



LOMBARD ODIER
INVESTMENT MANAGERS

Lombard Odier Investment Managers

SRI Policy

November 2019

Our Values

Rethink. Anticipate. Adapt. Always

For over 200 years the Lombard Odier group has been fully dedicated to its clients, remaining fully focused on what we do best. Our tradition of innovation has always stood us in good stead and enabled us to grow even during the more than 40 financial crises the world has experienced since Lombard Odier was founded in 1796. Stability and continuity are amongst our core values and, while we remain true to our Swiss heritage, our outlook and approach are unabashedly international.

Pioneer

In the 19th century our founding partners of Lombard Odier were very much at the heart of Switzerland's industrial and financial development but at the same time remained sensitive to the social impact of those changes and their consequences. Alexandre Lombard, a second generation partner, was a driving force in abolishing Sunday labour in Geneva and we were amongst the first private companies in Switzerland to set up a pension fund for our employees.

Build

In 1997, merely five years after the Earth Summit in Rio and nine years before the United Nations Principles of Responsible Investment (UNPRI) were propounded, Lombard Odier remained true to its heritage as a pioneer and co-founded the Ethos Foundation whose goal is to promote socially responsible investment in Switzerland. In the same year we built an investment model with sustainable development as its core concept and have continued to build on that model which now provides a wide range of sustainable and impact investment solutions (advisory, dedicated and public funds, bespoke mandate strategies, environmental and social reporting) thereby remaining true to its tradition of applying a mix of prudence and openness to new ideas in order to meet the challenges of a constantly changing world. In March 2019 Lombard Odier received B Corp certification from leading global sustainability non-profit B Lab, in recognition of its corporate sustainability practices. The B Corp certification is one of the world's most advanced ratings for corporate sustainability. Becoming a 'B Corp' involves a rigorous assessment of a company's environmental and social performance and governance. It measures how companies manage their people, environmental footprint, products, suppliers and the communities with whom they interact.

Our commitment to sustainable finance and impact investing

As an investor, we are convinced that it is our responsibility and duty to support the transition of our economies to more inclusive and sustainable models. Environmental and social challenges (depletion of natural resources, pollution, climate change, skewed demographics and wealth distribution etc.) are ushering in a new paradigm and exposing investors to yet another set of risks: stranded assets, regulatory instability, reputational fallout, environmental surtaxes, costs from lengthy court proceedings and heightened market volatility to name but a few. But those risks are also a new source of investment opportunities. Clean energy, low carbon real estate, enhanced mobility, inclusive technologies, microfinance are all major areas of innovation representing significant growth prospects.

Our priority is to best meet our clients' long term objectives while fostering the adoption of economic models that are fully consistent with the UN Sustainable Development Goals. This engagement is not only expressed in our investment process and portfolios, it is also reflected in the strong support we bring to collaborative initiatives that contribute to shaping our industry. Lombard Odier is a signatory of the six United Nations Principles for Responsible Investment since 2007 and is committed to developing its own business in line with those principles:

Principle 1 – “Incorporation of ESG issues into investment analysis and decision-making processes”: Lombard Odier supports and promotes the use of ESG criteria (Environmental, Social, Governance) as a key part of its sustainability philosophy.

Principle 2 – “Be an active owner with ESG issues incorporated in ownership policies and practices”: Lombard Odier has set out the basis for its engagement with companies in its engagement policy. In short, we look at ‘engagement’ in its widest sense - not only in terms of how we vote or arrange for voting at shareholder meetings but how we maintain an open and continuous dialogue with a company throughout the investment lifecycle. We take the intelligence and analysis generated by our Sustainable Investment Research & Strategy and ESG Solutions teams to drive our dialogue and voting power with companies allowing us to have informed discussions with companies and to target issues that we think are material to the long term financial stability and performance of a company.

Principle 3 – “Seek appropriate ESG disclosure by the entities in which we invest”: Lombard Odier strives to have the companies it invests in include ESG issues and other non-financial information in their standard reports. Since 2015, we have been supporting an investor group run by the United Nations that aims to have stock exchanges adopt guidelines requiring the companies they quote to report non-financial data in a transparent and standardised way.

