

Lombard Odier Investment Managers disclosure with respect to the goals of the Financial Sector Deforestation Action (FSDA) initiative

At COP26 in November 2021, Lombard Odier Investment Managers (LOIM) became a signatory of the Financial Sector Deforestation Action (FSDA) initiative¹, bringing together financial institutions working towards eliminating agricultural commodity-driven deforestation risks (from palm oil, soy, beef and leather, pulp and paper) in their investment and lending portfolios, primarily through active ownership, and other measures expected to lead to real-world impacts.

In response to the FSDA related commitments, LOIM published a Deforestation Statement last September, highlighting its approach to address deforestation and biodiversity loss risks². LOIM's approach is based on five interconnected steps with the aim of understanding, assessing, disclosing, and addressing deforestation and biodiversity loss risks within its investments, primarily through strategically targeted active ownership and, as a last resort, restrictions³.

To outline the specific actions taken by LOIM in 2023, this document introduces the assessment of deforestation and biodiversity loss risks across LOIM investments as of October 2023 (Section 1), then presents the results of the related stewardship and engagement strategy from 2021 to the present date (Section 2) and concludes by describing our engagement priorities for the next year (Section 3).

1. Assessment of deforestation and biodiversity loss risks

This assessment is based on Lombard Odier's Deforestation Risk Management Tool, which evaluates two dimensions of deforestation risks A) Exposure to Deforestation Risk and B) Management of Deforestation Risk at the company, portfolio, and LOIM level:

A) Exposure to Deforestation Risk: the exposure of a company to potential deforestation risk impacts. If a company has revenues in activities that may impact forests (e.g., palm oil, soy, beef and leather, pulp and paper, and other agricultural commodities), these are captured in the exposure indicator⁴. The exposure is calculated by summing the percentage of companies' revenues exposed to potential deforestation and biodiversity loss risks and varies from 0 to 100%. Please note that an exposure above 0% does not mean that deforestation is occurring, but rather than a company is involved in activities where this issue may be material and where there is the risk of exposure.

We estimate that LOIM⁵ investments as of 31st October 2023 have an exposure of 9.2% to companies' activities that may result in deforestation and biodiversity loss risks (Figure 1)⁶. The remaining 80.2% and 10.6% correspond, respectively, to investments in companies' activities that are either not exposed⁷ or have not been assessed⁸.

1 Commitment established by Lombard Odier as a member of The Glasgow Financial Alliance for Net Zero, and signatory of the Financial Sector Commitment on Eliminating Agricultural Commodity-Driven Deforestation (FSDA). [Deforestation Commitment Letter](#).

2 [LOIM Deforestation Statement](#)

3 Please refer to [Regulatory Disclosures | Asset Management | Lombard Odier](#)

4 This indicator takes into consideration an internal taxonomy, which was developed consulting different studies on industry materiality to deforestation and biodiversity loss risk (e.g., Encore Tool by UNEP, Finance Sector Roadmap by Global Canopy, Sectoral Materiality Tool by UNEP WCMC). These tools are also recommended by the Taskforce on Nature-related Financial Disclosures to map material impacts and dependencies on nature.

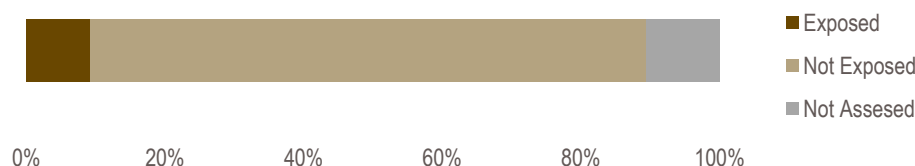
5 The assessment was carried for all LOIM entities excluding products out of scope. Products out of scope include: i) funds following a fund or funds strategy or which feeds into funds which are not managed by LOIM entities, ii) funds which invest a substantial portion of their assets in indices, baskets of indices or other non-direct investments, iii) Funds managed by portfolio management firms outside of the LOIM group, iv) dedicated funds and segregated mandates (including those mandates which are in the form of investment funds), unless a client has specifically approved the application of this statement to the fund or the segregated mandate, v) selected private market funds depending on data availability and the nature of the investment (direct investment, co-investment, sub-funds), vi) alternative strategies due to its high turnover, which makes a meaningful engagement strategy difficult to implement. The final indicator is obtained multiplying the relative weight of the investments in a specific company by the percentage of companies' revenues which are either exposed, not exposed, or not assessed.

