STATEMENT ON PRINCIPAL ADVERSE IMPACTS OF INVESTMENT DECISIONS ON SUSTAINABILITY FACTORS
&
STATEMENT ON PRINCIPAL ADVERSE IMPACTS OF INVESTMENT ADVICE ON SUSTAINABILITY FACTORS

This statement is made pursuant to article 4 (1) and 4 (5) of Regulation (EU) 2019/2088 of the European Parliament and of the Council ("SFDR") as supplemented by COMMISSION DELEGATED REGULATION (EU) 2022/1288 of 6 April 2022 (the "SFDR RTS") in the format of the template set out in Table 1 of Annex I of the SFDR RTS.

Financial market participant / financial advisor Lombard Odier Funds (Europe) S.A. – LEI: SB6NR8324Y8KG313SQ11

Summary

Lombard Odier Funds (Europe) S.A. ("LOFE") – LEI: SB6NR8324Y8KG313SQ11 considers principal adverse impacts of its investment decisions and investment advice on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of LOFE.

This statement on principal adverse impacts on sustainability factors ("PAIs") covers the reference period from 1 January 2023 to 31 December 2023.

LOFE is in scope of the SFDR RTS as a 'financial market participant' by virtue of its activity as a Luxembourg UCITS management company and AIFM as defined in SFDR in respect of the 'financial products' that it makes available, namely alternative investment funds ("AIFs"), undertakings for collective investments in transferable securities ("UCITS") and portfolios managed in accordance with mandates given by clients on a discretionary client-by-client basis where such portfolios include one or more financial instruments ("Portfolios").

LOFE is also in scope of the SFDR RTS as a 'financial advisor' by virtue of its activity as a Luxembourg UCITS management company and AIFM as defined in SFDR when providing investment advice in accordance with article 6 (3) (b)(i) of Directive 2009/65/EC (the "UCITS Directive") and article 6 (4) (b)(i) of Directive 2011/61 /EU (the "AIFM Directive") respectively.

As a financial market participant, LOFE has the principal responsibility for the management of the funds for which it acts as UCITS management company/AIFM and for the management of Portfolios, but in most cases it delegates the responsibility for portfolio management to other entities either within or outside of the Lombard Odier Investment Managers group ("LOIM").

LOFE is a member of the LOIM group and where it delegates portfolio management to entities within LOIM, those entities will integrate the consideration of PAIs into their investment decision making processes as set out below. Where LOFE delegates portfolio management to entities outside of LOIM (including entities of the Lombard Odier group not within LOIM), LOFE will rely upon the policies of those entities to determine how and to what extent they consider PAIs. For portfolio management delegated to those entities, LOFE reports on PAIs based on available data from issuers or data providers.

LOFE considers the following PAIs:

- PAIs 1-16 of Table 1 of Annex I of the SFDR RTS
- PAI 4 of Table 2 of Annex I of the SFDR RTS (optional – environmental)
- PAI 2 of Table 3 of Annex I of the SFDR RTS (optional – social)

PAIs include certain comparable indicators which have been widely used to measure sustainability impacts by LOFE/LOIM for many years prior to the implementation of SFDR (including indicators relating to carbon emissions, fossil fuel exposure, waste levels, employee conditions and human rights, etc). The introduction of the PAI framework under the SFDR/SFDR RTS does not therefore represent a significant change of direction to the approach to the identification and measurement of negative environmental or social externalities by LOFE/LOIM and is seen by LOFE/LOIM as sitting alongside/complementary to the existing sustainable research framework developed by LOIM. However, LOFE/LOIM are still facing data challenges relating to certain PAIs.

Notwithstanding the above, there are three key contexts in which consideration of PAIs has been formally integrated into the sustainable research framework of LOFE/LOIM as follows:

1. when determining what constitutes a 'sustainable investment' for the purposes of SFDR in respect of investment products managed by LOIM which have committed to making a minimum proportion of sustainable investments;

2. when rating a company under the Lombard Odier ESG/CAR Industrial Materiality Rating methodology ("LO ESG Materiality Rating Methodology") in the context of analyzing whether an issuer may contribute to the promotion of environmental or social characteristics for the purposes of article 8 of SFDR; and

3. when rating a sovereign bond under the Lombard Odier Sovereign Scoring methodology ("LO Sovereign Scoring Methodology") in the context of analyzing whether an issuer may contribute to the promotion of environmental or social characteristics for the purposes of article 8 of SFDR.

In the above contexts, PAI data analysis forms part of the assessment, but is not the exclusive consideration in those contexts. This consideration may inform investment decisions but is principally used to understand the aggregated negative impact of investment products managed by LOIM on sustainability factors on an ex post basis.

This statement relates to the consideration of PAIs by LOFE at an entity level and not at a product level. At product level, LOFE may consider different PAIs for different products managed by it. LOFE provides information on the PAIs considered by it in respect of products classified as 'article 8' and 'article 9' under SFDR through the pre-contractual and periodic disclosure found in the Annexes (II)-(V) of SFDR RTS, and the European ESG Template (EET) created by FinDatEx, a joint structure established by representatives of the European financial services sector, to facilitate the exchange of environmental, social and governance (ESG)-related disclosures required by European financial markets legislation for investment funds.

As a financial advisor, in the context of its advisory mandates, where LOFE provides investment advice in accordance with UCITS Directive and AIFM Directive respectively, LOFE considers PAIs.

LOFE may provide investment advice using the information published by LOFE in its capacity as a financial market participant pursuant to SFDR/SFDR RTS, including this statement. The columns "Impact 2023" and "Impact 2022" in the section "Description of the principal adverse impacts on sustainability factors" below include also LOFE's advisory mandates. This consideration of PAIs may inform investment advice but is principally used to understand the aggregated negative impact of LOFE's activities as financial advisor on an ex post basis.