Principle 4 – “Promote acceptance and implementation within the industry”: Lombard Odier has been both a co-founder and active participant in many initiatives and associations that promote the adoption of SRI throughout the financial industry including the following:

Active member of Sustainable Finance Geneva (SFG) which promotes Sustainable Finance and positions Geneva as a sustainable finance centre

Founding partner and active member of Swiss Sustainable Finance (SSF)

Founding partner and active member of Global Impact Investing Network (GIIN) 's Investors Council

Signatory of the 2014 Global Investor Statement on Climate Change

Signatory of the Carbon Disclosure Project (CDP) since 2004

Lombard Odier participates in numerous public events promoting responsible investing (Geneva Summit on Sustainable Finance as well as microfinance and impact investing conferences).

Principle 5 – “Work together for ever-better implementation”: Lombard Odier supports UNPRI collaborative initiatives and is actively involved with local, national and international regulatory and political authorities in order to promote a sustainable finance framework.

Principle 6 – “Transparency on our own activity and implementation progress”: Lombard Odier completes the annual United Nations PRI questionnaire the responses to which are available to the public on the UNPRI's website: <https://www.unpri.org/organisation/lombard-odier-144263>. Out of a commitment to transparency for our clients, we pay great care to the quality of the non-financial reports that we prepare for them. Charts, detailed analyses, follow-ups on controversies, ESG scores, carbon intensity, industry exclusions etc. are examples of the type of information that enable our clients to have a clear view of the environmental and social profile of their portfolios and, upon request, we send a detailed history of how we exercised the voting rights in their name.

Our Sustainable Investment Research & Strategy team and ESG Solutions team

Our Sustainable Investment Research & Strategy Team (“SIRS Team”) has been created for the purpose of identifying material sustainability factors that are likely to affect the financial viability and operations of investee companies. In order to reflect the complex and multi-faceted nature of sustainability challenges, the team brings together a diverse set of skillsets, including in investment banking, macroeconomics, lifecycle analysis and data science. The team works closely with our portfolio managers and ESG Solutions team and supports our investment across all asset classes.

Our ESG Solutions team focuses on business practices of companies and government sustainable policies. It therefore conceives, develops and distributes various ESG assessment tools such as business practices scorings, controversy indicators and impact metrics. These tools are integrated by all our investment teams in their investment processes through screenings, best in class, exclusions approaches for systematic teams and integration in their decision making process for our high conviction teams. The ESG Solutions team also provides analysts and portfolio managers material questions to ask their investee companies in order to assess the ESG risks of their business practices.

Our SRI strategies and solutions

Our ESG model was created in 1997 and today is deeply integrated into our sustainability philosophy and engagement processes.

To support this framework, our ESG methodology focuses on the four areas below:

