



LOMBARD ODIER
INVESTMENT MANAGERS

Lombard Odier Investment Managers

Engagement Policy

Engagement

We look at and understand engagement in its widest sense: it is how we maintain an open and continuous dialogue with a company throughout the investment lifecycle. Our engagement strategy is part of our fundamental investment process.

Engagement and sustainability

Sustainability is the single biggest factor affecting the way we interact with companies today. We believe that sustainability will drive returns and determine which companies will succeed over the long term.

We assess and monitor the sustainability profile of potential and existing investee companies through a variety of data tools and analytics, but to truly understand (and where necessary influence) a company's positioning on sustainability, we need to have an active dialogue with them.

Engagement on sustainability issues allows us to go beyond systematic data screening and integration to test, challenge and influence a company's sustainability profile. We have therefore set ourselves the goal of embedding an active dialogue with companies on sustainability issues as an integral part of our investment process.

Our sustainability philosophy

We translate our Sustainability philosophy into a three-pillar approach, designed to identify which companies are more sustainable over the long-term, and therefore best positioned to benefit from the significant opportunities that sustainability brings while also navigating the risks.

Pillar 1

Sustainable financial models – The starting point for any investment is the financial viability of the company, whatever the asset class. For equities, for example, we look to identify companies with the ability to generate excess economic returns. To do this, we believe they must be capital efficient, cash generative and be able to balance their books independently from capital markets. In credit, we assess the overall solvency of a company. We do this by looking at a company's financial data to assess the fundamental credit quality, the ability to pay back debt and refinance. In contrast to traditional market-cap benchmarks, our starting point is the quality of debt, rather than the quantity.

Pillar 2

Sustainable business practices – We analyse a company’s business practices because, in our view, they are also intrinsic to financial performance. We look at a wide variety of detailed and granular information relating to environmental, social and governance (ESG) matters for each company, industry and sector. We then look at which of these issues are most material to the economic performance of a specific sector, industry or company to get a full understanding of the link between those issues, future earnings potential and company valuations.

Pillar 3

Sustainable business models – We believe that the sustainability transition is first and foremost about a company’s core mission and mind-set. These aspects are critical to determine the sustainability journey any company is on. We therefore look for companies where management is absolutely focused on developing a business model that can deliver growth by capturing the opportunities and managing risks associated with the sustainability revolution.

We look for clear evidence that a firm understands how sustainability issues affect its value chain and competitive landscape, from its own manufacturing process through to its suppliers and customers. We assess the extent to which firms have hardwired sustainability into their long-term strategy, whether they have set clear objectives and whether they are providing comprehensive and transparent reporting on their progress.

Materiality Mapping

Our Sustainable Investment Research Strategy & Stewardship Team (“SIRSS 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.

We use our proprietary ESG/CAR methodology (Environment, Social, Governance/Consciousness, Action, Results) developed by our ESG Solution team as the starting point for mapping the sustainability factors that are material to our investment universe. We also include in our system insights from industry initiatives geared at similar objectives, such as the SASB Materiality Map and the Task Force on Climate-related Financial Disclosures recommendations, including around scenario analysis. We also analyse information provided by companies on their material risk factors or through their materiality matrix. When providing such information companies may rely on SASB recommendations or GRI Standards.

We aim to produce our own proprietary targeted and bespoke materiality matrices and heuristics. These matrices are built based on the combination of all above-mentioned information complemented with our own qualitative and forward-looking assessment of material issues by key industries. These matrices are designed in consultation with our portfolio managers and research analysts. We look at both equity and credit impacts, including for example the way in which material ESG and sustainability factors affect the methodology used by credit rating agencies.

This mapping is implemented to help better calibration of our ESG/CAR scoring and to educate, inform and drive our dialogue on material/relevant topics with companies.

Integrating our ESG methodology

Our ESG methodology focuses on the five 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 speculative 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.

Long-term business practices

We have developed our own proprietary tool to assess the long term sustainability 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.

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 and voting

Our sustainability model and ESG methodology 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 SIRSS and ESG Solutions teams to drive our dialogue and voting power with companies.

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 and water footprint of the portfolio compared to its benchmark
- Comments and analyses by our specialists

Engagement

1. Dialogue

Based upon the intelligence and analysis gained from our SIRSS 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
- 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 and practices the required path towards a net-zero economy
- 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; and

Who is our dialogue with?

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

How we monitor the results of our dialogue

We seek to keep regular contact with companies so that we can track long-term progress with defined goals over a multi-year framework. Our ongoing dialogue will keep track of any changes to our evaluation of those industry issues that are deemed material, and delivery by a company against the goals we have outlined for it. We use our proprietary ESG/CAR methodology not only for mapping the materiality of sustainability goals and implementing our SRI model but also for tracking sustainability performance.

