations, Currencies, Emerging markets, Regional or sectorial concentration, Derivatives (Hedging / Efficient Portfolio Mgt): when using derivatives, the use of leverage may increase the potential risk of loss or the potential return.
- **The summary risk indicator:** 4 (medium risk class). The risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you. The lowest risk category does not mean "risk free". The following risks may be materially relevant but may not always be adequately captured by the synthetic risk indicator and may cause additional loss: Concentration risk, Emerging market risk and Active management risk. For more information on the risks of the Fund, please refer to Annex B of the prospectus.

SFDR

- **SFDR class:** Article 8 of Regulation (EU) 2019/2088 on sustainability reporting in the financial services industry. This sub-fund promotes environmental or social characteristics while it does not have as its objective a sustainable investment, it will have a minimum proportion of 50% of sustainable investments.
- **ESG strategy:** The Investment Manager has integrated sustainability risks into its own investment processes/strategy for the Sub-Fund by

i. assessing the sustainability profile of companies in which the Sub-Fund invests using the LOIM Classification Framework;

ii. considering data points linked to PAIs; and

iii. excluding controversial investments in companies with activities linked to (a) controversial weapons and (b) over certain thresholds, tobacco, coal, unconventional oil and gas and material breaches of the UN Global Compact.

- **ESG policy:** The Investment Manager will invest at least 80% of the Sub-Fund's assets in investments aligned with E/S characteristics. The Investment Manager will also invest at least 50% of the Sub-Fund's assets in sustainable investments. The Investment Manager will reduce the Sub-Fund's exposure to investments described as 'red star' according to the LOIM Classification Framework by 50% compared to its benchmark.
- **Promoted criteria:** The Sub-Fund focuses in particular on the following transformations -

i. Transformation of energy systems: transitions towards an electrified economy powered by renewable energy, involving the greening of supply (renewable power and zero carbon fuels), the greening of demand (electrification and energy efficiency across transport, industry, buildings and other sectors), the management of supply and demand (through energy storage, interconnectedness, and related infrastructure), and other enabling solutions.

ii. Adaptation to the impacts of global warming and the broader effects of climate change, resulting from cumulative carbon emissions, and requiring improved preparedness, resilience and disaster recovery across infrastructure, agriculture and production processes.

- **Binding elements of the selection process:** The following exclusions are binding – exclusion of controversial weapons, exclusion of tobacco, coal, unconventional oil and gas, exclusion of material breaches of the UN global impact principles. The Investment Manager will also invest at least 50% of the Sub-Fund's assets in sustainable investments. The Investment Manager will reduce the Sub-Fund's exposure to investments described as 'red star' according to the LOIM Classification Framework by 50% compared to its benchmark.
- **Methodological limits:** The creation of internal sustainability data points, including those needed to identify sustainable investment, may be affected by possible errors in underlying data points disclosed by investee companies, possible errors in data points received from data providers, possible errors in the correct attribution of relevant data points, possible discrepancies in the weighting of individual data points to create the final assessment, possible errors in final reported figures, owing to human errors, undetected anomalies in data systems and infrastructure and judgmental decisions involved in the design and implementation of key metrics, where specific design choices may have a material outcome on the final scores and assessment of an investee company, issuer, or portfolio.
- **For more information about the ESG criteria, approach, binding elements of the selection process, methodological limits, please refer to the Prospectus, the SFDR Pre-contractual disclosure (Annex C), as well as the Summary of the website Product disclosure, available in English and in an official language of the EU country of registration of the sub-funds in the section "Sustainability-related Disclosure" of the website at: w** https://am.lombardodier.com/

LO Funds – TargetNetZero Global Equity

Investment objective

- The Sub-Fund invests mainly in equity securities issued by companies selected based on proprietary responsible criteria which includes social, environmental, ethical and/or corporate governance factors. In addition, the fund manager applies a proprietary risk-based methodology which determines and adjusts the weighting of each security, sector and country.
- **The Fund is not a guaranteed product. There is no guarantee that the investment objective will be reached or that investors will reach a return on capital. Investors may risk losing part or all their initial investment (risk of capital loss).**
- **Benchmark:** The fund is actively managed and a proxy benchmark has been identified for performance comparison **– MSCI All Countries World USD ND.**
- **Minimum recommended holding period:** 5 years
- **Sub-fund launch date:** 22 March 2017
- **Sub-fund reference currency:** USD.
- **When the reference currency of the Fund or class is different from the currency of your country, currency fluctuations may have a negative impact on the net asset value, performance and costs. Returns may rise or fall due to currency fluctuations.**
- **Countries of registration:** AT, BE, CH, DE, ES, FI, FR, GB, IE, IT, LI, LU, NL, NO, SE