Exclusions

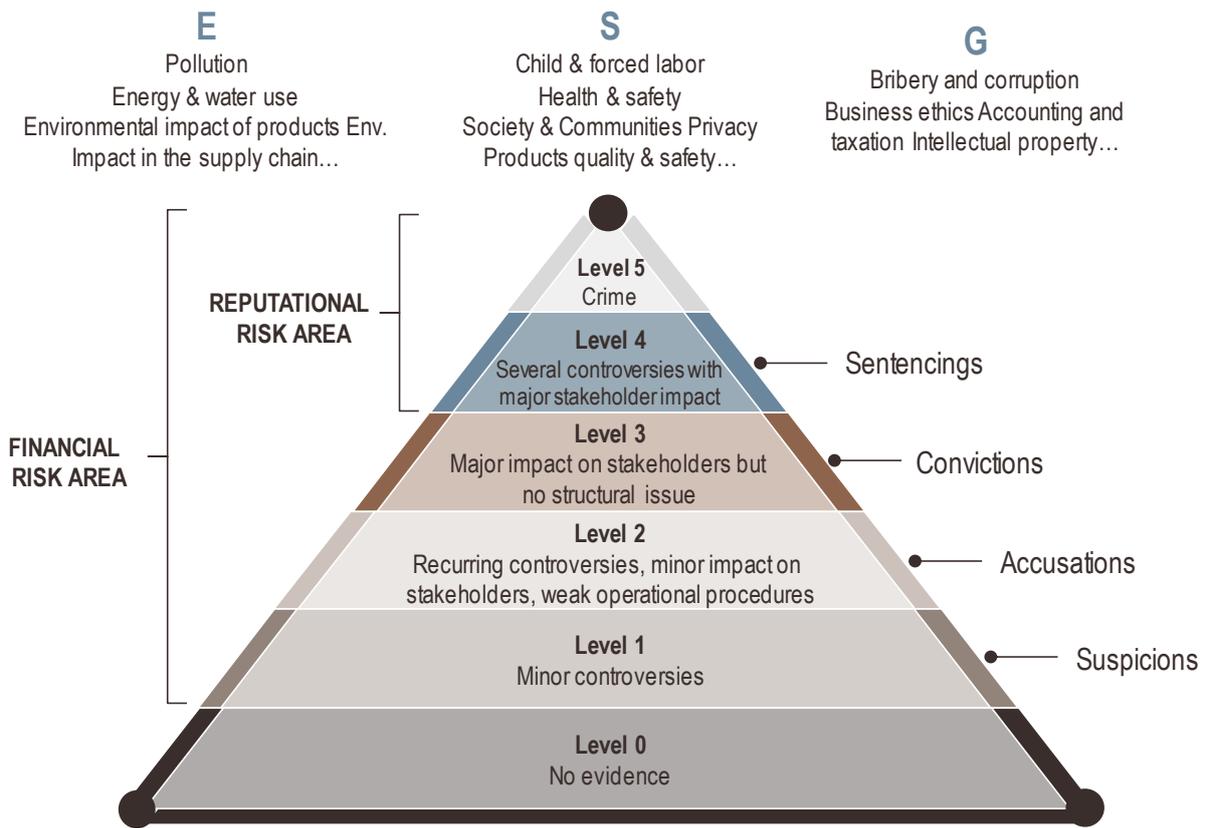
Controversial weapons – we do not invest in companies that produce, trade or store controversial weapons (biological and chemical weapons, anti-personnel mines, cluster weapons, depleted uranium, white phosphorus) as defined by the United Nations conventions. These controversial weapons kill, seriously injure and maim civilians in an indiscriminate way, and often continue to do so long after conflicts have ended. With the exception of depleted uranium and white phosphorus, the production and use of such weapons has been banned or outlawed by international treaties, namely the Biological and Toxin Weapons Convention (BWC – 1972), the Chemical Weapons Convention (CWC – 1993), the Ottawa Treaty on landmines (effective 1999), and the Convention on Cluster Munition (Oslo Convention - 2008).

Essential food commodities – wheat, rice, corn and soybeans. These four cereals form the basis of the human diet worldwide. Stable food prices are a crucial component of food security for many populations at risk. The increasing volatility of their prices directly impacts the most vulnerable populations who are sometimes forced to spend over 80% of their income on food just to survive. The UN Special Rapporteur on the Right to Food has stated that the emergence of a speculate bubble and trade in commodity derivatives was a significant factor in the global food price crisis in 2007 and 2008, and has advised a restrictive approach to dealing in such instruments. As we are concerned about the potential impact of commodities investments on the volatility of essential food prices, Lombard Odier has decided to permanently exclude all financial instruments that invest in essential foods.

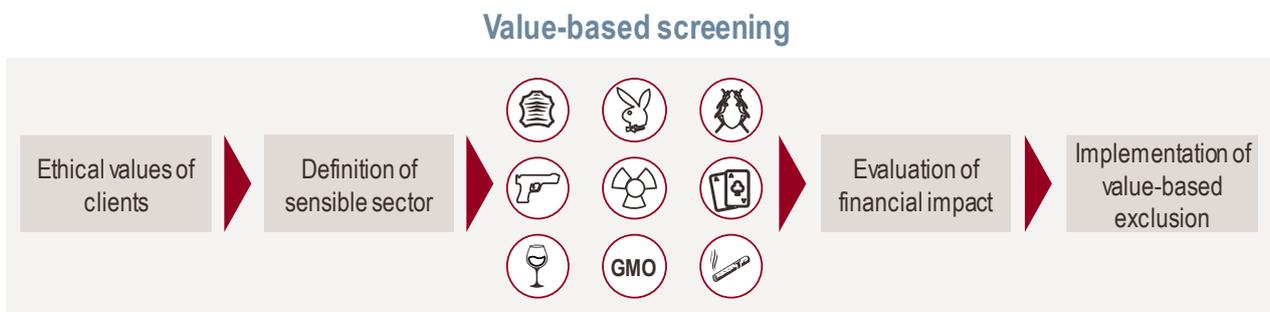
Sustainable analysis and investigations

Short-term concerns:

Negative norm-based screening: Companies may have existing controversies, which occur when companies breach internationally accepted standards or norms in matters of Environment, Social or Governance. Examples of such breaches are child labour use and other complicit violations of human rights as defined by the United Nations Global Compact Principles. They could have a major impact on a company’s reputation and can lead to lower market performance. Controversies are calibrated into five severity levels, where 1 is a minor concern and 5 is the worst case. For active strategies, we would normally look to exclude companies impacted by a controversy level of 4 or 5 from our responsible investment universe unless there are extenuating circumstances, with lower-level controversies subject to ongoing monitoring.