Description of the principal adverse impacts on sustainability factors

Indicators applicable to investments in investee companies (Mandatory)

Adverse sustainability indicator		Metric	Impact 2023[1]	Impact 2022	Explanation / Data coverage[2]	Actions taken, and actions planned and targets set for the next reference period
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions (tCO2e)	1 673 303.91	2 034 790.89	Data coverage: 70.45% (2023) vs 71.27% (2022)	LOIM is committed to reducing its environmental impact and has pledged to decarbonise every aspect of its operations, in line with the Paris Agreement. Stewardship has an important role to play in addressing climate change related systemic risks. In 2023, Net Zero was the first issue to trigger engagements at LOIM reflecting our stewardship priorities. While our efforts have previously focused mainly on direct corporate engagement for stewardship, since 2022, we saw an increase in collaborative engagements to address issues defined by our stewardship priorities, which has continued in 2023 with a more selective process for engaging individually with investee companies. Moreover in 2023, we
		Scope 2 GHG emissions (tCO2e)	305 616.61	380 365.96		
		Scope 3 GHG emissions (tCO2e)	11 932 058.44	13 929 968.06		
		Total GHG emissions (tCO2e)	13 910 978.96	16 345 724.91		
	2. Carbon footprint	Carbon footprint (tCO2e / MEUR invested)	447.83	479.59	Data coverage: 70.45% (2023) vs 71.27% (2022)	
	3. GHG intensity of investee companies	GHG intensity of investee companies (tCO2e / MEUR revenue)	1 006.63	1 051.98	Data coverage: 77.59% (2023) vs 77.28% (2022)	
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	5.29%	5.23%	Data coverage: 78.41% (2023) vs 78.02% (2022)	
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	61.98%	63.94%	Data coverage: 75.01% (2023) vs 74.31% (2022) Share of non-renewable energy consumption is calculated for companies	

1 The metrics for Impact 2023 and Impact 2022 are computed based on the latest available reported/estimated data as of 5 June 2024.
2 Data coverage is computed as the proportion of total eligible assets per indicator with reported/estimated data out of the total assets (all asset classes) in scope.

					in all sectors.	have enhanced our engagement activities with industry associations and policy makers. Please see information provided in Schedule 1 §1 for more information on LOIM stewardship activities relating to climate change. For all the investment products managed by LOIM, we monitor exposure of activities to the fossil fuel sector and we have implemented our exclusion policy which restricts investments in companies deriving more than 10% of revenues from activities related to the most polluting form of fossil fuel (coal mining, coal power generation & unconventional oil & gas). Please refer to [LOIM Sustainability Investments Exclusions and Restrictions Policy] for more details on the sustainability-related investment exclusions and restrictions as well as related processes. In 2024, we will continue to enhance our active stewardship in this space with the participation in collaborative actions tackling climate change and continuing to integrate just transition considerations in these engagements.
		Share of non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	74.49%	70.23%	Data coverage: 2.53% (2023) vs 2.67% (2022) Share of non-renewable energy production is calculated only for companies in the utilities sector.	
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector A	0.35	0.26	Data coverage: 76.96% (2023) vs 76.41% (2022)	
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector B	0.89	1.01		
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector C	0.48	0.47		
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector D	5.52	10.93		
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector E	1.18	1.01		
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector F	0.47	0.26		
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector G	0.20	0.17		
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector H	1.21	1.21		
		Energy consumption in GWh per million EUR of revenue of investee companies, in NACE sector L	1.07	3.05		
Biodiversity	7. Activities negatively affecting bio-diversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee	23.09%	22.89%	Data coverage: 23.45% (2023) vs 23.05%	Stewardship is central in addressing biodiversity impacts. As part of our stewardship framework,

		companies negatively affect those areas			(2022)	we engage on biodiversity loss, deforestation and circularity. Natural Capital was the second most common theme we engaged on in 2023. In 2023, LOIM continued efforts to engage and disclose nature-related risks. These efforts included participating in collaborative engagements with Nature Action 100 and following up on commitments made through the Financial Sector Deforestation Action (FSDA) initiative. In September 2023, we published a statement regarding the elimination of deforestation risks in portfolios in accordance with the FSDA Deforestation Commitment. Please see information provided in Schedule 1 §2 for more information on LOIM stewardship activities related to nature. In 2024, we will continue our efforts to engage on nature-related and deforestation risks. We will also work on integrating the Task Force on Nature-related Financial Disclosures (TNFD) framework in our nature related engagements.
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	0.13	0.12	Data coverage: 25.18% (2023) vs 25.16% (2022)	For relevant investment products managed by LOIM, emissions to water are considered as part of the proprietary in-house assessment to

					Due to lack of information, the coverage ratio for this indicator is deemed insufficient to materially and robustly inform investment decisions or investment advice. It is however considered and reported for monitoring the aggregated negative impact of investments on sustainability factors at entity level.	determine whether a company represents a sustainable investment, in line with the SFDR definition. LOIM is member of Nature Action 100, and as part of our collaborative engagements, we seek to address nature related dependencies, impacts, and risks, which include water as one of the metrics.
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	26.52	41.07	Data coverage: 37.27% (2023) vs 36.04% (2022) Due to lack of information, the coverage ratio for this indicator is deemed insufficient to materially and robustly inform investment decisions or investment advice. It is however considered and reported for monitoring the aggregated negative impact of investments on sustainability factors at entity level.	For relevant investment products managed by LOIM, hazardous/ radioactive waste is considered as part of the proprietary in-house assessment to determine whether a company represents a sustainable investment, in line with the SFDR definition. As part of our ongoing collaborative engagements in 2023 LOIM supported the Investor Initiative on Hazardous Chemicals coordinated by ChemScore, and co-signed letters to manufacturers of hazardous chemicals. The initiative is asking the world's 50 largest chemical companies to phase out and substitute persistent chemicals and disclose the volume of all hazardous chemicals they produce.

						As part of our collaborative engagements, we seek to continue to address hazardous/ radioactive waste risks

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS

Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0.99%	1.15%	Data coverage: 74.12% (2023) vs 73.85% (2022)	We adhere to the UNGC principles and the OECD Guidelines for Multinational Enterprises. At LOIM, we use a variety of approaches for integrating sustainability in our investments including norm-based screening which involves the screening of investments against minimum standards of business practice based on national or international standards and norms, such as treaties on controversial weapons, the International Labour Organisation conventions, the OECD Guidelines for Multinational Enterprises, the UNGC principles or the UN Guiding Principles on Business and Human Rights. For this screening, we rely on the implementation of the LOIM Sustainability Investments Exclusions and Restrictions Policy . Further, when analysing a company for engagement purposes, we include an assessment of material breaches of UNGC principles covering areas
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	28.11%	30.60%	Data coverage: 67.46% (2023) vs 68.12% (2022)	

						of human rights, labour, environment, and anti-corruption. Please see information provided in Schedule 1 §3 for more information on LOIM stewardship activities relates to controversies and social related priorities.
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	21.64%	21.57%	Data coverage: 72.20% (2023) vs 71.38% (2022)	Our stewardship is discharged through two connected tools: engagement and proxy voting. LOIM is committed to vote in compliance with our proxy voting guidelines that reflect our beliefs and principles for sound and solid corporate governance structures, crucial to effectively manage social and environmental risks. Remuneration is one of the key pillars of the proxy voting guidelines. We expect the Board of Directors or remuneration committee, to design remuneration policies that closely align pay with performance, whilst also considering in its decision-making, the general workforce's pay structures, CEO pay ratio, gender pay gap considerations and relevant sustainability criteria. As such, we may vote against remuneration policies, implementation report or Remuneration Committee members if we have concerns regarding unexplained gender pay disparity. In this case we also seek to engage with the company before instructing our votes.