6 This indicator is obtained by calculating the weighted average of each company revenues' exposure. Please note that any company exposure above 0 will be accounted on the final indicator.

7 Not exposed includes companies for which deforestation and biodiversity loss risks i) are not material or ii) have an indirect exposure which can not be assessed using the current methodology. Among the latter, there are financial institutions for which the revenue breakdown data does not reflect the exposure to potential deforestation and biodiversity loss risks.

8 Not assessed includes holdings out of scope (sovereign entities, cash, etc.)

Figure 1. Proportion of LOIM's corporate holdings exposed to deforestation risks.

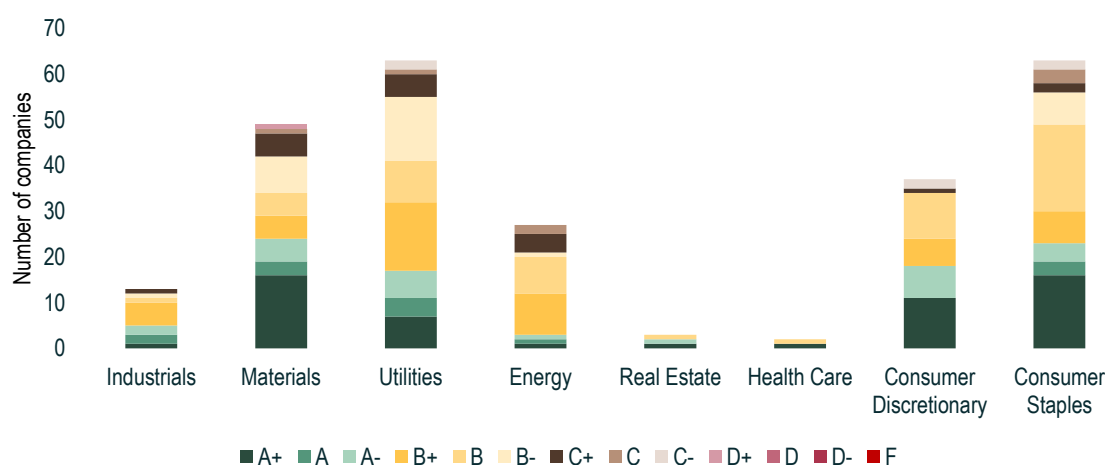


Source: LOIM. Data as of 31.10.2023.

B) Management of Deforestation Risk: the management practices implemented to eliminate deforestation and biodiversity loss risks. This is based on sub-indicators on historical performance (e.g., management of land-use controversies) and target credibility⁹. The final score ranges from A+ to F¹⁰, and it is compounded by the historical performance (66% weight) and target credibility indicators (33% weight).

For the LOIM investments exposed to potential deforestation and biodiversity loss risks (9.2%), we estimate that the weighted average score for the management practices to mitigate those risks is B+¹¹. This score, compared to a well-diversified Global Equity Index at B, indicates that the practices are on average qualitatively ahead of market practices but have scope for further improvement. Figure 2 shows the distributions of the companies' deforestation management scores by sector.

Figure 2. LOIM's corporate holdings exposed to deforestation by sector and related management score.



Source: LOIM. Data as of 31.10.2023.

⁹ Please note that this is an indicative internal score based on multiple sub-indicators. These sub-indicators include:

- i) Existing controversies in the operations and supply chain related with deforestation and biodiversity loss, using information from Sustainalytics,
- ii) The location of companies' operations in relation to forest areas of high biodiversity, such as terrestrial areas and intact forests landscapes, using information from Ibat and Intact Forest Landscapes
- iii) Target credibility based on the alignment of the deforestation policy with the recommendations from the Accountability Framework (e.g., the strongest policy is one a) focus on zero deforestation, b) covering all operations and supply chain, c) with target date before 2025 and d) cut-off date before 2020). For this sub-indicator, we use information from Forest500, the Forest CDP Survey, and Sustainalytics for biodiversity loss policies.

Due to data limitations on the percentage of commodities that companies use or produce free of deforestation risk, we believe that the sub-indicators used in our metric are an appropriate measure of past and further management quality. As companies start to disclose more information on how they are implementing their deforestation policies, such as the percentage of commodities that are deforestation-free, we expect to include this information in our metrics. This exercise will be carried using the methodological framework proposed by the data platform ForestIQ, which we advised in its inception. See more information in: [Finance sector backs new deforestation data initiative – Global Canopy](#)

¹⁰ With A+ indicating companies with best-in-class deforestation risk management practices and F indicating companies with worst-in-class practices.

