LOMBARD ODIER
INVESTMENT MANAGERS

Task Force on Climate related Financial Disclosures

2023 disclosures report

For professional investor use only

June 2024

Foreword

The disclosures in this report, including group disclosures relied upon and cross-referenced in this report, are consistent with the TCFD Recommendations and Recommended Disclosures.

Reasonable steps have been taken to ensure that disclosures, to the extent they are relevant and/or possible, also reflect sections C and D of the TCFD Annex entitled ‘Guidance for All Sectors’ and ‘Asset Managers’, respectively. We view climate-related disclosures as evolutionary and strive to continually enhance all future disclosures.

Please note that this report only refers to Lombard Odier Investment Managers (‘LOIM’) and in particular our UK entity Lombard Odier Asset Management Europe (‘LOAME’) and no other part of the Lombard Odier Group.

This statement is made pursuant to FCA’s ESG sourcebook (section 2.2.7) requiring a firm’s TCFD entity report to include a compliance statement, hereby signed by Adam Molina Chief Operating Officer for LOAME.

Governance

LOIM has set up a comprehensive sustainability governance structure for the oversight and governance of the implementation of LOIM’s sustainable investment philosophy. LOIM’s sustainability governance is integrated and aligned to the governance principles of Lombard Odier Group:

- **The LOIM Stewardship Committee** oversees and guides our stewardship responsibilities for internally managed funds. It consists of representatives from across asset classes, dedicated sustainability and stewardship teams, and Compliance, Risk and Legal departments. It reviews and provides guidance on voting and engagement. It receives reporting on stewardship-related conflicts of interest (if any) and serves as an escalation mechanism when necessary. The Committee has final sign-off on voting and engagement reports to boards and committees.
- **LOIM Sustainability Forums:** at LOIM, we have dedicated sustainability forums where investment teams, risk management and supporting functions in close collaboration with the sustainability research team discuss and decide on topics related to the implementation and integration of LOIM sustainability frameworks and tools across portfolios and mandates for relevant asset classes.

As part of the Sustainability Forums at LOIM, climate-related topics, including developments and improvements of Lombard Odier's proprietary Implied Temperature Rise (ITR) metric, temperature alignment of LOIM portfolios and climate-related targets and commitments, are discussed. LOIM CEOs, which may be part of these forum, report back to the Board of Managing Partners.

The CEO also oversees LOIM's sustainable asset management platform, holistiQ Investment Partners.[1] It is focused exclusively on developing the tools our clients need to capitalise on the opportunities created by the transition to a nature-positive economy. holistiQ is one of the pillars at LOIM, which caters to a range of different investment needs. The managing partner is accountable for overseeing the research outputs and progress on the integration of the sustainability assessments.

Sustainability is considered into all our decision-making, from the Board level down.

Strategy

As asset managers, our role is to support our clients in preserving and growing their wealth and invested assets. One of the pillars in our investment offering, holistiQ, is focused on investments related to the sustainability transition because we believe that the shift to a sustainable economy is creating unrivalled opportunities for investors focused on this space. Early-stage innovation is flourishing, and established businesses are looking to develop their sustainability-related infrastructure.

The transition is unfolding through a series of system changes. Breakthrough technologies and innovative solutions are approaching or already past inflection points, leading to increasing levels of affordability, accessibility and functionality. The adoption of new products and services is happening exponentially in many cases, rather than in a linear manner. As new business models emerge, they will have the opportunity to capture both new and existing profit pools, driving potentially rapid growth in earnings. Shared solutions and cascading effects across the economy mean that companies may unlock business opportunities across different sectors, redrawing the structure of our economy. Entire value chains will be reshaped, supported by policy, innovation and market forces, and this will create new structural growth opportunities. The sustainability revolution is already unfolding at a speed and scale still unrecognised by markets – our growing range of investment strategies focused on the transition aims to help our clients access this opportunity. *Please refer to [Sustainable investing | Lombard Odier](#).*

Identifying, assessing and responding to climate-related risks and opportunities
Lombard Odier has set up processes for identifying, assessing and responding to climate-related risks and opportunities, both at operational and investment level for asset classes and product, where deemed relevant. Our sustainability governance oversees these processes.