	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	32.03%	31.30%	Data coverage: 75.81% (2023) vs 75.77% (2022)	Our stewardship is discharged through two connected tools: engagement and proxy voting. LOIM is committed to vote in compliance with our proxy voting guidelines reflects our beliefs and principles for sound and solid corporate governance structures, crucial to effectively manage social and environmental risks. Board of Directors' composition is a central topic in corporate leadership pillar of the proxy voting guidelines. We expect boards to be sufficiently diverse (diversity of gender, background, education, ethnicity, skills, knowledge, age and experience), to ensure constructive contribution to the board's debates and, most importantly, avoid groupthink. Specifically, we prefer boards to be gender balanced; our minimum expectation is for boards to include one-third of the least represented gender. We may vote against the chair of the Nomination Committee, or non-independent members of this committee, or the Chair of the board if our expectation is not met, while ensuring not to further undermine the board's diversity. In this case, we strive to engage with the company ahead of the final vote instruction / AGM.

	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0.00%	0.00%	Data coverage: 80.26% (2023) vs 79.96% (2022)	Please refer to LOIM Sustainability Investments Exclusions and Restrictions Policy.
Environmental	15. GHG intensity	GHG intensity of investee countries (tCO2e / MEUR GDP)	51.00	54.28	Data coverage: 9.47% (2023) vs 9.13% (2022)	For relevant investment products managed by LOIM, LOIM monitors a climate related data for countries, including GHG intensity. These indicators form part of the in-house ESG score for sovereign issuers. In 2024, we are seeking to expand the coverage of our engagement activities to sovereign issuers, through both individual and collaborative engagements in particular in the space of climate change and labelled bonds.
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	2.00	3.00	Data coverage: 9.47% (2023) vs 9.12% (2022)	LOIM has defined a policy relating to financial sanctions and embargos in order to fully comply at all times with local and international financial sanctions and embargo programs. Employees are required to conform to rules of conduct detailed in this policy. We have monitoring in place for the below sanction and embargo lists: OFAC, UN, EU, UK, Switzerland, Japan, Canada, Hong Kong, Singapore and Australia. Monitoring is done on a pre-trade basis.
		Number of investee countries subject to social violations (relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	2.44%	3.50%	Data coverage: 9.47% (2023) vs 9.12% (2022)	

Additional climate and other environment-related indicators

Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric	Impact 2023	Impact 2022	Data coverage	Actions taken, and actions planned and targets set for the next reference period
Indicators applicable to investments in investee companies						
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Emissions	4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	53.24%	53.29%	Data coverage: 82.97% (2023) vs 82.12% (2022)	Please refer to the actions described in table "Climate and Other Environment-Related Indicators" in section "greenhouse gas emissions" above and Schedule 1 §1 for more information on LOIM stewardship activities related to climate change.

Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS						
Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric	Impact 2023	Impact 2022	Data coverage	Actions taken, and actions planned and targets set for the next reference period
Indicators applicable to investments in investee companies						
Social and employee matters	2. Rate of accidents	Rate of accidents in investee companies expressed as a weighted average	53.44	51.58	Data coverage: 2.80% (2023) vs 3.20% (2022)	For relevant investment products managed by LOIM, we consider performance on this indicator as a potential engagement topic to assess if a company is aligned with a fair transition, that incorporates minimum social standards for its employees. We address this topic when considered material or subject to high level controversies. Please see information provided in Schedule 1 §3 for more information on LOIM stewardship activities related to social related priorities.

Information set out in the above tables is based on available data. Where data is not available from issuers or data providers, data may be estimated using proxies. For certain products, particularly those whose primary focus is investing in private companies, it is not generally possible to obtain reliable PAI data as private companies are not generally covered by data service providers and are not generally able to provide comprehensive or timely PAI data themselves. Accordingly, in those cases, such products have not been included for the purposes of calculating the metrics set out in the above tables.

The data reported in this statement in columns “Impact 2023” and “Impact 2022” reflects the latest available data of underlying companies sourced according to the below paragraph “Description of policies to identify and prioritise principal adverse impacts on sustainability factors”. The calculation of PAI indicators may evolve over time to reflect amongst other things, clarifications issued by regulatory bodies and industry best practices.

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

The primary framework at LOFE covering the identification and prioritisation of principal adverse impacts on sustainability factors ("PAIs") is the LOFE PAI Control Framework (the "PAI Control Framework"). The PAI Control Framework sets out the background to the requirements applicable to LOFE relating to PAIs under SFDR and the SFDR RTS. The PAI Control Framework covers the following elements:

- Status of LOFE as financial market participant and as financial advisor
- When and how does LOFE consider PAIs
- Consideration of PAIs by LOFE
- Consideration of PAIs in the context of the definition of 'sustainable investments'
- Consideration of PAIs in the context of the LO ESG Materiality Rating Methodology and LO Sovereign Scoring Methodology
- Selection of optional PAIs
- Products which do not consider PAIs
- Data sourcing of PAIs
- Responsibility for managing PAI data
- Oversight of PAI monitoring at LOFE
- PAI reporting through the EET
- PAI reporting through the Annex III and Annex V of the Commission Delegated Regulation (EU) 2022/1288

The PAI Control Framework, first approved by the LOIM Policy and Documentation Committee, the LOFE Dirigeants Committee and by the Board of Directors of LOFE on 29 June 2023, is in force and reviewed at least on an annual basis.

As a financial market participant, LOFE considers PAIs by measuring the aggregated negative impact on sustainability indicators of investments products managed by LOIM.

For portfolio management delegated to entities outside of LOIM, LOFE relies upon the policies of those entities to determine how and to what extent they consider PAIs.

As a financial advisor, in the context of its advisory mandates, LOFE may provide investment advice using the information published by LOFE in its capacity as a financial market participant pursuant to SFDR/SFDR RTS, including this statement.. This consideration of PAIs may inform investment advice but is principally used to understand the aggregated negative impact of LOFE's activities as financial advisor on an ex post basis.

The methodology/reasons for the selection of indicators referred to in SFDR RTS Article 6 (1) (a), (b) and (c) (optional PAIs) is set under the section headed 'Selection of Optional PAIs' in the PAI Control Framework. LOFE has selected the following optional PAIs on the recommendation of the LOIM sustainability research team:

- Environmental – PAI 4 of Table 2 of Annex I of the SFDR RTS (Investments in companies without carbon emission reduction initiatives)
- Social – PAI 2 of Table 3 of Annex I of the SFDR (Rate of accidents)

The optional environmental PAI 4 from Table 2 of Annex I of the SFDR RTS "companies without emission reduction initiatives", was selected as an important component of the Lombard Odier proprietary Implied Temperature Rise (ITR) tool. The Lombard Odier proprietary ITR tool enables LOIM to assess not only the carbon footprint of companies, but also their temperature alignment based on industry/region breakdowns, historical emissions and forward-looking trajectories and decarbonisation targets. The ITR tool seeks to assess the extent to which individual companies or portfolios are aligned with the climate transition and estimates the level of global warming represented by specific companies or portfolios by extrapolation to the targets for their respective peer groups. This means assessing the degree of alignment of companies to the decarbonisation pathways implied by the Paris Agreement goals which seek to limit global warming to 1.5-2°C. For example, a company that is on a trajectory more aligned to a 3°C increase might be cutting its direct and indirect CO_2 and greenhouse gas emissions to some extent but is not decarbonising itself at a pace sufficient to meet the goals set by the Paris Agreement.