Why is it important to have a dialogue?

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.

Dialogue also enables us to improve the quality of the data our portfolio managers use. Quantitative analysis naturally relies on robust data in order to produce robust results. However, in our experience, many companies can rank poorly in third-party ESG ratings because they are not communicating well. This does not necessarily mean they lack robust business practices – they just may not be documenting the relevant policies and practices in a transparent manner. By engaging in dialogue with companies to improve the information available to us, we can strengthen the robustness of our data, making the comparisons between companies in a sector more accurate, and therefore more investment-relevant.

Why our dialogue covers fixed income as well as equities

We open up a dialogue with companies regardless of whether we are equity or fixed income investors. Traditionally, as owners of companies, equity investors have taken the lead on engagement since they are directly impacted by the failure to manage or mitigate corporate governance risks. When it comes to fixed income, particularly in the case of corporate bonds, we believe dialogue with companies is a critical aspect of credit analysis as it gives us a better understanding of the risk profile of the issuer. The unique characteristics of this asset class lend themselves to dialogue on different issues than equity investments. Leverage, liquidity and tail-risk are among the key issues, which become even more important for lower rated issuers.

Do we engage with other investors?

We believe that we are most effective in achieving positive change when working constructively with boards and management in private, although we may participate in collective/coalition investor initiatives geared at specific matters that are highly aligned with our approach and priorities.

Although we prefer not to seek publicity when engaging with companies, there may be occasions when we publically come together with other stakeholders to highlight important sustainability issues.

2. Voting

We recognise that exercising voting rights is an important part of investment management and a key component of the stewardship activities we undertake on our clients' behalf. We seek to ensure that our voting is aligned with our clients' long-term interests.

Proxy voting

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

We have structured voting matters around five broad categories (it being understood that in practice certain topics may not fall into any of those categories and will be dependent on the view of either the stewardship or portfolio management teams):

Routine matters

Unless we determine otherwise in any particular case, the routine matters below are voted in accordance with our guiding principles, as determined by best market practice :

- audit
- income Distribution
- amendment to Articles of Association
- capital related resolutions, etc.

Predefined matters

Certain pre-identified matters will be voted on in accordance with predefined guidelines that we have notified to ISS

Voting against a Company's Board

Certain Board-related topics those listed below will be referred to the relevant portfolio management and stewardship team when the proposals are not aligned with our guiding principles:

- fixing the number of Directors and/or Auditors
- eliminating Cumulative Voting
- approving discharge of Management and Supervisory Board;
- electing Directors

Material events

Material events, including those below, will be systematically referred to the relevant portfolio management team for a voting decision:

- merger agreement
- reorganization/restructuring plan
- joint venture agreement
- plan of liquidation
- spin-off agreement.

Sustainability topics

Sustainability related topics, including those below, will be systematically referred to our Stewardship team for a voting decision:

- robust oversight structures around ESG issues:
- climate-related risks and opportunities (including: taking action to address climate change and to establish environmental/social issue board committee)
- genetically modified organisms (GMO)
- weapons related

- M&A activity when it involves sustainability issues

In addition to the above five broad categories, certain matters will be referred to our stewardship team when ISS recommends to vote differently to the LOIM guiding principles.

Guiding principles

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.

Given the urgency of the environmental crisis we have decided to add an additional stewardship layer and engage selected portfolio companies by using the strategic framework provided by the Oxford Martin Principles for Climate-Conscious Investment ('OMP')¹. The OMP provide a framework for engagement between climate-conscious investors and companies across the global economy. Building upon the science of long-term climate change, they focus on how investments contribute to the global stock of cumulative carbon dioxide emissions, complementing other measures, such as carbon footprinting, that focus on emission flows.

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

¹ <https://www.oxfordmartin.ox.ac.uk/news/2018-new-corporate-principles>

Conflicts of interest

Our principal objective when considering how to vote is to ensure that we fulfil our fiduciary duty by acting in the interests of clients at all times. We have implemented processes to address potential conflicts of interest to prevent them from influencing our voting decisions/processes.

Such processes include an override process, whereby our Stewardship team will be notified of any conflict of interest that would arise in connection with our exercise of voting rights.

Collaboration, memberships and affiliations

The Lombard Odier group has always played a prominent role in shaping the ecosystem for sustainable investment. We actively collaborate with key domestic and international industry organisations with whom we establish long-term partnerships.

We participate in the UN-supported PRI collaborative engagement platforms and are an active participant in the Investor Working Group of the “Sustainable Stock Exchange Initiative (SSE)”, which is a partnership between the UN and its affiliated organizations, stock exchanges and their regulators, investors, and companies. The overarching objective of the SSE Investor Working Group focuses on stock exchanges and their regulators enhancing listing rules or regulatory initiatives on how to disclose sustainability strategies among listed companies.