¹¹ Out of the exposed activities (9.2%), we assess the management practices for 41.3%. The main limitation is data availability, which we expected to improve over the next years given the new regulations on deforestation-free products.

2. Addressing deforestation risks through active ownership

Over the past few years, we have leveraged our stewardship capabilities to actively engage and exercise proxy voting to manage deforestation and biodiversity loss risks. Table 1 provides a summary of each individual engagements, Table 2 an overview of the collaborative initiative joined and Table 3 the list of resolutions voted linked to biodiversity loss and deforestation risks. Some engagement are featured as detailed case studies in our annual [Stewardship Report](#) and reports for selected funds, such as the [Circular Economy: Annual Sustainability Report](#).

Table 1. Direct/lead investor engagements on deforestation and biodiversity loss risks

Company	Since	Engagement objectives	Outcome
Alcoa	2021	To assess and strengthen the company's decarbonisation strategy, as well as to ensure that any controversies linked to the environmental impact of the company's mining activities are actively addressed.	Engagement on-going: neutral outlook ¹²
L'Occitane	2021	To ensure that the company follows best-in-class business practices to mitigate deforestation risk, as well as to monitor its progress on circularity and natural capital preservation.	Engagement on-going: neutral outlook
Norsk Hydro	2021	To assess and strengthen the company's decarbonisation strategy, as well as to ensure that the company has net biodiversity loss targets and programmes in its mining operations.	Engagement on-going: positive outlook
Aryzta	2022	To assess and strengthen the company's supply chain decarbonisation strategy, as well as to request improvements to its deforestation risk-related disclosure.	Engagement on-going: neutral outlook
Bayer	2022	To mitigate concerns regarding the company's management of a controversy linked to one of its crop science branch product main ingredients (Glyphosate). To assess the impact and management of the company's products on biodiversity issues.	Engagement on-going: neutral outlook
Drax	2022	To mitigate our concerns regarding the environmental impact of biomass sourcing, as well as to better understand the related company's procurement strategy.	Closed engagement: objectives achieved
Maple Leaf Foods	2022	To assess the company's management practices with the aim of reducing pollution caused by manure.	Engagement on-going: neutral outlook
P&G	2022	To assess the company's management on deforestation risk ahead of the AGM.	Closed engagement: objectives achieved
Sensient Technologies Corp	2022	To improve the company's knowledge of sustainability risks materiality, as well as to ensure no deforestation risk related to natural product sourcing.	Engagement on-going: positive outlook
Syngenta	2022	To request and strengthen the company products' transparency on biodiversity and social impact, as well as to request a reduction in the production of highly hazardous pesticides.	Engagement on-going: negative outlook

Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or securities. It should not be assumed that the recommendations made in the future will be profitable or will equal the performance of the securities discussed in this document.

Table 2. Collaborative initiatives on deforestation and biodiversity loss risks

Organisation	Year	Campaign name	Description
CDP ¹³	2021-2022-2023	Non-disclosure campaign (forest survey)	Those campaigns aim to drive further corporate transparency around climate change, deforestation, and water security by encouraging companies to respond to CDP's disclosure request. The forest survey data is used to feed the LOIM deforestation management risk tool.
FAIRR ¹⁴	2021	Sustainable Proteins Engagement	(Campaign closed) the first and largest investor engagement to encourage food companies to develop a global, evidence-based approach to protein diversification. The engagement asked 23 food retailers and manufacturers to systematically transition product portfolios to support more sustainable and nutritious diets with fewer, higher-quality animal-based products.

¹² An outlook is provided for on-going engagements to assess the progresses of the dialogue against the engagement objectives. The outlook can be either positive, neutral, or negative.

¹³ [Home - CDP](#),

¹⁴ [FAIRR Initiative | A Global Network of Investors Addressing ESG Issues in Protein Supply Chains](#)

			In 2022, 35% of companies committed to increasing the volume or sales of meat and/or dairy alternatives in their portfolios, up from 28% in 2021 and 0% in 2019. Also, 39% of engagement companies reported at least one metric showcasing how their product portfolio is shifting.
FAIRR	2022	Waste & Pollution – Manure mismanagement	The aim of the campaign is to drive pork and poultry producers to i) conduct meaningful risk assessments around their management of manure and animal waste and ii) put in place action plans to reduce their impact on biodiversity.