The optional social PAI 2 of Table 3 of Annex I of the SFDR "rate of accidents", was selected due to its relevance for identifying minimum social standards. At LOIM, we believe that, when a company operates in a moderate to high-risk sector, this metric is material to assess if a company is aligned with a fair transition, that incorporates minimum social standards for its employees.

Margin of error within the methodologies

The sourcing of sustainability related data, including PAIs, and the creation of internal sustainability data points, such as LO ESG Materiality Rating, LO Sovereign Scoring Methodology, Implied Temperature Rise metrics, definition of sustainable investment, and others, may be affected by the following data and methodological limitations:

- Possible errors in underlying data points disclosed by investee companies/issuers, due to inaccuracies in disclosures, time lags, incompleteness, language barriers, fraud, issuer's own lack of data or dependence on estimation procedures, or otherwise.
- Possible errors in data points received from data providers, owing to imperfections in data collection processes, imperfect alignment of frameworks, gap-filling and estimation procedures, or otherwise.
- Possible errors in the correct attribution of relevant data points, owing to inaccuracies or imperfections in the definition or breakdown of company/issuer activities.
- Possible discrepancies in the weighting of individual data points to create the final rating compared to other frameworks, given that such weighting schemes (often referred to as "materiality maps") are inherently judgmental in nature
- Possible errors in final reported figures, owing to human errors, undetected anomalies in data systems and infrastructure, or otherwise.
- Judgmental decisions involved in the design and implementation of key metrics, where specific design choices may have a material outcome on the final scores and assessment of an investee company, issuer, or portfolio.

LOIM has a dedicated sustainability research team which is responsible for the development and maintenance of the relevant methodologies. This team seeks to monitor data quality, engage with data providers, refine methodologies, and implement additional safeguards, but cannot guarantee that the final data received, derived, produced or reported is free from errors.

Data source

LOFE (via the work undertaken by the LOIM sustainability research team) uses, mainly but not solely, sustainability data service providers Trucost, SBTi and Sustainalytics to source PAI quantitative data for PAIs 1-16 of Table 1, PAI 4 of Table 2 and PAI 2 of Table 3 of Annex I of the SFDR, with a substantial portion of such data coming from Trucost. Information concerning the way in which Trucost sources, models and updates data can be found at the following link I need to align with SFDR | S&P Global Market Intelligence (spglobal.com).

Monitoring of PAIs is subject to data availability and quality. Data coverage per PAI may vary significantly. Whenever the exact data described in the PAI was not available, LOIM relied on its data provider and internal research to select, on a best effort basis, an indicator that it believes to be a sufficient and reasonable assumption for the PAI.

LOIM may use its engagement activity with investees to enhance or complete its data on invested assets in line with LOIM stewardship framework.

Engagement policies

LOFE adheres to the LOIM Engagement Policy available on LOIM website.

In order to promote and enhance the long-term value of the assets entrusted to LOIM by our clients, and as part of our active ownership responsibility, LOIM undertakes outcomes-based engagements that support company alignment with best-practice corporate governance and strong ESG practices. These considerations are the bedrock for our sustainable investment convictions: engagements stem from deep in-house research into the major system changes that make up the transition to a CLIC® (Circular, Lean, Inclusive, and Clean) economic model.

Engagement serves as a means to achieve real economy impact by establishing continuous and constructive dialogue with issuers throughout the investment lifecycle, as well as policy makers and standard-setters. LOIM's engagements are conducted with the aim of pursuing, supporting, and promoting our sustainability vision, which is underpinned by two primary stewardship objectives:
i) is a company/entity accelerating or slowing down the sustainability transition; and
ii) is a company/entity financially exposed to the transition?
When assessing engagements in relation to first objective (promoting alignment), we look at all considered PAIs to understand the alignment and impact of underlying issuer to the sustainability transition.

The outcomes of our engagement process can influence our investment and research views, ensuring a circular and integrated approach. There can however be no guarantee that engagements will have the desired outcomes.

The engagement policy is reviewed on at least an annual basis. Such review includes an assessment of whether any adaption of the policy is required if and to the extent that engagements are not as a whole resulting in a reduction of the principal adverse impacts over more than one period reported on. Please refer to LOIM Engagement Policy for more information on the priorities and engagement process.

References to international standards

LOIM and/or the wider Lombard Odier group support/endorse the following international standards:

B Corporation Certified	Certification	2019
Business for Nature	Signatory	2021
The Business Coalition for a Global Plastics Treaty	Endorser	2023
CDP (formerly Carbon Disclosure Project) on Climate Change, Forests and Water)	Signatory	2004
The Circular Bioeconomy Alliance (founding member)	Founding partner	2020
Climate Action 100+	Participant	2020
EDGE (Economic Dividends for Gender Equality)	Participant	2014
Energy Transitions Commission	Member	2019
Finance for Biodiversity	Signatory	2020
FAIRR Initiative	Member	2022
Forest Investor Club	Founding member	2021
Glasgow Financial Alliance for Net Zero	Member	2021
Green Bond Principles, Social Bond Principles and Sustainable Bond Principles	Member (Investors)	2019
Institutional Investors Group on Climate Change (IIGCC)	Member	2018
Net Zero Asset Managers initiative	Signatory	2020
Natural Capital Investment Alliance	Founding member	2021
Sustainable Finance Geneva (SFG)	Active member	2008
Sustainable Markets Initiative	Member	2020
Swiss Sustainable Finance (SSF)	Founding partner and member	2014
Task Force on Nature-Related Financial Disclosure (TNFD)	Member	2021
Task Force on Climate-Related Financial Disclosure (TCFD)	Signatory	2019
UK Stewardship Code	Signatory	2021
UN Environment Programme Finance Initiative (UNEP FI)	Signatory	2020
UN Principles for Responsible Banking (UN PRB)	Signatory	2020
UN Global Compact	Participant	2018
UN Principles for Responsible Investment (UN PRI)	Signatory	2007