Risks

- Main risks (non-exhaustive list): **Equities, Small and medium sized capitalisations, Currencies, Emerging markets, Regional or sectorial concentration, Derivatives (Hedging / Efficient Portfolio Mgt), Derivatives (Investment strategy): when using derivatives, the use of leverage may increase the potential risk of loss or the potential return.**

RISK AND REWARD PROFILE

1	2	3	**4**	5	6	7

Lower risk — Higher risk

⚠ The summary risk indicator assumes you keep the product for 5 years.

- **The summary risk indicator: 4 (medium risk class).** The risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you. The lowest risk category does not mean "risk free". The following risks may be materially relevant but may not always be adequately captured by the synthetic risk indicator and may cause additional loss: **Operational risk and risks related to asset safekeeping, Model risk and financial, Economic, Regulatory and political risks. For more information on the risks of the Fund, please refer to Annex B of the prospectus.**

SFDR

- **SFDR class: Article 8 of Regulation (EU) 2019/2088 on sustainability reporting in the financial services industry. This sub-fund promotes environmental or social characteristics while it does not have as its objective a sustainable investment, it will have a minimum proportion of 10% of sustainable investments.**
- **ESG strategy:** The Investment Manager has integrated sustainability risks into its own investment processes/strategy for the Sub-Fund by

i. Filtering prospective investments based upon an assessment of their temperature alignment (ITR) and ESG profile using the proprietary tools;

ii. considering data points linked to PAIs; and

iii. excluding controversial investments in companies with activities linked to (a) controversial weapons and (b) over certain thresholds, tobacco, coal, unconventional oil and gas and material breaches of the UN Global Compact.

- **ESG policy:** The Investment Manager will invest at least 80% of the Sub-Fund's assets in investments aligned with E/S characteristics. The Investment Manager will also invest at least 10% of the Sub-Fund's assets in sustainable investments. The Investment Manager aims to reduce the Sub-Fund's exposure to investments described as 'red' (as defined in LOIM Classification Framework) by 30% compared to its benchmark.
- **Promoted criteria:** The Sub-Fund promotes climate change mitigation through alignment with the Paris Agreement objective. The Investment Manager aims to keep the Implies Temperature Rise (ITR) of the Sub-Fund's portfolio below 2 degrees at all times, with an objective of 1.5 degrees. The Investment Manager uses its proprietary ITR methodology to measure the ITR of the Sub-Fund's portfolio.
- **Binding elements of the selection process: The following exclusions are binding** – exclusion of controversial weapons, exclusion of tobacco companies, restrictions on coal, unconventional oil and gas, exclusion of material breaches of the UN global impact principles.
- **Methodological limits:** The creation of internal sustainability data points, including those needed to identify sustainable investment, may be affected by possible errors in underlying data points disclosed by investee companies, possible errors in data points received from data providers, possible errors in the correct attribution of relevant data points, possible discrepancies in the weighting of individual data points to create the final assessment, possible errors in final reported figures, owing to human errors, undetected anomalies in data systems and infrastructure and judgmental decisions involved in the design and implementation of key metrics, where specific design choices may have a material outcome on the final scores and assessment of an investee company, issuer, or portfolio.
- **For more information about the ESG criteria, approach, binding elements of the selection process, methodological limits, please refer to the Prospectus, the SFDR Pre-contractual disclosure (Annex C), as well as the Summary of the website Product disclosure, available in English and in an official language of the EU country of registration of the sub-funds in the section "Sustainability-related Disclosure" of the website at: w** https://am.lombardodier.com/

LO Funds – Natural Capital

Investment objective

- The Sub-Fund is actively managed. The MSCI World SMID Cap TR ND index is used for performance comparison as well as internal risk monitoring purposes, without implying any particular constraints to the Sub-Fund's investments. Securities targeted by the Sub-Fund can be similar to those of the index to an extent that varies overtime but their weighting is expected to materially differ. The performance of the Sub-Fund may deviate materially from that of the index. The Sub-Fund invests in equity and equity related securities issued by companies worldwide (including Emerging Markets) whose growth will benefit from regulations, innovations, services or products favoring the transition to a more circular economy and to an economy that values natural capital. **The Fund is not a guaranteed product. There is no guarantee that the investment objective will be reached or that investors will reach a return on capital. Investors may risk losing part or all their initial investment (risk of capital loss).**
- **Benchmark:** A proxy benchmark has been identified for performance comparison – **MSCI World SMID Cap USD ND.**
- **Minimum recommended holding period:** 5 years
- **Sub-fund launch date:** 17 November 2020
- **Sub-fund reference currency:** USD.
- **When the reference currency of the Fund or class is different from the currency of your country, currency fluctuations may have a negative impact on the net asset value, performance and costs. Returns may rise or fall due to currency fluctuations.**
- **Countries of registration:** AT, BE, CH, DE, ES, FI, FR, GB, IE, IT, LI, LU, NL, NO, SE, US