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In the table below we present all the resolutions linked to deforestation and biodiversity loss risks votes since 2021.

Table 3. Resolutions on deforestation and biodiversity risks



Company	Year	Resolution	Voting instruction & rationale
Icade SA	2023	Management: Approve Company's Climate and Biodiversity Transition Plan	For: the company presented a strong decarbonisation plan with SBTIs approved targets. They have also confirmed its commitment to an advisory vote on this matter on a yearly basis.
Metro Inc.	2022	Shareholder: Vote to support amendments in the Suppliers' Code of Conduct (commitments on the preservation of biodiversity)	Against: We estimate that the company has already sufficiently specified the requirements it wants to see from its suppliers in order to preserve biodiversity through its Code of Conduct, as well as other frameworks and policies.
The Home Depot, Inc.	2022	Shareholder: Vote to support deforestation reporting	For: shareholders would benefit from additional information on the company's strategy to manage its supply chain's impact on deforestation.

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3. Next Steps

With the purpose of aligning our stewardship strategy with the expectations set by the new regulations on deforestation-free products¹⁵, we have developed a four-step engagement process (Figure 4). This process aims to initiate dialogue, encourage investee companies to establish credible no-deforestation or no net loss biodiversity commitments, promote disclosure of key performance indicators, and conduct regular follow-ups for continuous improvement.

Figure 4: LOIM Framework for Company Action on Deforestation and Biodiversity

	1 BASIC REQUIREMENTS	2 SPECIFIC COMMITMENT	3 DISCLOSURE OF KEY KPIs	4 CONTINUOUS IMPROVEMENT
TARGET DATE	2021-2022	2023-2025	2025	2025 onwards
DEFORESTATION RISKS  Priority focus for companies with exposure through food and forestry system supply chains	<ul style="list-style-type: none"> Promote minimum supply chain knowledge (e.g. size of (in)direct suppliers and origin). Promote key labour standards. 	<ul style="list-style-type: none"> Promote commitment in line with strongest product regulations (e.g. zero gross deforestation as mandated in EU regulation) 	<ul style="list-style-type: none"> Promote publicly available disclosure, in line with established frameworks (e.g. CDP Forests, TNFD). Encourage inclusion of traceability and specific KPIs. 	<ul style="list-style-type: none"> Follow up for further risk reduction (e.g. decreased use of commodities, excluded suppliers, best-in-class supply chain management, etc.)
BIODIVERSITY RISKS  Priority focus for companies with operational assets in areas of concern, such as mines, power generation facilities, etc.	<ul style="list-style-type: none"> Affirm commitment to Environmental Impact Assessments Affirm commitment to free, prior and informed consent of local communities. Establish dialogue on any operations in areas with land conflicts. Promote key labour standards. 	<ul style="list-style-type: none"> Promote commitment in line with no net loss biodiversity objectives. Promote commitment to ensure any new operations established outside of protected areas. 	<ul style="list-style-type: none"> Promote publicly available disclosure, in line with established frameworks (e.g. CDP Forests, TNFD). Encourage inclusion of traceability and specific KPIs. 	<ul style="list-style-type: none"> Follow up for further risk reduction (e.g. improved efficiency in processes, etc.)

Source: LOIM. For illustrative purposes only.

Over the years 2024 and 2025, the focus of the engagement strategy will be on target setting and alignment following the guidelines of the Accountability Framework Initiative, Taskforce on Nature-related Financial Disclosures (TNFD) and IUCN, and using Lombard Odier's Deforestation Risk Management Tool, which incorporates a target credibility sub-indicator (Section 1)¹⁶.

- According to the Accountability Framework Initiative, all companies producing and using forest-risk commodities are expected to have a no-deforestation target committing to a) zero-gross deforestation, b) cover all operations and supply chain, c) have a target date earlier to 2025 and d) have a cut-off date earlier to 2020.
- According to the [IUCN recommendations](#) for the Global Biodiversity Framework, companies should adhere to a) no net loss biodiversity and b) no loss of irreplaceable sites.

Aside of individual engagements on target setting and alignment, we expect in 2024 to participate in collaborative engagements including FAIRR engagement campaign and Nature Action 100¹⁷.

¹⁵ [Regulation on deforestation-free products \(europa.eu\)](#)

¹⁶ Based on multiple data sources, including Forests Climate Disclosure Survey (CDP), Forest 500 and Sustainalytics.

¹⁷ [Nature Action 100](#). LOIM expected to lead collaborative engagements from Q1 2024.