Paris Alignment

As part of the NZAM initiative, we are required to a set a 2030 decarbonisation target including information on the calibration of the target, information on the interim targets and proportion of AUM covered. LOIM is committed to manage 70% of total AUM (including client's mandates and dedicated funds) in line with net zero targeting a 1.5°C temperature rise. The 70% target represents 100% of the AUM and asset classes where we presently have access to the methodologies, metrics and data needed to assess alignment. To assess the temperature alignment at company and fund level, we have developed our proprietary Implied Temperature Rise (ITR) methodology in line with the methodological framework put forward by the TCFD's portfolio alignment team. Lombard Odier's ITR framework, the Lombard Odier Portfolio Temperature Alignment ("LOPTA"), is based on forward-looking analysis to assess the temperature trajectory of individual companies including scope 1, 2, 3 up and downstream, and the credibility of their net zero commitments. This means assessing the degree of alignment of companies to the decarbonisation pathways implied by the Paris Agreement goals which seek to limit global warming to 1.5-2°C. Our ITR framework is embedded in the investment process of LOIM funds and we are currently working on temperature alignment pathway for our funds. Information concerning the methodology used by our ITR tool can be found at https://www.tcfdhub.org/wp-content/uploads/2020/10/PAT-Report-20201109-Final.pdf

LOIM has built an internal extra-financial database by accumulating raw data, rather than ratings from various providers, and through our teams. We have collected over 10 years of historical data on approximately 23,000 companies, giving us a large and competitive coverage on business practices of companies and government sustainable policies and therefore, a great flexibility to build and test sustainability investing within the portfolio construction. Specifically for our climate metrics, Trucost's carbon emission database along with Trucost's revenue breakdown per activity database are primarily used in our proprietary ITR tool to measure the historical decarbonization performance of companies. We collect decarbonisation targets from companies on their websites and various initiatives (such as CDP and SBTi). We use Intergovernmental Panel on Climate Change (IPCC) and climate works data to build our 163 industry and six regional decarbonisation pathways for different temperature scenarios as part of our proprietary temperature assessment. While we use raw data from third-party service providers, we have developed proprietary tools and scoring methodologies that provide us reliable and highly scalable ESG scoring framework. We use our internal scores and frameworks in our investment process. We continuously review external providers' data given the dynamic and rapid evolution of this space. We maintain an open and regular dialogue with our providers to ensure their data is as investment relevant as possible.

In 2022, the Swiss Confederation issued the Swiss Climate Scores (SCS), aiming at setting best-practice transparency on the Paris-alignment of financial investments to foster investment decisions which contribute to reaching the climate goals. These scores contain indicators reflecting the current situation of invested companies in financial portfolio as well as forward-looking metrics associated with these companies. LOIM was an active member of the SCS setting and specifically advised on forward-looking scores to assess future emission trends. LOIM reports on the SCS for all public funds on a monthly basis.

Historical comparison

LOFE started reporting PAIs for the period 1 January 2022 to 31 December 2022. Please refer to the table in the section "Description of the principal adverse impacts on sustainability factors" above which provides a historical comparison of the current period reported on (1 January 2023 to 31 December 2023) with the previous period reported on (1 January 2022 to 31 December 2022).

SCHEDULE I

§1 Greenhouse gas emissions and environmental adverse sustainability indicator

Direct corporate engagement:

We conducted a number of engagement campaigns within our investment strategies to address climate change and more specifically carbon emissions.

For the **TargetNetZero** equity and fixed-income strategies, our engagement focus was the transition to net zero, using the **Oxford Martin Principles framework** and our ITR tool to quantify companies' alignment with Paris Agreement. The aim is to encourage companies to establish decarbonisation strategies, together with quantifiable targets and, if existing, verify their credibility. Those engagements can lead to a review of their ITR scores which can then influence the weightings of companies within the portfolios.

We targeted climate laggards, what we refer to as "burning-log" companies, listed on the **Global Coal Exit List**[3], with coal-extension plans and relevant exposure within LOIM funds. According to the IPCC, phasing out coal from the electricity sector is the single most important step to align with keeping global warming within 1.5°C of pre-industrial levels. For this third year of conducting this campaign, we identified five companies in our holdings with coal expansion plans. As engagement is still on-going we have not yet reached any concrete outcome. However, we escalated one engagement we had in 2022 where we received no answer by joining the engagement group of Climate Action 100 +. For this engagement we have had very good result, confirming a strong coal exit strategy.

Collaborative engagements/membership:

- In 2023, LOIM participated in **CDP's SBTi campaign**. The goal of this campaign is to drive the world's highest-impact companies to set science-based targets (SBTs) in line with the Paris Agreement goal of capping the global temperature rise at 1.5°C. By supporting the campaign, LOIM sought to align its investment and lending portfolios with the Paris Agreement and increase the number of companies in its portfolios with credible net-zero targets.

- LOIM has been a **Climate Action 100+** signatory since 2020 and in 2023 we were involved in four CA100+ collaborative engagements. We are a co-lead investor for one engagement which is focusing on Board oversight on the company's decarbonisation plans, climate lobbying and incorporating sustainability targets into compensation packages, and a supporting investor in the remaining three.

- We are member of the **IIGCC Net Zero Engagement Initiative**, which seeks Net Zero Transition Plans from companies consistent with the IIGCC Net Zero Investment Framework. In 2023, we signed letters addressed to 19 companies and actively participated in five engagements.

Case study: Decarbonisation at a US power/technology company

Engagement background: LOIM had initially engaged with this company – a leading US manufacturer of diesel – in 2020. However, in view of its LOPTA temperature score, we were keen to re-engage with the firm on its net-zero strategy. With scope 3 downstream emissions accounting for 99% of emissions, we sought to understand its mitigation plans. Being a heavy emitter, it has a carbon intensity of 19,179t CO_2 e / MUSD invested, compared to 612t CO_2 e / MUSD invested for the MSCI World Index and 4,352t CO_2 e / MUSD invested for the Machinery GICS sector. By decarbonising, it could have a greater impact on the net-zero transition than many other businesses. Having reached out to the company in 2022 and yet to receive a reply, we seized the opportunity to join an ongoing collaborative engagement through Climate Action 100+ (CA100+).

What did we discuss and ask for? The engagement agenda focused on the company's strategy for reducing scope 3 emissions (and enhancing related disclosures). We also sought an update on its energy efficiency efforts and participation in the Inflation Reduction Act (IRA). Over the course of the engagement in 2023, the company updated the group about its ongoing efforts. In the discussion, we focused on three areas: 1. Facilitating decarbonisation and the acceleration or expansion of climate-transition business lines, including capex allocations 2. Disclosure on climate risk, especially physical risk 3. Alignment or misalignment of lobbying and trade associations, and potential legislative risk. The company was actively involved in influencing the IRA and was pleased with the outcome, as the funding will help to advance zero-emission solutions. In the long term, this is what will enable the development of the necessary infrastructure.