Operational level
At operational level, Lombard Odier Group is responsible for managing climate risks and the transition to net zero of our operations, including identifying, analysing and reducing our carbon emissions.

We aim to prefer suppliers who have a plan to transition their business to a sustainable model, whether in terms of their product offering or operations. Our commitment to reducing Scope 3 carbon emissions across our value chain automatically puts pressure on our partners and suppliers to help us achieve our emissions-reduction goal.

Investment level
We are a diversified asset management firm with a core conviction that the global economy is at the start of a transition to a Circular, Lean, Inclusive and Clean (CLIC®) economy. Our sustainability research team have developed systematic measurement capabilities (Implied Temperature Rise metric and climate stress-testing) to identify, assess and monitor climate-related risks and opportunities in our portfolios. The sustainability research team also conducts in-depth research on the major systems changes that need to occur in food, energy and material systems to transition to a sustainable economy.

1 holistiQ is a trading name of the Lombard Odier Investment Managers group ("LOIM") and is not a legal partnership or other separate legal entity.

On its investment side, LOIM defines three major climate-related risks that could impact businesses and investees:

CLIMATE-RELATED RISK	TRANSITIONAL RISK
Description	This includes the costs companies will face in reducing their emissions, linked to costs of investment in lower carbon technologies, or the carbon taxes companies will face in the alternative. It also includes the risks of demand destruction – such as that faced by sectors such as oil and gas, beef processing or airline travel, which are threatened by alternative products or the risk of higher taxation. On the flipside, some sectors may be exposed to revenue opportunities as well.
Time Horizon	Medium term[2]
Magnitude of impact	Medium – High
How the risk is managed	We seek to identify businesses and assets that are on a viable pathway to achieve carbon-neutral status and successfully manage transition risks. For asset classes where climate-related data are reasonably available and deemed material, we aim to understand the trajectory of covered companies in our portfolios to avoid exposure to crippling 'stranded assets' and to mitigate transition risks, not only to 2050 but also in the intermediate years. To identify risks and opportunities arising from the climate transition in strategies embedding climate transition targets, we screen portfolios using our Implied Temperature Rise (ITR) metric. Further we have developed an in-house proprietary metric, Climate Value Impact (CVI), to assess risks and opportunities due to shifts in demand, market structure, costs, and prices under different climate scenarios.

CLIMATE-RELATED RISK	PHYSICAL RISK
Description	Even in a best-case scenario, our climate is likely to change significantly – and more so if we fail to take adequate action. Extreme weather events are already on the rise and are likely to continue to intensify in coming decades, requiring adaptation efforts to ensure resilience of infrastructure and preparedness of business models. Direct damage may be insurable, but the indirect damage from wider business disruption often remains uninsured.
Time Horizon	Medium term
Magnitude of impact	Medium
How the risk is managed	We have developed internal resources and screening capabilities to perform an assessment for physical-risk exposure relying on geospatial data and climate models. We are still facing challenges on data quality and coverage which prevent a systematic integration for asset classes and strategies where these risks are deemed material.

CLIMATE-RELATED RISK	LIABILITY RISK
Description	Companies and their directors may face a variety of legal claims, related to responsibility for climate damage linked to historical emissions, inadequate disclosures of climate-related risk, negligence with respect to adaptation to physical risks and changing market environments. Some of these may be insurable – some may not. The analysis of such risks requires forward-looking, judgmental analysis of industry and geographical transition pathways.
Time Horizon	Long term
Magnitude of impact	Medium
How the risk is managed	Currently, liability risk is the least studied of climate related risks. Over the recent years, we have undertaken research and studies in relation to the identification and management of liability risk with academics from well-established institutions. As we believe that application of liability risk requires context specific analysis, the consideration of liability risk is integrated primary in research supported high conviction strategies where deemed material and where reasonable insights on the topic are available. LOIM's team of sustainability experts provides our investment teams with the required analysis and tools to make informed judgements regarding the progress and challenges of companies they invest in, if part of the covered universe.