Value-based screening: The exclusion of sectors that may be considered as ‘unethical’, such as firearms, genetically modified organisms, fur, adult entertainment, nuclear power, gambling, pesticides, alcohol or tobacco.



Business practices

We have developed our own proprietary tool to assess the long term sustainability of the business practices of companies with an in-house scoring methodology allowing to implement positive best in class selection. Our proprietary, innovative and dynamic ESG/CAR approach (Environment, Social, Governance / Consciousness, Action, Results) aims to differentiate companies simply claiming good intentions from those which demonstrate actual results from actions undertaken. This methodology has two comparative dimensions both applying 115 criteria. The first dimension assesses the classic ESG score by evaluating the single components Environment, Social and Governance. The second dimension, assesses our internal CAR components. When evaluating the mix of the ESG and CAR performance we attach particular importance to the Result criterion, which also carries the most weight in the final sustainability score.

Measuring performance (ESG)

E Preserve the **E**nvironment

- Emission reduction
- Natural resource reduction
- Product innovation

S Work for **S**ocial progress

- Respect for human rights
- Impact on communities
- Client/product responsibility
- Diversity in workforce
- Health and safety
- Training and career development

G Practice fair **G**overnance

- Board of directors' functions and structure
- Directors' compensation policy
- Shareholder rights
- Strategy integration

Measuring process (CAR)

C Is the company **C**onscious?

- Setting ESG general policies
- Participation to international organisations and workshops
- Marketing

A What **A**ctions are taken?

- Developing reporting tools
- Implementation of ESG policies in the mainstream business
- Increasing transparency and reporting
- Fitting ESG into the corporate strategy

R What **R**esults are achieved?

- Reducing environmental impact
- Improving social balances
- Improving governance structure

Carbon Issues

Whilst there are a whole range of sustainability materiality factors that affect our investment universe, carbon issues remain a pivotal concern for investors, consumers and regulators alike. Our CO₂ emission analysis therefore forms an important pillar of the overall SRI analysis we undertake on companies. Our methodology centres around four main themes:

Emission measurement – ensuring an accurate measurement of CO₂ emissions generated by portfolio investments in different asset classes (such as equities, corporate credits and sovereign bonds). It also provides proxies for non CO₂-disclosing companies, coherent portfolio aggregation methods and detailed attribution of emissions within portfolios at company and sector level.

Reporting emission information – comprehensive reporting to clients on carbon emissions generated by their investments. Our methodology uses two metrics: (1) the investment ratio that gives the amount of greenhouse gas emitted (in tonnes equivalent CO₂) per unit of amount invested in a company. This metric allows us to measure what CO₂ emissions our investors should account for; (2) the intensity ratio that gives the amount of greenhouse gas emitted per unit of revenue generated by a company. This metric allows us to compare a company's CO₂ footprint to that of its peers.

Stranded assets and risk mitigation – we have set investment recommendations regarding the current state of fossil energy reserves and cost of extraction for specific companies and sectors. Strong political commitment to limit global emissions of greenhouse gas will create possible new regulatory constraints and higher carbon pricing. For example a large part of fossil energy reserves will have to be kept “in the ground” and never exploited, impacting stock valuations.

Low carbon strategy – optimising our ability to influence the carbon footprint of our portfolios and implement low-carbon strategies through judicious stocks and sectors selection.

Engagement

Our sustainability model and SRI processes allow us to have informed discussions with companies and to target issues that we think are material to the long term financial stability and performance of a company. We take the intelligence generated by our SIRS and ESG Solutions teams to drive our dialogue and voting power with companies. Our engagement and voting arrangements are described in more detail in our Engagement Policy

Our engagement with companies is broadly broken down into two parts:

Dialogue

Based upon the intelligence and analysis gained from our SIRS and ESG Solutions teams and our review of a target company against our mapping of material sustainability criteria (using the company's own reports and other available data) we are able to open up a dialogue with the company to test and challenge its approach to the sustainability factors we think are most material to it and will seek to influence its sustainability profile in areas where we think there are weaknesses or room for development.