3 GCEL 2023 | Global Coal Exit List

What was the outcome? The company was very receptive to the CA100+ engagement. It requested feedback from investors about its scope 3 emissions-reduction plan, enquired about best-practice net-zero strategies, asked how to clarify disclosures and what actions it needs to take to perform better on the CA100+ scorecard indicators. One remaining challenge is providing emissions data in more granularity, which takes time. The CA100+ group is encouraged by the company's responsiveness and willingness to improve. It will pursue further dialogue to accompany the firm in its efforts to enhance the clarity of its communications and accelerate scope 3 emission reductions.

Proxy voting:

Our **Corporate Governance Principles and Proxy Voting Guidelines** outline our expectations as regards good corporate governance and the transition to a low-carbon economy. For the latter, we hold the board of any investee company responsible for oversight of climate strategy, risk management, and performance against goals and targets.

We expect companies to:

- report transparently on their climate transition commitments and plans;
- progressively set transition plans aligned with the Paris Agreement;
- commit to gather data that is robust, reliable and material;
- to report on their GHG emissions under scopes 1, 2, and 3;
- commit to decreased absolute emissions under scopes 1, 2, and 3; and
- set science-based targets that will take the business strategy to a 1.5°C climate scenario by 2050, with clear interim targets so as to track progress against the long-term goal.

For companies engaged, we may vote against the directors, including the director who has climate/ sustainability oversight, the chairman, the financial report and accounts, the external auditor, or remuneration resolutions if:

- there has been disregard for environmental and social impacts of the company's activities and/or, repeated and systemic governance failures (including lack of response to shareholder resolutions with significant support);
- the company has not yet committed to decarbonising its business model by 2050 in line with the Paris Agreement or made progress towards doing so;
- the company has not disclosed scope 1, 2 and 3 GHG emissions;
- the company has not set appropriate scope 1, 2, and 3 targets (ideally science-based), with intermediate targets for 2030; and/or
- there is no improvement in the company's climate-related disclosures.

For say on Climate proposals we encourage and support investee companies that put forward advisory resolutions that seek shareholder support for their climate transition strategy.
We prefer Say on Climate proposals to be put to shareholder vote on an annual basis and at most every three years.

We will review each proposal on a case-by-case basis and expect to see at a minimum:

- A commitment to net zero emissions by 2050.
- A clear rationale for the company' climate governance and oversight structure.
- Quantitative short, mid & long-term targets across all three scopes that are in line with the relevant sector transition pathway for reaching net zero by 2050.

Where the above elements are not included in the proposal, we will likely vote against it, unless the company has demonstrated significant progress towards these milestones in the last 12 months and willingness to reach them, or there is another good reason. The final vote will be informed by our engagement with the company. We may not support the proposal if there is no defined time-frame for providing an update to shareholders. For companies we have not engaged with previously, we may decide to engage with the company as a result, depending on LOIM's exposure and capacity considerations.

Shareholder proposals will be assessed on a case-by-case basis. We will generally support proposals that contribute to furthering our stewardship priorities and sustainability convictions. We will not support proposals that hinder the company and its board, seek to micro-manage or duplicate efforts. We will also consider the timeframe allowed for the implementation of the shareholder proposal to avoid unrealistic scenarios.

For companies with exposure to fossil fuels, including coal, we would expect to see companies develop a plan to progressively exit from these carbon-intensive activities. In line with our commitment to decarbonise our portfolio under the NZAM Initiative, we will typically engage with companies in our CLIC strategies and encourage them to divest from (or cease financing to) highly-polluting activities. We may vote against the directors, including the chairman or the director who has climate/ sustainability oversight responsibility, the financial report and accounts, the external auditor, or remuneration resolutions, if, despite engagement, we see no apparent progress in the phase out of fossil fuel use over the last 12 months.

Proxy voting is a valuable tool in our engagement toolkit, as illustrated by this case study.

Case study: Indian oil and gas, Vote against routine matter/directors for lack of sustainability leadership

Resolution: re-election of director
LOIM vote: Against
Result: Pass (1.9% votes Against)
Context and discussion: This company has been identified as one of the world's largest greenhouse gas emitters. Our sustainability research concluded that the company is not taking the necessary steps to understand, assess and mitigate risks related to climate change because even if the company has announced its ambition to be net zero by 2030 it has not provided medium-term targets for 2025 or 2030. To complement this analysis, we used the Climate Action 100+ assessment framework: it evaluates the adequacy of a company's disclosures in relation to the key actions it can take to align its business with the CA100+ and Paris Agreement goals based on 10 specific metrics. For this company, nine out of ten criteria were not met.
Results: There was no climate-related resolution on the agenda. As such, and not being able to vote our concerns on such a resolution, we decided to vote Against the non-executive director responsible for climate oversight for failing to reach expectations on net zero by 2050 targets and commitments. Although the director didn't receive a majority of votes Against, we continue to increasingly use votes against directors as a way to make them responsible for the lack of oversight of sustainability-related risks. We believe this approach places the governance of sustainability at the heart of proxy voting and supports the view that the board of directors is responsible for setting climate strategy.

Engagement with regulators/policy-makers:

Engaging with policy makers is crucial to creating regulatory frameworks that will benefit companies engaged in the sustainability transition. LOIM /wider Lombard Odier group is lobbying and engaging with decision makers across policy, finance and industry to promote a productive evolution of sustainable finance in Switzerland. We are actively participating in regulation-related discussions through Swiss Asset Management Association, Swiss Banking (Swiss Bankers Association) and other industry collectives, as well as working groups established by government institutions.

In 2023, we continued to contribute to the ongoing update and improvement of Swiss Climate Scores (SCS), Version 2. In more detail, LOIM provided its technical opinion on the additions suggested by the State Secretariat for International Finance as well as the feasibility of measuring a certain indicator. The first version of the SCS has been noted for leaving perhaps too much room for interpretation of certain indicators (therefore reducing the comparability between actors). The second version addressed this by, for example, explaining clearly how GHG emissions should be calculated.

In 2023, we continued our efforts to sponsor and participate in leading events such as Building Bridges or the World Economic Forum to offer a platform where investors and sovereigns can have discussions. We recently held some events dedicated to nature with the World Economic Forum.

In 2023, we undertook some preliminary work to establish the feasibility of engaging sovereigns as well. Portfolios will typically not include sovereigns subject to sanctions and, going forward, any future sovereign engagement work will seek to engage on the themes contained in our Stewardship priorities and where we can have additionality. In 2023, we assessed joining the PRI-led investor initiative "Collaborative Sovereign Engagement on Climate Change" if they continue their programme after the pilot phase and we answered a survey to shape the second phase of the initiative so it can better answer our needs.