[2] At Lombard Odier, we define the following time horizon:
- Short-term (1-3 years): considerations in terms of how we position our portfolios with respect to market conditions.
- Medium-term (3-15 years): 2030 emissions reduction targets are part of the medium-term considerations.
- Long-term (15+ years): in our engagement with companies, applying the Oxford Martin Principles for Climate-Conscious Investing, we look for companies to put in place both long-term (generally 2040-2050) and intermediate targets covering a medium-term horizon.

In addition to the climate-related risk described above, LOIM assesses and considers the following sustainability-related risks:

CLIMATE-RELATED RISK	REGULATORY CHANGE
Description	Current and emerging financial regulation, including but not limited to climate, is consistently assessed as part of our regulatory risk review. Market needs to adapt to accelerating climate-risk disclosure requirements, anticipating future demands.
Time Horizon	Short to medium-term
Magnitude of impact	Medium
How the risk is managed	LOIM has adequate policies and procedures in place to assist management in identifying, addressing, and integrating significant legislative or regulatory requirements. We mitigate regulatory risk by monitoring legislative and regulatory requirements across all relevant jurisdictions. Specific working groups and projects, with representation of business, legal, risk and compliance teams, are set up to assess and implement significant regulatory developments. Assessments factor in drivers, impact, timing, cost and training needs. Where required the working groups may rely on external experts. LOIM also subscribes to online databases giving access to libraries covering current asset management topics as well as regulatory flash news services.

CLIMATE-RELATED RISK	REPUTATION RISK
Description	This risk translates into a negative perception (image, trust) of business practices or internal controls, which could ultimately have an impact on Lombard Odier's finances.
Time Horizon	Short term
Magnitude of impact	Medium high
How the risk is managed	We carefully manage reputation risk, diligently applying our policies and, for the funds integrating sustainability considerations, having an explicit process for integrating the sustainability assessment in our investment process. Further, for the strategies that commits to make sustainable investments, our framework to define sustainable investments classifies companies into three categories: sustainable investment (accelerating the transition), grey (neither accelerating nor harming the transition) and red investments (potentially harming the transition). Reputational risk considerations are embedded in the classification status of the underlying investment.

CLIMATE-RELATED OPPORTUNITIES	PRODUCTS AND SERVICES
Description	Through our investment strategies, we aim to allocate capital to: · Firms with businesses that are better aligned to the transition (e.g. those firms with credible and robust climate transition plans); and · Companies with potential upside from the financial exposure to the transition (where we believe these companies stand to benefit materially from the environmental transition). · Real assets with positive exposure to the transition particularly including nature-based solutions (strategy under development) · Other asset classes including carbon markets and commodity futures related to commodities exposed to the transition.
Time Horizon	Short to medium term
Magnitude of impact	Medium

CLIMATE-RELATED OPPORTUNITIES	PRODUCTS AND SERVICES
How the opportunity is identified	We believe that, as investors, we must answer two fundamental questions related to the transition. These two questions are related but distinct. 1. On one hand, we must address the question of which companies are sustainable by determining whether companies are aligned to the transition. This is, ultimately, a question of whether a company has positive or adverse impact, whether it is accelerating or slowing down the transition. 2. On the other hand, our fiduciary duty requires that we assess the potential financial upside that the company will benefit from, through the transition to a sustainable world, the financial dimension. We call it “financial headwinds vs tailwinds”, that assesses whether companies are likely to perform better financially in an environmentally aligned scenario, compared to consensus. This is the potential financial upside from exposure to the transition. Although we believe there are investable opportunities related to the transition, there can be no guarantee of excess performance. Climate change is profoundly altering the investment universe as we transition towards net-zero greenhouse gas emissions. But assessing the climate exposure of a company is complex, and many issues arise from the lack of data disclosure by companies and the large spectrum of industry standards. At LOIM, we have developed a forward-looking tool, an Implied Temperature Rise (ITR) metric, to measure how well aligned a company (or portfolio) is with the goals of the Paris Agreement. Systematically, this allows us to quantify the temperature trajectory of individual companies within our investment universe, which allows us to assess the degree of alignment of companies to the decarbonisation pathways implied by the Paris Agreement goals. When implementing this metric in selected investment strategies with decarbonisation objectives, we aim to maximise opportunities and reduce climate transition risk in a decarbonising global economy, seeking investments in companies that are leading the way in the transition to net zero through ambitious and credible decarbonisation objectives. Rather than excluding companies, our approach embraces every sector – not just those whose emissions are already low. It is all about mitigating transition risk, recognising that only economy-wide decarbonisation can achieve a net-zero future, and deploying capital to those most aptly positioned to make the transition happen. In addition, LOIM relies on a sustainability research team combining financial and non-financial expertise with an explicit focus on trying to understand system changes related to the environmental transition and their potential to shift value chains, cost structures and profit pools. We aim to leverage the understanding of these transition dynamics to inform bottom-up stock selection in selected high conviction strategies focusing on environmental transition.

