Lombard Odier Investment Managers

Statement on due diligence policies with respect to principal adverse impacts of investment decisions on sustainability factors, including information on the integration of sustainability risks

Introduction

This statement is made by Lombard Odier Funds (Europe) S.A. (the "Company") for the purposes of Article 4 (1) (a) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on Sustainability-Related Disclosures in the Financial Services Sector ("SFDR"). This statement also includes information which is required to be disclosed under Article 3 (1) of SFDR.

Background

Article 4 (1) (a) of SFDR requires financial market participants to publish and maintain on their websites, where they consider principal adverse impacts of investment decisions on sustainability factors, a statement on due diligence policies with respect to those impacts.

Article 3 (1) of SFDR requires financial market participants to publish on their websites, information about their policies on the integration of sustainability risks in their investment decision-making process.

The Company is authorized to act as a UCITS management company and alternative investment fund manager ("AIFM"). The responsibility for making investment decisions in respect of the funds for which it acts as management company or AIFM is mainly delegated to third party entities. Where those third-party entities are part of the Lombard Odier Investment Manager's group ("LOIM") or where the Company performs the portfolio management function itself, the LOIM Sustainability Framework set out below relating inter alia to the matters covered by Article 4 (2) and Article 3 (1) of SFDR shall apply. Where those third-party entities are not part of the LOIM group, the Company shall rely upon the due diligence framework and policies of the relevant third-party entity with respect to matters covered by Article 4 (2) and Article 3 (1) of SFDR. The due diligence framework of those entities is not covered in this statement.

The Company is also authorized to provide the service of management of portfolios of investments in accordance with mandates given by investors on a discretionary, client-by-client basis and investment advice. Where the Company performs the portfolio management or advisory function under such mandates itself or delegates such function to a member of the LOIM group, the LOIM Sustainability Framework set out below relating inter alia to the matters covered by Article 4 (2) and Article 3 (1) of SFDR shall apply.

Entities within the LOIM group are Lombard Odier Asset Management (Europe) Limited, Lombard Odier Asset Management (Switzerland) SA and Lombard Odier Asset Management (USA) Corp.

LOIM sustainability framework

Sustainability and ESG Teams

The LOIM 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 investment banking, macroeconomics, lifecycle analysis and data science. The team works closely with portfolio managers and the LOIM ESG Solutions team ("ESG Solutions Team") and supports our investment across all asset classes.

The 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 investment teams in their investment processes through screenings, best in class, exclusions approaches for systematic teams and integration in their decision making process for 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.

Sustainability Screening and Scoring

Business practices

We believe it is essential to focus on the Environmental, Social and Governance ("ESG") issues that are most relevant to the sustainability of companies' business practices based on the industry they operate in.

We have created a proprietary framework of 14 dimensions that reflects the main ESG-related opportunities and risks companies can be exposed to across their value chain. This includes upstream risks mainly related to the supply chain or natural resource use, operational risks directly related to a company's direct production and operational processes; and downstream risks related to the potential negative impact of products and services sold.

We have identified and ranked the most material ESG dimensions for 158 GICS[1] Level 4 sub-industries, which are captured in our LO ESG Materiality Heatmap. This provides a unique insight into the ESG dimensions we believe are most material across each sub-industry.

For each company, we then calculate a rating that integrates materiality by overweighting the information that matters most based on the industry they operate within, and underweighting general information that is less relevant. Using this methodology, we apply an LO ESG Materiality Rating for each company, ranking them from A+ to D based on a comparison with their peers.

Our LO ESG Materiality Rating also embeds our proprietary 'CAR' methodology, which stands for 'Consciousness', 'Actions' and 'Results'. We believe companies making measurable progress towards sustainability are more likely to outperform and, as such, we overweight the 'R' component – ESG indicators linked to definitive outcomes.

Our LO ESG Materiality Rating methodology enhances our ability to monitor a company's progress on the sector-specific issues that are the most relevant to their long-term sustainability, and engage with them on these material issues. It is designed to differentiate between the talkers, doers and achievers.