§2 Biodiversity

Nature is central to our systems-change framework. It is vital for sustaining life on Earth and human society, with natural capital[4] underpinning more than 50% of our economy. Yet it is also being depleted, destroyed and often improperly harnessed due to inefficient and unsustainable use. Increasingly, the future success of a business will be directly linked to its ability to restore and harness the regenerative power of nature, which brings opportunities in the form of new businesses and regenerative solutions, as well as overarching economic and social models. We address this risk through some dedicated investment strategies and within our stewardship framework with engagements on biodiversity loss including deforestation and circularity.

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. We have developed a time-based framework in line with our FSDA commitments[5].

LOIM Deforestation and Biodiversity engagement framework:

	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	• Minimum **supply chain knowledge** • Size and origin of indirect suppliers	• Commitment in line with strongest product regulations • Commitment to **zero gross deforestation**, where applicable, as mandated in EU regulation	• **Publicly available disclosure,** in line with established frameworks • Examples: CDP Forests, TNFD • Inclusion of **traceability** and specific KPIs	• Follow up for further risk reduction • Promote decreased use of commodities, excluded suppliers, best-in-class supply chain management, etc. • Promote **improved efficiency** in processes, etc.
Biodiversity risks	• Commitment to **Environmental Impact Assessments** • Commitment to free, prior and **informed consent** of local communities • Dialogue on any operations in **areas with land conflicts**	• Commitment in line with **no net loss** biodiversity objectives • Commitment to ensure any new operations established **outside of protected areas**		

Source: LOIM. For illustrative purposes only.

Case study: Swiss fertilisers and agricultural chemicals company

Engagement background: We recognise the significance of the crop protection industry in transitioning towards new food systems. Our engagement focuses on ensuring that the Swiss-based company operating in crop protection adopts new solutions to mitigate its detrimental impact on biodiversity. We advocate for the implementation of bio-based agricultural inputs and precision farming techniques to achieve this goal. The company faces a level 4 social controversy due to its involvement in manufacturing the highly toxic and controversial pesticide, Paraquat. Paraquat has been outlawed in Europe due to its significant health risks. The company has faced numerous lawsuits, with approximately 1200 individual cases filed between 2016 and 2022, linking the herbicide to Parkinson's disease. While the company's sales of Paraquat represent less than 2% of overall profit and are declining, they have not announced any plans to phase out its production. It is important to note that Paraquat is no longer registered for sale in 72 countries.

What did we discuss and ask for? We set the following objectives for the engagement:

- Reduce the usage of highly hazardous pesticides (HHP) by 20% by 2026 to reach The Farm to Fork and Biodiversity Strategies' aim of reducing by 50% the use of more hazardous pesticides by 2030 (baseline: May 2020).
- Cease the sale of EU-banned pesticides outside Europe.
- Achieve disclosure of annual sales volumes of highly hazardous pesticides by the end of 2024.

The company provided a comprehensive response that deepened our understanding of its operations and future plans. We discussed various topics. According to the company's recent portfolio analysis, only six active ingredients meet the criteria of being an HHP, accounting for a small percentage (2.7%) of overall sales in 2021. As a result, the company has committed to phasing out the sales of four of these ingredients and has implemented robust governance and stewardship processes for the remaining two to ensure safe usage.
Apart from addressing pesticide concerns, the company is investing USD 2 billion in sustainability initiatives through the Good Growth Plan. This investment encompasses infrastructure, personnel,

---

[4] Natural capital includes all the renewable and non-renewable resources in our biosphere, including clean air and water, fertile soils and sediments, ecosystems with their biodiversity, and finite mineral resources. It also captures the enabling and protective eco-services (like pollination and air filtration) that support value creating economic processes, and prevent disruption from climate change, storms, erosion and disease.

[5] 23Deforestation-Statement-en.pdf (lombardodier.com)

products and services. Additionally, we explored various technologies during the discussion, such as bio-pesticides and precision agriculture, which hold potential for reducing environmental impacts. We also raised concerns regarding the use of Paraquat. Paraquat has been found to cause fatalities in mammals and other animal species, with severe health implications if used improperly. Over 50 countries have banned Paraquat due to acute toxicity findings. While the company acknowledges the complexity of identifying incidents related to their product due to their small market share compared to generic products, they assert their support for stewardship activities and training.

What was the outcome? Regarding the objective of reducing HHP, the company has made partial progress by setting targets to protect biodiversity. However, these targets are not ambitious enough, and we will continue our efforts in this area. Unfortunately, the company intends to continue selling EU-banned pesticides outside of Europe. It argues that export restrictions are ineffective in ensuring the availability of necessary pesticides where they are required. The company states that some pesticides are not authorised in the EU because they have no or limited use there. However, they acknowledge that products produced in the EU can have specific and urgent uses outside of the EU, as was the case during the swarms of locusts devastating harvests across East Africa in the summer of 2020. We will continue our engagement as the objectives have not been fully achieved, and push for complete transparency regarding highly hazardous pesticides.

Collaborative engagements/membership:

- LOIM is a founding member of the **Circular Bioeconomy Alliance (CBA),** which was established in 2020 by His Majesty King Charles III. The CBA advances the circular bioeconomy by connecting investors, companies, governmental and non-governmental organisations, and local communities to share knowledge, target funding and create the joint vision needed to transition to a nature-positive economy. As a central part of this work, the CBA is building a global network of Living Labs, using landscape restoration projects to kickstart the development of circular bioeconomy value chains while restoring biodiversity and local livelihoods. By combining ancient wisdom with science and modern technological innovations, and forming public-private partnerships, Living Labs bring both concrete real-world benefits and act as a model for how we can learn to live in harmony with nature.

- LOIM is member of **FAIRR**, the first and largest global investor engagement network focused on encouraging global food companies to systematically transition product portfolios to facilitate healthier, more sustainable diets. We are part of 2 engagement campaigns. The first one focused on addressing the biodiversity risk driven by nutrient pollution from animal waste. The aim of the engagement is to drive pork and poultry producers to conduct meaningful risk assessments around their management of manure and animal waste and to put in place action plans that reduce their impact on biodiversity. The second one is on sustainable proteins.

- **CDP non-disclosure campaign**; through this initiative, we actively engaged with companies in our portfolios to begin disclosing TCFD-aligned data through CDP. We engaged with 4 companies requesting them to complete the CDP questionnaire on climate, forests or water.

- LOIM has joined Nature Action 100 at the launched of the initiative in 2023, a global investor engagement initiative aiming to drive greater corporate action on restoring nature and biodiversity. We are actively participating in three engagements.