Climate-related scenario analysis
LOIM has developed climate-related scenario analysis aiming at integrating the measurement of changes in portfolio market valuation subject to climate-related risk and linked to transition and physical risks. In our scenario analysis, we are seeking to test three scenarios:

- Disorderly transition > ensuing from rapid global action and policies, and materialising over the medium-term business planning horizon that results in achieving a temperature increase being kept below 2°C (relative to pre-industrial levels), but only following a disorderly transition. In this scenario, transition risk is maximised.
- Orderly transition > broadly in line with the Paris Agreement. This involves a maximum temperature increase being kept well below 2°C (relative to pre-industrial levels) with the economy transitioning in the next three decades to achieve carbon neutrality by 2050 and greenhouse-gas neutrality in the decades thereafter.
- Failure to transition > a scenario with failed future improvements in climate policy, reaching a temperature increase in excess of 4°C (relative to pre-industrial levels) by 2100 assuming no transition and a continuation of current policy trends. Physical climate change is high under this scenario, with climate impacts for these emissions reflecting the riskier (high) end of current estimates.

To develop our climate-related scenario analysis, we have based our customised transition scenarios on Intergovernmental Panel on Climate Change (IPCC) scenarios, which provide insights into the required pace of decarbonisation, and the expected temperature that would result from a given level of cumulative emissions, amended for additional granularity based on models developed by CTI/ClimateWorks/EUCalc.

We aim to use climate-related scenarios to understand:

a. the alignment of companies' emission trajectories and targets to the objectives of the Paris Agreement; and

b. the exposure of selected strategies investing in asset classes covered by our scenario analysis, to climate-related risks and the potential financial impact that could arise from climate change following, on a best effort basis and where climate-related data are reasonably available and deemed material, the Bank of England climate-scenario analysis and stress testing.

Impact of climate-related risks and opportunities on financial planning
Climate-related risks and opportunities have influenced our financial planning mainly through:

Direct costs: the firm has invested in building a substantial (35 FTE as of end of May) sustainability research team and in partnerships to deeply understand the systems changes required to transition the global economy.

Capital expenditures: our new headquarters will bring all our Geneva-based employees together under one roof in a space designed to promote collaboration, synergies and innovation. This building is a key component of Lombard Odier's vision and business strategy to build the bank of the future by leveraging our core values: sustainability, innovation and long-term thinking. A sustainable construction needs a framework, and so we aim to achieve three sustainable construction certifications: Standard Nachhaltiges Bauen Schweiz (SNBS), Minergie-P and BREEAM®. These certifications measure the environmental, social and economic sustainability performance of buildings, including climate resilience.

Business strategy: we have launched/ are launching specific dedicated strategies focusing on the sustainability transition. Further, as part of the broader business strategy for the launch of new products, considerations in relation to the sustainability transition are assessed if relevant to the product in scope.

Risk management

LOIM's risk management framework
LOIM has adopted the Lombard Odier Group Risk Management Framework. The purpose of the framework is to ensure that all material risks LOIM faces are identified, understood and that appropriate responses are in place to protect LOIM, Lombard Odier Group, its employees and its clients. Our framework is built around six pillars:

- Risk governance
- Risk organisation
- Risk culture
- Risk strategy and tolerance
- Risk identification and assessment
- Operational resilience

We base our operational risk framework on the 'three lines of defence' model.