The Lombard Odier group is an active member, and in some cases co-founder, of many initiatives and associations that promote the adoption of sustainability throughout the financial industry, including the below:

- Sustainable Finance Geneva (SFG) – Since 2008
- Swiss Sustainable Finance (SSF) – Since 2014 (founding partner)
- Global Impact Investing Network (GIIN) 's Investors Council Since 2012 (founding partner)
- 2014 Global Investor Statement on Climate Change (GISCC) – 2014 (Member of the Investors' Council and signatory)
- UN Global Compact – Since 2018
- The Institutional Investors Group on Climate Change (IIGCC) – Since 2018

In addition, Lombard Odier is a signatory/supporter/member of the following organisations or initiatives:

- United Nations-supported Principles for Responsible Investment (PRI) - Since 06/2007
- Carbon Disclosure Project (CDP) - Since 2004
- Task Force on Climate-related Financial Disclosures (TCFD) – Since 2019
- Climate Action 100+ - Since 2020
- Green, Social & Sustainability Bond Principles - Since 2019

We continue to look for ways to increase our collaborative engagement efforts, and to review initiatives that allow us to create a greater impact through collaboration with other investors and asset owners. This will be a particularly important approach as we look to build out of capabilities around thematic engagement.

We are committed to constantly improving our resources and capabilities in relation to sustainability and engagement. We will continue to invest resources and effort in further building this function and our systems, including formalising and developing our processes and interactions with companies, and working in closer collaboration with our clients and peers to drive change.

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.

Important Information

FOR PROFESSIONAL INVESTOR USE ONLY

This document is issued by Lombard Odier Asset Management (Europe) Limited, authorised and regulated by the Financial Conduct Authority (the "FCA"), and entered on the FCA register with registration number 515393.

Lombard Odier Investment Managers ("LOIM") is a trade name.

This document is provided for informational purposes only and does not constitute an offer or a recommendation to purchase or sell any security or service. It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful. This document does not contain personalized recommendations or advice and is not intended to substitute any professional advice on investment in financial products. Before entering into any transaction, an investor should consider carefully the suitability of a transaction to his/her particular circumstances and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. This document is the property of LOIM and is addressed to its recipients exclusively for their personal use. It may not be reproduced (in whole or in part), transmitted, modified, or used for any other purpose without the prior written permission of LOIM. The contents of this document are intended for persons who are sophisticated investment professionals and who are either authorised or regulated to operate in the financial markets or persons who have been vetted by LOIM as having the expertise, experience and knowledge of the investment matters set out in this document and in respect of whom LOIM has received an assurance that they are capable of making their own investment decisions and understanding the risks involved in making investments of the type included in this document or other persons that LOIM has expressly confirmed as being appropriate recipients of this document. If you are not a person falling within the above categories you are kindly asked to either return this document to LOIM or to destroy it and are expressly warned that you must not rely upon its contents or have regard to any of the matters set out in this document in relation to investment matters and must not transmit this document to any other person. This document contains the opinions of LOIM, as at the date of issue. The information and analysis contained herein are based on sources believed to be reliable. However, LOIM does not guarantee the timeliness, accuracy, or completeness of the information contained in this document, nor does it accept any liability for any loss or damage resulting from its use. All information and opinions as well as the prices indicated may change without notice. Neither this document nor any copy thereof may be sent, taken into, or distributed in the United States of America, any of its territories or possessions or areas subject to its jurisdiction, or to or for the benefit of a United States Person. For this purpose, the term "United States Person" shall mean any citizen, national or resident of the United States of America, partnership organized or existing in any state, territory or possession of the United States of America, a corporation organized under the laws of the United States or of any state, territory or possession thereof, or any estate or trust that is subject to United States Federal income tax regardless of the source of its income.

Source of the figures: Unless otherwise stated, figures are prepared by LOIM.

Target performance/risk represents a portfolio construction goal. It does not represent past performance/risk and may not be representative of actual future performance/risk.

LOIM does not provide accounting, tax or legal advice.

Although certain information has been obtained from public sources believed to be reliable, without independent verification, we cannot guarantee its accuracy or the completeness of all information available from public sources.

Views and opinions expressed are for informational purposes only and do not constitute a recommendation by LOIM to buy, sell or hold any security. Views and opinions are current as of the date of this presentation and may be subject to change. They should not be construed as investment advice.

No part of this material may be (i) copied, photocopied or duplicated in any form, by any means, or (ii) distributed to any person that is not an employee, officer, director, or authorised agent of the recipient, without Lombard Odier Asset Management (Europe) Limited prior consent. In the United Kingdom, this material is a financial promotion and has been approved by Lombard Odier Asset Management (Europe) Limited which is authorised and regulated by the Financial Conduct Authority.

©2020 Lombard Odier IM. All rights reserved