At a high level, our dialogue with companies includes:

- Setting strategic objectives that build a long-term sustainable business model
- minimising externalities and maximising positive impact consistent with that model
- prioritising the achievement of strategic objectives over short-term performance
- implementing high quality business practices, including within 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
- implementing an appropriate capital structure, through a process of sound capital allocation
- promoting good corporate governance, including strong corporate cultures and effective and appropriate remuneration and incentives

Our dialogue with companies can be undertaken in a variety of ways including one to one calls/meetings with management (CFO, CEO, ESG and Sustainability Officers, etc.), periodic investor calls/meetings, written dialogue, and during pre-offering capital markets roadshows, as well as through collective/coalition investor initiatives.

Engaging company management and boards in purposeful dialogue on matters linked to long-term business success contributes to our investment research and decision-making. Our dialogue with companies provides us with insights about the mind-set of a company's management and its willingness to respond to investors' desire to transition towards more sustainable business practices. In our view, for a company to be sustainable, it has to be mindful of the full ecosystem of stakeholders and dialogue can reveal about the extent of commitment by management to such a mind-set.

Voting

Any change we encourage companies to make through the exercise of voting rights or related engagement is intended to improve a company's long-term performance. Accordingly our voting decisions (i) favour proposals that in our view tend to maximise a clients' long-term shareholder value; and (ii) are not influenced by conflicts of interest. These principles reflect our belief that sound corporate governance and effective management of social and environmental risks create a framework within which a company can be run in the interests of its shareholders.

As an overriding principle we have regard to the two main global governance standards (G20/OECD Principles of Corporate Governance (2015) and ICGN Global Corporate Governance Principles (2017)) when determining how to vote.

The G20/OECD Principles cover six main areas:

1. Ensuring the basis for an effective corporate governance framework
2. The rights and equitable treatment of shareholders and key ownership functions
3. Institutional investors, stock markets, and other intermediaries
4. The role of stakeholders in corporate governance
5. Disclosure and transparency
6. The responsibilities of the board

The ICGN Principles cover eight main areas:

1. Board role and responsibilities
2. Leadership and independence
3. Composition and appointment
4. Corporate culture
5. Risk oversight
6. Remuneration
7. Reporting and audit
8. Shareholder rights

We use the services of Institutional Shareholders Services (Europe) S.A. ("ISS"), to undertake voting on behalf of the equity sub-funds within LOIM's European range of funds.

Our voting falls into five categories:

- Routine matters - unless we determine otherwise in any particular case, the routine matters below are voted in accordance with ISS guidelines
- Predefined matters - certain pre-identified matters will be voted on in accordance with predefined guidelines that we have notified to ISS (and not in accordance with the guidelines of ISS)
- Voting against a company's board - where ISS recommends to vote against a company's board, the voting will be referred to the relevant portfolio management team for a decision
- Material events - certain material corporate events will be systematically referred to the relevant portfolio management team for a voting decision
- Sustainability topics - Sustainability related topics, including those below, will be referred to our stewardship team for a voting decision.

Reporting capabilities

Reporting capability is at the core of our ESG model for clients who desire full transparency on ESG levels and carbon footprint of their investments. We pride ourselves on producing clear and compelling information about the impact our clients' money is having around the world. Our reporting tool allows us to closely monitor and measure the impact performance of different strategies. The content consists of the following default sections:

- General information about the portfolio
- ESG/CAR marking of the portfolio with an index comparison and a timeline
- Analysis of the portfolio by sectors
- Establishment of a ranking of the five best/worst performing companies in the portfolio
- Application of ethical filters and listing of companies that are involved in controversial activities
- Follow-up on companies involved in major controversies
- Detailed performance analysis of every single company in the portfolio
- Details on the carbon footprint and carbon intensity of the portfolio compared to its benchmark
- Comments and analyses by our specialists

Note: Whilst this policy is intended to broadly apply to the management of the LOIM Luxembourg UCITS range of funds, it should be noted that it may not always be possible/practical to implement across all strategies/funds within the LOIM UCITS range.

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