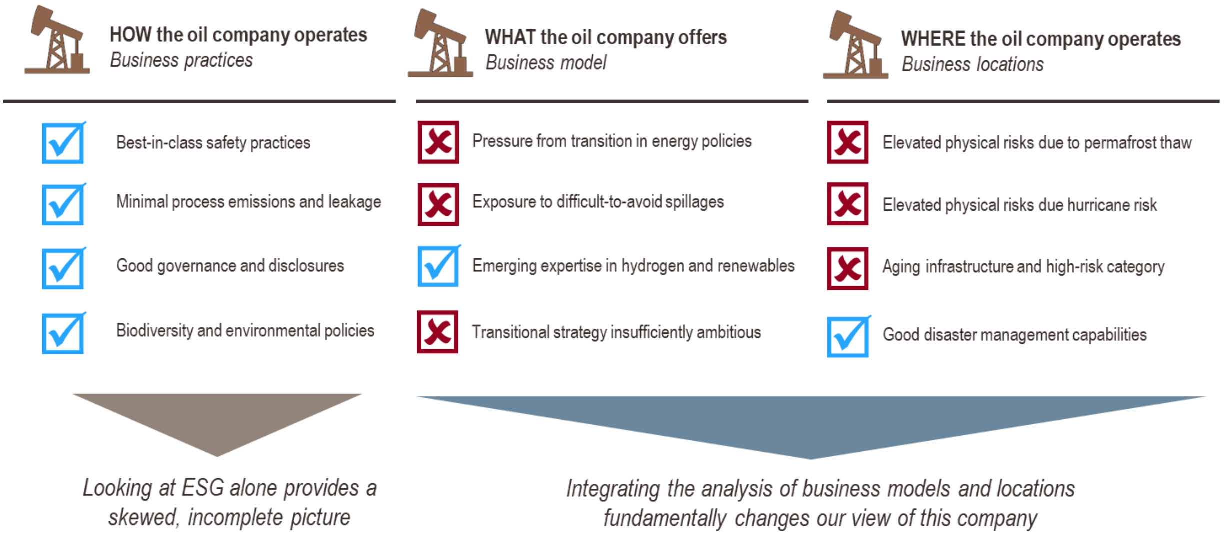
We have also mapped all the ESG metrics and data in our methodology to the United Nations 17 Sustainable Development Goals ("SDGs"). This provides our investment teams with another important lens to consider the sustainability of companies' business practices, to inform their engagement, and this allows us to provide transparency to our clients on how aligned their portfolios are to the SDGs. Our LO ESG Materiality Rating expertise is also embedded in our SDGs ratings.

[1] The Global Industry Classification Standard (GICS) is an industry taxonomy maintained by MSCI and Standard & Poor's (S&P). This classification structure is used by the global financial community and consists of 11 sectors, 24 industry groups, 69 industries and 158 sub-industries into which the major public companies have been categorized. Additional information regarding GICS is available on https://www.msci.com/gics.

Business models

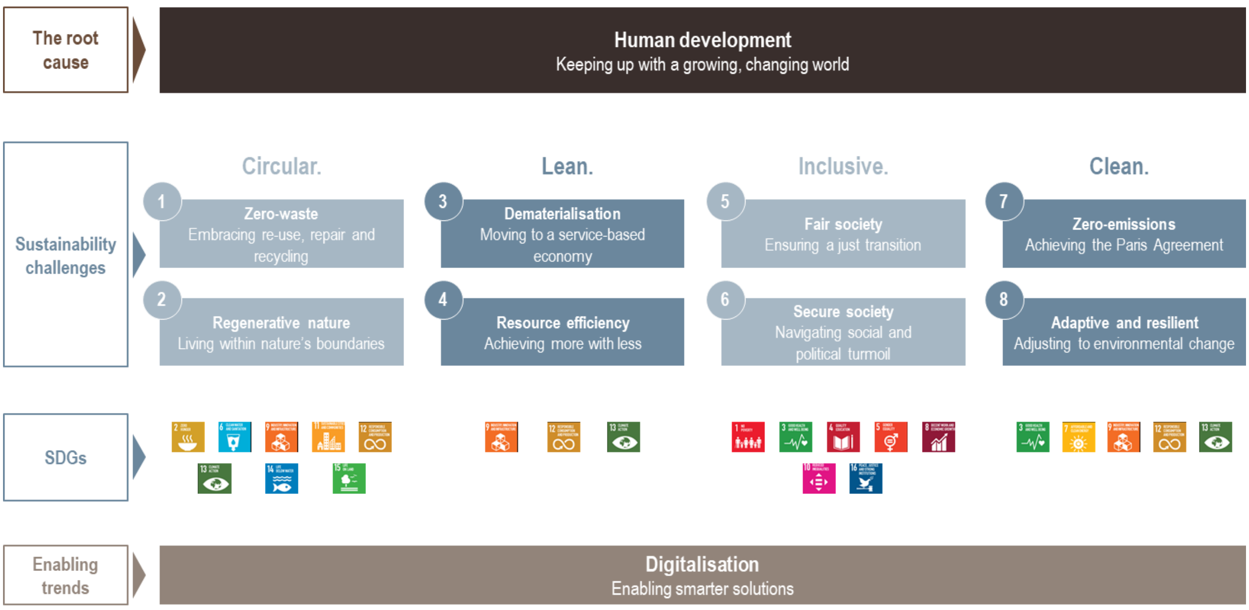
Whereas ESG analysis of business practices (as described above) is an essential component of our analytical framework, we believe that a comprehensive sustainability assessment must take into account not only how companies operate, but also what their underlying business models entail and how these are aligned to emerging transitions.