Risks

RISK AND REWARD PROFILE

1	2	3	4	5	6	7

Lower risk — Higher risk

⚠ The summary risk indicator assumes you keep the product for 5 years.

- Main risks (non-exhaustive list): **Equities, Small and medium sized capitalisations, Currencies, Emerging markets, Regional or sectorial concentration, Derivatives (Hedging / Efficient Portfolio Mgt): when using derivatives, the use of leverage may increase the potential risk of loss or the potential return.**
- The summary risk indicator: **4 (medium risk class).** The risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you. The lowest risk category does not mean "risk free". The following risks may be materially relevant but may not always be adequately captured by the synthetic risk indicator and may cause additional loss: **Concentration risk, Emerging market risk and Active management risk. For more information on the risks of the Fund, please refer to Annex B of the prospectus.**

SFDR

- SFDR class: **Article 8 of Regulation (EU) 2019/2088 on sustainability reporting in the financial services industry. This sub-fund promotes environmental or social characteristics while it does not have as its objective a sustainable investment, it will have a minimum proportion of 50% of sustainable investments.**
- **ESG strategy:** The Investment Manager has integrated sustainability risks into its own investment processes/strategy for the Sub-Fund by

i. assessing the sustainability profile of companies in which the Sub-Fund invests using the LOIM Classification Framework;

ii. considering data points linked to PAIs; and

iii. excluding controversial investments in companies with activities linked to (a) controversial weapons and (b) over certain thresholds, tobacco, coal, unconventional oil and gas and material breaches of the UN Global Compact.

- **ESG policy:** The Investment Manager will invest at least 80% of the Sub-Fund's assets in investments aligned with E/S characteristics. The Investment Manager will also invest at least 50% of the Sub-Fund's assets in sustainable investments. The Investment Manager aims to reduce the Sub-Fund's exposure to investments described as 'red star' according to the LOIM Classification Framework by 50% compared to its benchmark.
- **Promoted criteria:** The Sub-Fund focuses in particular on the following transformations -
  i. **Transformation of land and ocean systems:** transitions across our reliance on land & oceans, including the transformation of agriculture, food and land use (AFOLU) systems through more sustainable food production and sustainable forestry, the expansion of the bioeconomy, and the improvement of water systems, aiming to restore land and ecosystems back to nature.
  ii. **Materials:** transitions across our material systems, including moves towards improved resource productivity, adoption of less harmful production processes, reduced reliance on resource extraction, and reductions and improvement management of waste.
- **Binding elements of the selection process:** The following exclusions are binding – exclusion of controversial weapons, exclusion of tobacco, coal, unconventional oil and gas, exclusion of material breaches of the UN global impact principles. The Investment Manager will also invest at least 50% of the Sub-Fund's assets in sustainable investments. The Investment Manager will reduce the Sub-Fund's exposure to investments described as 'red star' according to the LOIM Classification Framework by 50% compared to its benchmark.
- **Methodological limits:** The creation of internal sustainability data points, including those needed to

identify sustainable investment, may be affected by possible errors in underlying data points disclosed by investee companies, possible errors in data points received from data providers, possible errors in the correct attribution of relevant data points, possible discrepancies in the weighting of individual data points to create the final assessment, possible errors in final reported figures, owing to human errors, undetected anomalies in data systems and infrastructure and judgmental decisions involved in the design and implementation of key metrics, where specific design choices may have a material outcome on the final scores and assessment of an investee company, issuer, or portfolio.