1st line of defence
Business, Operations, IT

In owning and managing their day-to-day risks, our business and support units are our first line of defence.

2nd line of defence
Risk, Compliance, Legal

Our Risk, Compliance and Legal teams represent our second line of defence. They provide an additional safety net against risks by delivering oversight and monitoring (independent controls), defining the risk management framework, providing support and training to the first line of defence, and driving the implementation of appropriate risk and compliance rules and frameworks.

3rd line of defence
Internal Audit

Internal Audit is our third line of defence, ensuring independent verification of the completeness, efficiency and adequacy of our overall internal control system.

The three lines of defence framework enable a clear segregation of responsibilities and the implementation of an overview of risk exposure vs tolerance across LOIM. The framework enables a clear segregation of responsibilities and, also allows for an assessment of risk exposure vs risk tolerance across the Group, its entities and units.

Identifying and assessing climate-related risks
The investment process incorporates climate-related risk identification and assessment by analysing factors such as regulatory changes, physical risks and transition risks. We consider climate-related risks to be relevant for certain asset classes where we have developed in-house tools to assess these risks and where climate-related data are reasonably available and deemed material. This involves evaluating the impact of climate change on industries, companies and specific assets across the covered strategies. Risk assessment may be quantitative, qualitative or a combination of both.

To ensure these aspects are correctly assessed, multiple sources of data coupled with an in-house developed model are used to track specific data points such as greenhouse gas emissions, energy consumption, water usage and waste generation. Additionally, scenarios analysis may be conducted to evaluate the resilience of selected investment portfolios under different climate scenarios.

Monitoring and managing climate-related risks
Risk management teams play a critical role in monitoring climate-related risks effectively, and a clear governance defining roles and responsibilities for managing these risks within the overall risk management framework is essential.

Where climate-related risks are deemed relevant to the specific asset class and data are reasonably available, the first line of defense applies monitoring mechanisms to track climate-related risks, using both quantitative and qualitative indicators, and to gauge the exposure of portfolios to climate-related risks over time. Investment teams source dedicated assessment and company screening information with the support of the sustainability research team.

The second line of defense team applies independent post-trade controls to ensure the principles disclosed in prospectuses are respected and aligned with climate-related risks. Dedicated dashboards on sustainability risks providing clear and detailed metrics are reviewed on a daily basis to make sure strategies are fully integrating climate risk indicators.

More broadly, Lombard Odier Group Risk function monitors that LOIM Portfolio Managers, CP Investment Solutions Analysts, Client Portfolio Advisors, Client Portfolio Managers as well as Bankers mitigate the selection, investment or advice to invest in specific excluded or restricted assets and sectors. These involve, as an example, companies deriving more than 10% of their revenue from thermal coal extraction or power generation, artic oil and gas exploration, tar sands and shale energy extraction. These restrictions are screened and identified by LOIM and by CP Portfolio Managers through automatic pre-trade control in their portfolio management systems, which are fed by sustainability assessment tools and data, provided by sustainability research team.

Metrics and targets

At Lombard Odier Group level, we use a number of metrics to measure and monitor our environmental impact. We calculate climate-related metrics using the GHG Protocol standards.

The table below includes Lombard Odier Group's Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions for the period 01/01/2023 to 31/12/2023.

GHG EMISSIONS	UNIT	VALUE (2023)
Scope 1	tCO2e	1,414
Scope 2	tCO2e	703
Scope 3	tCO2e	6,258
Total GHG emissions (Scopes 1, 2 & 3)	tCO2e	8,375

LOAME uses the same metrics to assess climate-related risks and opportunities at an entity level as the broader Lombard Odier Group – for detailed information please refer the [Corporate Sustainability webpage] for the latest available Group Sustainability Report with details in sections 'Reducing our footprint' and 'Data and for the latest available Lombard Odier Sustainability Report – Basis of Preparation.

Lombard Odier Group has committed to achieving net zero for its operations by 2030. This means that by 2030 the net impact on the environment from our operations emissions would be zero. We have reduced our Scope 1 and 2 emissions by 32% since our base year 2019, which puts us on the Science Based Targets initiative's (SBTi) trajectory to achieve net zero in line with the Paris Agreement.

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