We recognise, for instance, that companies in many troubled sectors may perform well when evaluated against their peers, and may often have undertaken concerted efforts to improve their working processes. However, we also recognise that regulatory, technological, environmental and consumer trends may nonetheless render the activities of such companies incompatible with the transition to a more sustainable economic model, unless these companies undertake bold and rapid transitions to reinvent their business models (as illustrated in the below example).



Today, we believe our economy may be characterized as being WILD: Wasteful (extracting vast amounts of finite resources, most of which is never recycled), Idle (focused on the manufacture of high-volume, short-lived and low-quality goods that are rarely used to the full extent of their economic potential), Lopsided (reflecting the uneven spread of wealth, income and influence) and Dirty (driven by an economy dominated by reliance on fossil fuels and highly polluting). We believe that for our economy to survive and thrive, we must transition to an economy that is Circular, Lean, Inclusive and Clean (CLIC®).

To guide our analysis of the alignment of companies, portfolios and investments to this emerging transition, we have defined a framework with 8 key sustainability challenges that we believe companies will need to address in order to remain fit for the future. These 8 challenges illustrated below include the transition to zero waste, regenerative nature, dematerialization, resource efficiency, a fair society, a secure society, zero emissions, while ensuring adaptation and resilience particularly in light of emerging climate risks.



Our dedicated SIRS Team provides ongoing and in-depth analysis as to the emerging trends and dynamics surrounding these 8 challenges and the wider transition from the WILD to the CLIC® economy. This includes thematic research, as well as the development of internal, proprietary datasets to aid in the monitoring of the alignment of our investments to these transitions. Our temperature alignment tool (described below) is an example of one of these datasets.

Carbon Assessment and Temperature Alignment measures and tools

In analysing how well companies are positioned for the transition to a CLIC® economy, we also look at the following impact metrics relating to carbon emissions.

Absolute carbon emissions: measures the amount of greenhouse gas emitted by a company over a year in tons of equivalent CO_2. At a company level, we look at its direct carbon emissions (Scope 1) and the first tier of its indirect emissions (Scope 2 & 3). At a portfolio level, we look at its scope 1 and Scope 2 carbon emissions. When aggregating the carbon footprint of a portfolio, one cannot just calculate a weighted average of the absolute emissions of the underlying companies; it needs to be proportional to the total amount of all investments held in the company (both debt and equity). Therefore, we use the carbon investment ratio.

Carbon investment ratio: this is equal to the absolute carbon emissions of a company per unit of market capitalisation + debt (or in other terms: Enterprise Value minus Cash). Therefore, when measuring the carbon footprint of a portfolio, the weighted average of the carbon investment ratios of the underlying companies are calculated. This figure is the carbon emission per million US dollars invested in the portfolio and multiplying it by the amount invested will provide the carbon footprint of the portfolio.

Carbon intensity: the amount of greenhouse gas emitted per unit of revenue generated by a company. The intensity of a portfolio is the weighted average intensity of its underlying companies. We consider the portfolio as a company composed of the weighted average of its positions. We look at the direct and the first-tier indirect carbon emissions at both the level of a company and the level of a portfolio to avoid any risk of double counting.

Temperature alignment: our proprietary tool (known as LO Portfolio Temperature Alignment Tool (LOPTA)) uses a robust, science-based framework to strategically analyse portfolio temperature alignment across all of our portfolios.