- **For more information about the ESG criteria, approach, binding elements of the selection process, methodological limits, please refer to the Prospectus, the SFDR Pre-contractual disclosure (Annex C), as well as the Summary of the website Product disclosure, available in English and in an official language of the EU country of registration of the sub-funds in the section "Sustainability-related Disclosure" of the website at: w** https://am.lombardodier.com/

LO Funds – New Food Systems

Investment objective

- The Sub-Fund is actively managed. The MSCI ACWI TR ND index is used for performance comparison as well as internal risk monitoring purposes, without implying any particular constraints to the Sub-Fund's investments. The Sub-Fund's positioning will deviate substantially, and therefore the performance of the Sub-Fund may materially differ from that of the above-mentioned index. The Sub-Fund invests primarily in equity and equity related securities of companies worldwide (including Emerging Markets) whose growth will benefit from regulations, innovations, services or products related to more environmental-friendly agricultural and food production, distribution and diets aligned with the transition to a more circular, leaner, more inclusive and cleaner world.
  The Fund is not a guaranteed product. There is no guarantee that the investment objective will be reached or that investors will reach a return on capital. Investors may risk losing part or all their initial investment (risk of capital loss).
- **Benchmark:** A proxy benchmark has been identified for performance comparison - MSCI World SMID Cap USD ND.
- **Minimum recommended holding period:** 5 years
- **Sub-fund launch date:** 7 July 2022
- **Sub-fund reference currency:** USD.
- When the reference currency of the Fund or class is different from the currency of your country, currency fluctuations may have a negative impact on the net asset value, performance and costs. Returns may rise or fall due to currency fluctuations.
- **Countries of registration:** AT, BE, CH, DE, ES, FI, FR, GB, IT, LI, LU, NL, NO, SE

Risks

RISK AND REWARD PROFILE

1	2	3	4	5	6	7

Lower risk — Higher risk

⚠ The summary risk indicator assumes you keep the product for 5 years.

- **Main risks (non-exhaustive list): Equities, Small and medium sized capitalisations, Currencies, Emerging markets, Regional or sectorial concentration, Derivatives (Hedging/Efficient Portfolio Mgt): when using derivatives, the use of leverage may increase the potential risk of loss or the potential return.**
- **The summary risk indicator:** 4 (medium risk class). The risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you. The lowest risk category does not mean "risk free". The following risks may be materially relevant but may not always be adequately captured by the synthetic risk indicator and may cause additional loss: **Concentration risk, Emerging market risk and Active management risk. For more information on the risks of the Fund, please refer to Annex B of the prospectus.**

SFDR

- **SFDR class: Article 8 of Regulation (EU) 2019/2088 on sustainability reporting in the financial services industry. This sub-fund promotes environmental or social characteristics while it does not have as its objective a sustainable investment, it will have a minimum proportion of 50% of sustainable investments.**
- **ESG strategy:** The Investment Manager has integrated sustainability risks into its own investment processes/strategy for the Sub-Fund by

i. assessing the sustainability profile of companies in which the Sub-Fund invests using the LOIM Classification Framework;

ii. considering data points linked to PAIs; and

iii. excluding controversial investments in companies with activities linked to (a) controversial weapons and (b) over certain thresholds, tobacco, coal, unconventional oil and gas and material breaches of the UN Global Compact.

- **ESG policy:** The Investment Manager will invest at least 80% of the Sub-Fund's assets in investments aligned with E/S characteristics. The Investment Manager will also invest at least 50% of the Sub-Fund's assets in sustainable investments. The Investment Manager aims to reduce the Sub-Fund's exposure to investments described as 'red star' according to the LOIM Classification Framework by 50% compared to its benchmark.
- **Promoted criteria:** The Sub-Fund focuses in particular on the following transformations -

i. Transformation of land and ocean systems: transitions across our reliance on land & oceans, including the transformation of agriculture, food and land use (AFOLU) systems through more sustainable food production and sustainable forestry, the expansion of the bioeconomy, and the improvement of water systems, aiming to restore land and ecosystems back to nature.

- **Binding elements of the selection process:** The following exclusions are binding – exclusion of controversial weapons, exclusion of tobacco, coal, unconventional oil and gas, exclusion of material breaches of the UN global impact principles. The Investment Manager will also invest at least 50% of the Sub-Fund's assets in sustainable investments. The Investment Manager will reduce the Sub-Fund's exposure to investments described as 'red star' according to the LOIM Classification Framework by 50% compared to its benchmark.
- **Methodological limits:** The creation of internal sustainability data points, including those needed to identify sustainable investment, may be affected by possible errors in underlying data points disclosed by investee companies, possible errors in data points received from data providers, possible errors in the correct attribution of relevant data points, possible discrepancies in the weighting of individual data points to create the final assessment, possible errors in final reported figures, owing to human errors, undetected anomalies in data systems and infrastructure and judgmental decisions involved in the design and implementation of key metrics, where specific design choices may have a material outcome on the final scores and assessment of an investee company, issuer, or portfolio.
  For more information about the ESG criteria, approach, binding elements of the selection process, methodological limits, please refer to the Prospectus, the SFDR Pre-contractual disclosure (Annex C), as well as the Summary of the website Product disclosure, available in English and in an official language of the EU country of registration of the sub-funds in the section "Sustainability-related Disclosure" of the website at: w https://am.lombardodier.com/