Proxy Voting

We expect companies to report on their commitment to the protection of biodiversity and restoration of natural capital and work towards establishing frameworks that monitor associated risks. Once science-based targets for nature are developed, our preference is for companies to adopt them.
As a minimum, and based on materiality, we expect 1) company understanding of biodiversity considerations reflected in a sector-aligned policy, which should be publicly available; 2) setting of realistic targets based on its own policy; 3) understanding and public disclosures of sourcing regions and accompanying volume; 4) percentage of revenues dependent on forest products.

We may vote against the directors, including the chairman, the financial report and accounts, the external auditor, or remuneration resolutions if:
- we see no evidence of progress in developing commitments or plans to preserve nature and its ecosystems, or progress in the responsible use, preservation, and protection of natural resources
- the company has not addressed or put in place policies, processes and reporting mechanisms that protect and harness land and oceans.

Case study: US consumer discretional automobiles, deforestation-related& environmental impact
Resolution: setting sustainable sourcing targets
LOIM vote: For
Result: Fail (14.1% votes For)
Context and discussion: A US automobile company received a shareholder resolution at its 2023 AGM requesting that it develop a plan to establish targets in terms of the procurement of sustainable materials within its supply chain and disclose progress towards them annually. The company is a member of the Global Platform for Sustainable Natural Rubber and a member of the First Movers Coalition, but it has still not publicly disclosed applicable information about its tyre or leather deforestation risks or approaches to mitigate them, nor has it set related procurement targets. The resolution also encouraged the company to join global value chain emission reduction initiatives such as Responsible Steel, Steel Zero, and the Aluminium Stewardship Initiative.
Results: We supported this resolution (first time submitted to the company) because we agreed that the proposed disclosures on the company's supply chain and, particularly on certain materials such as

steel, aluminium, leather, and rubber, would allow investors to better assess the company's exposure to GHG emissions and how the company is managing the associated deforestation risks. In reaching this decision, we took into account the company's improved disclosures (calendar year 2021 vs calendar year 2022), and the efforts it undertakes under CDP questionnaires, as well as with holding its suppliers accountable. In our view, whilst effective governance and control seem to be in place, the company needs to further the granularity of its supply chain in order to manage the deforestation risks that the materials it uses are creating. At the time of writing, the company has not yet published its 2023 review. We will continue to hold the company accountable for any lack of progress, including further escalation votes, if necessary.

§3 Social and employee matters

As active owners, we engage with companies subject to certain levels of controversies to gather the most complete understanding of the source of the controversy and the remedial action that has been or can be taken.

Collaborative engagements/membership:

- We joined the initiative as Endorser in 2023 **UN PRI Advance,** a PRI-led collaborative initiative where institutional investors seek to advance human rights and positive outcomes for people through investor stewardship to acknowledge the importance of human rights in investment.
- We joined a collaborative initiative, led by **Investor Alliance for Human Rights**, with institutional investors requesting companies in the automotive sector to address the matter of forced labour by Uyghur in their supply chains. We are co-leads with one company and supporting investor with another three companies.

Case Study: Japanese automobile company – human rights within the supply chain

Engagement background: LOIM participated in a collective engagement organised by the Investor Alliance for Human Rights, focusing on the issue of Uyghur forced labour in the automotive industry. The objective was to gain insights into the Japanese automobile company's efforts to address forced labour risks throughout its value chain, particularly in relation to the Uyghur region of Xinjiang. We aimed to understand the company's approach, including identifying business relationships connected to the region and their strategies for addressing these concerns.

What did we discuss and ask for? During the engagement, we discovered that the company has established a robust governance structure for supply chain matters. Their sustainability committee comprises executive officers from various departments, including environmental affairs, procurement, PR, HR, legal, and accounting and finance. This collective effort demonstrates its commitment to enhancing supply chain transparency. Additionally, it adheres to the UN Guiding Principles and follows the Ministry of Trade guidelines in Japan. In 2021, the company developed a Human Rights policy and shared it with relevant entities, urging them to uphold supplier sustainability guidelines. It also revised the human rights section of the supplier guidelines, requesting suppliers acknowledge and comply with the updated guidelines. The company plans to extend this requirement to overseas suppliers starting next year. They have formed a task force within the Supply Chain Management team to establish targets, develop KPIs, and implement corrective measures to ensure respect for human rights. For overseas suppliers, the company intends to customise policies based on the local context, incorporating specific characteristics provided by regional procurement teams into its due diligence framework. The company aspires to map its entire supply chain, having already achieved close to 100% coverage in Japan and North America. It plans to expand this mapping to other locations in the coming years. However, it faces challenges due to suppliers reporting on a voluntary basis, which sometimes leads to omitted information due to competitive pressures. The mapping process is resource-intensive, requiring significant time and expertise to examine and verify the information provided by suppliers. The task force is currently working on setting a timeframe for completion in each region.

What was the outcome? Initially, the company representative provided high-level responses, but eventually, they shared detailed information about the company's efforts and progress. They acknowledged the complexity of the issue and the challenges encountered while expressing commitments to transparency and addressing the problem. It is crucial to continue engaging with the company, including subject matter experts. We have requested a follow-up call to delve deeper into topics such as supplier ranking processes, audit procedures, the existence of a grievance mechanism, and plans to adapt the due diligence framework to China. The company appears open to discussing this delicate issue, and there is still much work to be done. Therefore, we will continue supporting and advising the firm, offering recommendations and sharing examples from other original equipment manufacturers that have made significant progress in mapping and reporting on their supply chains.

Proxy Voting:

We expect investee companies to conduct business responsibly and specifically, to uphold the principles outlined in the UN Global Compact, the standards in the Universal Declaration of Human Rights and the rights laid down in the core ILO Conventions.
We will generally support proposals that seek to promote responsible business conduct (as per the afore-mentioned frameworks) and request companies to enhance corresponding disclosures.

We may also vote against the chairman if:

- The board fails to appropriately mitigate and respond to significant company events including disregard for environmental and social impacts of the company's activities.

Case study: US airline, human rights & social impact
Resolution: Adopt freedom of association and collective bargaining policy
LOIM vote: For
Result: Fail (32.4% votes For)
Context and discussion: A group of shareholders submitted a proposal requesting the company adopt and disclose a policy with a commitment to respect the rights of freedom of association and collective bargaining in its operations as described in the ILO's Declaration on Fundamental Principles and Rights at Work. The report also had to include any processes to identify, prevent and remedy practices that violate the policy. At present the company does not have a specific policy clearly stating the right of employees to freely associate.
Results: We supported the resolution because we believe that freedom of association and collective bargaining are both fundamental human rights, and that not complying with such basic rights might cause operational, reputational and regulatory risk, and finally negatively impact long-term value. The publication of a specific policy with commitments from the company to respect freedom of association will allow us to better assess the efforts the company is making to improve its social impact. The resolution had strong support with 32.4% votes For. At the time of writing, the company has not yet published its 2023 review. We will continue to hold the company accountable for any lack of progress, including further escalation votes, if necessary.