Exclusions

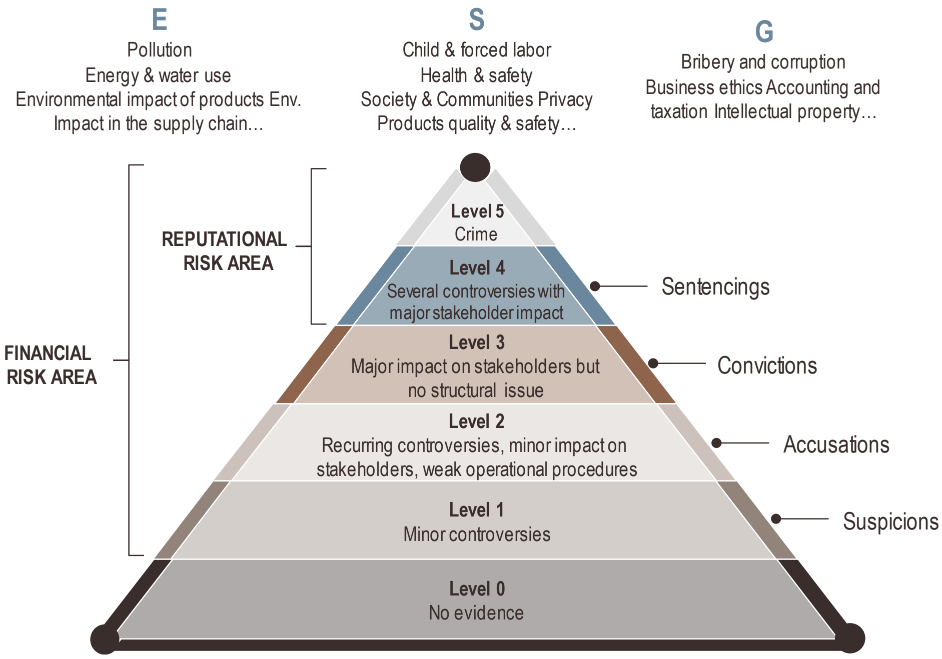
Controversial weapons – we do not invest in companies that produce, trade or store controversial weapons (biological and chemical weapons, anti-personnel mines, cluster weapons, depleted uranium, white phosphorus) as defined by the United Nations conventions. These controversial weapons kill, seriously 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, LOIM has decided to permanently exclude all financial instruments that invest in essential food commodities.

Restrictions

Controversies – 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.

Companies with scores of 4 and 5 can also be screened out of portfolios as a way to limit portfolio risk.



Tobacco Coal and Unconventional Oil & Gas

In line with our view on harmful business models and the wider transition from the WILD to the CLIC® economy, we have placed restrictions on certain of our products in respect of investments in companies whose revenues derive from Tobacco, Coal and Unconventional Oil & Gas beyond the limits set out below:

Tobacco – companies deriving more than 10% of their revenues from either production of tobacco products or retailing of tobacco products/services.

Thermal Coal

Mining – companies deriving more than 10% of their revenues from thermal coal extraction.

Power Generation – companies deriving more than 10% of their revenues from coal power generation.

Unconventional Oil & Gas – companies deriving more than 10% in aggregate of their revenues from any of tar sands, shale gas and oil and artic oil & gas exploration.

These restrictions may be overridden where there are objective reasons for doing. It should be noted that not all restrictions apply to all products and that discretion on application is maintained in order to make a qualitative assessment of the full activities of a company rather than relying solely on negative screening which may not accurately reflect a company's commitment to a more sustainable future.

UN PRI commitment

The Lombard Odier group has been a signatory of the six United Nations Principles for Responsible Investment ("UNPRI") since 2007 and LOIM 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": We support 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": Our engagement policy is summarized below. We look at 'engagement' in its widest sense - not only in terms of how to vote or arrange for voting at shareholder meetings but how to maintain an open and continuous dialogue with a company throughout the investment lifecycle. We take the intelligence and analysis generated by our SIRS 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": We strive to invest in companies which include ESG issues and other non-financial information in their standard reports. This is one of the core areas of our engagement with companies where data may still be lacking.

Principle 4 – "Promote acceptance and implementation within the industry": the Lombard Odier group being both a co-founder and active participant in many initiatives and associations that promote sustainability 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": the Lombard Odier group 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": We complete the annual UNPRI 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, temperature alignment, industry exclusions etc. are examples of the type of information that enables our clients to have a clear view of the environmental and social profile of their portfolios.

Engagement

Engagement is how we open and maintain continuous and constructive dialogue with a company throughout the investment lifecycle, and across different asset classes. Engagements are integrated in the fundamental investment process and carried out jointly by investment and sustainability/stewardship professionals. The outcomes of our engagements influence our investment views thereby ensuring a circular and integrated approach. We engage on a wide range of issues, from systemic to sector, and proxy voting engagements. We engage using our proprietary financial materiality approach that highlights key issues on a sectorial basis thereby enhancing risk/return calibration.

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.

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.

SFDR disclosures

The prospectuses of funds for which the Company acts as UCITS Management Company or AIFM contain detailed information concerning the integration of sustainability risks into the investment decision making processes for those funds.

The prospectuses are available on the Lombard Odier Group website (www.loim.com) for UCITS funds and upon request from shareholders in respect of AIFs funds.

IMPORTANT NOTE

It should be understood that the policies, processes, restrictions and methodologies described in this statement may change over time without notice and may be applied or disapplied at the discretion of the relevant LOIM entity.