IMPORTANT INFORMATION

Lombard Odier Funds (hereinafter the “Fund”) is a Luxembourg investment company with variable capital (SICAV). The Fund is authorised and regulated by the Luxembourg Supervisory Authority of the Financial Sector (CSSF) as an Undertaking for Collective Investments in Transferable Securities UCITS under Part I of the Luxembourg law of the 17 December 2010 implementing the European directive 2009/65/EC, as amended (“UCITS Directive”). This marketing document particularly relates to **Climate Transition, Natural Capital, TargetNetZero Global Equity and New Food Systems,** Sub-Funds of LO-Funds (hereinafter the “Sub-Funds”). From 1 May 2023, the Climate Transition strategy will be renamed "Planetary Transition" and "Natural Capital" will be renamed "Circular Economy."

The Management Company of the Fund is **Lombard Odier Funds (Europe)** S.A. (hereinafter the “Management Company”), a Luxembourg based public limited company (SA), having its registered office at 291, route d’Arlon, 1150 Luxembourg, authorised and regulated by the CSSF as a Management Company within the meaning of EU Directive 2009/65/EC, as amended; and within the meaning of the EU Directive 2011/61/EU on Alternative Investment Fund Managers (AIFMD). The purpose of the Management Company is the creation, promotion, administration, management and the marketing of Luxembourg and foreign UCITS, alternative investment funds ("AIFs") and other regulated funds, collective investment vehicles or other investment vehicles, as well as the offering of portfolio management and investment advisory services. Lombard Odier Investment Managers (“LOIM”) is a trade name.

The prospectus, its SFDR Annex, the articles of incorporation, the Key Information Documents, the subscription form and the most recent annual and semi-annual reports are the only official offering documents of the Sub-Fund’s shares (the “Offering Documents”). The Offering Documents are/will become available in English, French, German and Italian at www.loim.com and can be requested free of charge at the registered office of the Sub-Fund in Luxembourg: 291 route d’Arlon, 1150 Luxembourg, Grand Duchy of Luxembourg. **A summary of investor rights** including common actions in case of litigation at EU and national level is available in English / an authorized language in your country at the following link: https://am.lombardodier.com/home/asset-management-regulatory-disc.html. A summary of the SFDR Product Disclosures (in English or an authorized language) is available under the Fund page of the website in the “Sustainability-related disclosure” section.

The information contained in this marketing communication does not take into account any individual’s specific circumstances, objectives or needs and does not constitute research or that any investment strategy is suitable or appropriate to individual circumstances or that any investment or strategy constitutes a personal investment advice to any investor. This marketing communication is not intended to substitute any professional advice on investment in financial products. **The content of this document, including any opinions, does not constitute any legal, tax or investment advice. Before making an investment in the Sub-Funds, an investor should read the entire Offering Documents, and in particular the risk factors pertaining to an investment in the Sub- Fund.** We would like to draw the investor’s attention toward the long-term nature of delivering returns across the economic cycle and the use of financial derivative instruments as part of the investment strategy may result in a higher level of leverage and increase the overall risk exposure of the Sub-Funds and the volatility of their Net Asset Value. Investors should take care to assess the suitability of such investment to his/her particular risk profile and circumstances and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. There can be no assurance that the Sub-Funds’ investment objective will be achieved or that there will be a return on capital. Past performance is not a reliable indicator of future results. Where the Sub-Funds are denominated in a currency other than an investor’s base currency, changes in the rate of exchange may have an adverse effect on price and income. Please take note of the risk factors.

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Austria: Paying agent: Erste Bank der österreichischen Sparkassen AG.

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Netherlands: Supervisory Authority: Autoriteit Financiële Markten(AFM). Representative: Lombard OdierFunds (Europe) S.A. –Dutch Branch, Gustav Mahlerlaan, 1081 LA Amsterdam

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Sources: Lombard Odier Investment Managers, unless otherwise specified.

Glossary:
For more definitions please refer to
https://am.lombardodier.com/home/glossary.html

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