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LOMBARD ODIER

INVESTMENT MANAGERS

Stewardship Report

2020

Letter from the CEOs

We are delighted to introduce Lombard Odier Asset Management (Europe) Limited's 2020 Stewardship Report, which reports against the 12 Principles included in the Financial Reporting Council's (FRC) 2020 Stewardship Code.

2020 has been an extraordinary period. A year into the COVID-19 pandemic, the public health emergency continues to exact a heavy toll on our personal and professional lives. Yet, throughout this most challenging of times, our entrepreneurial spirit has resulted in constructive approaches to new challenges as we worked hard to maintain the service our clients have come to expect from us. Simultaneously, we have taken important steps to protect our colleagues' health, ensure operational continuity, and support charitable organisations supporting the most vulnerable communities around us.

The pandemic has also triggered the deepest recession in modern history, the recovery from which, we are convinced, must be sustainable. We see many opportunities to achieve such a recovery, particularly in transitioning to a Circular, Lean, Inclusive and Clean (CLIC™) economic model. We see stewardship as a critical approach to try to protect and enhance the long-term value of our clients' assets, and more specifically, a tool at the heart of the investment process allowing us to unlock value, promote best-in-class business practices, promote alignment to transition pathways and manage controversies.

We enter 2021 optimistic that the recovery from the COVID-19 pandemic will be sustainable and that our commitment to a targeted and unique Stewardship approach, will continue to support our vision.

We have reported on a Principle-by-Principle basis, clearly articulating Context (where applicable), Activity and Outcomes for each of the 12 Principles. There is a significant amount of overlap between Principles, which is a reflection of the cross-cutting nature of our Stewardship work. To support this holistic view, we have linked Principles throughout the report.

This report has been reviewed and approved by Lombard Odier Investment Manager's (LOIM) governing body, our Executive Committee.

Nathalia Barazal
Co-Head Lombard Odier Investment Managers
Limited Partner

Jean-Pascal Porcherot
Co-Head Lombard Odier Investment Managers
and Chief Executive Officer of
1798 Alternatives
Limited Partner

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Introduction

This report is prepared by Lombard Odier Asset Management (Europe) Limited (LOAME), the UK arm of the Lombard Odier Investment Managers group (LOIM), which in turn is the institutional asset management division of the Lombard Odier Group, a Swiss headquartered, global private banking and asset management business founded in 1796 and co-issued by Lombard Odier Funds (Europe) S.A.

LOAME is an integrated part of the LOIM group. This report therefore reflects processes, policies and operations at both the level of LOAME, and also LOIM, where relevant.

LOIM focuses on institutional investors, third-party distributors and financial intermediaries. Lombard Odier has always been wholly owned and managed by its partners who are responsible for the day-to-day management of the firm. This independent structure means that we are able to focus 100% on our clients. Our size and focus mean that we can respond with agility to market events.

We provide a range of investment solutions to a group of clients that are all long-term oriented in their many and diverse ways. Our heritage, and our combination of the best of conservatism and innovation, keeps us well positioned to create lasting value for our clients. Our investment capabilities span fixed income, convertible bonds, equities, multi-asset, and alternatives. Sustainability is central to our investment philosophy; we believe it is the founding principle of long-term economic and investment outcomes, and will drive returns potential over the long term.[1]

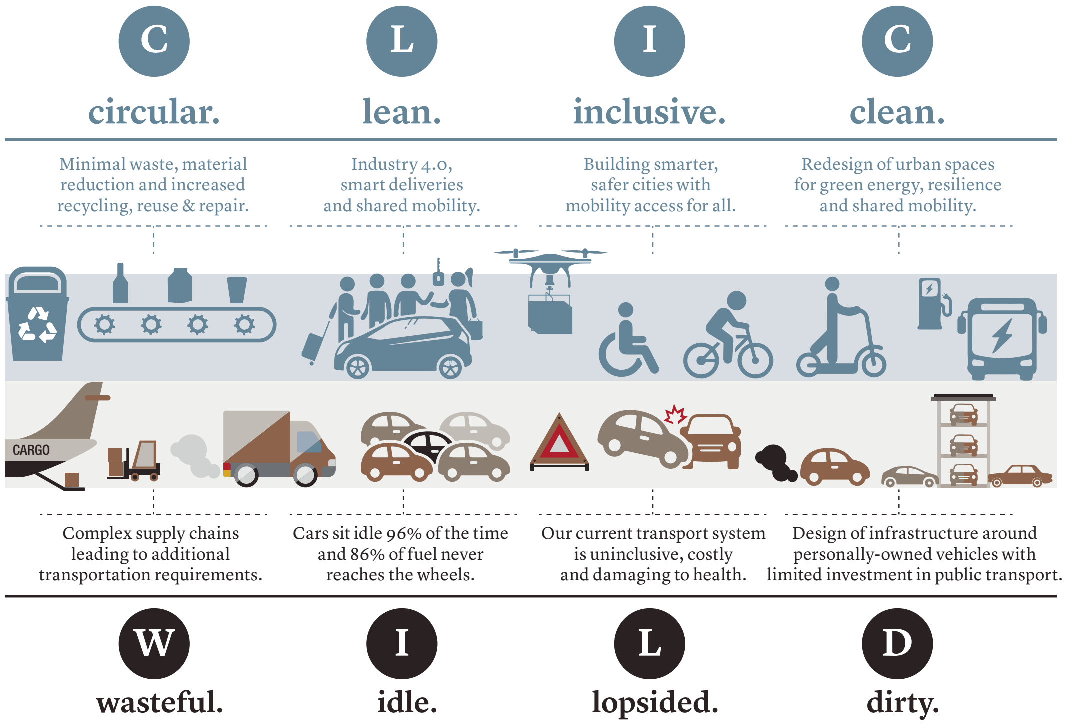
With 150 investment professionals, we are a global business with a network of 14 offices across Europe, Asia and North America and have assets under management of USD 71/CHF 63/EUR 58 billion (as at 31 December 2020).

Our stewardship approach is intrinsically linked to our CLIC™ economic model. This model is presented here.

We believe that the next economic revolution has already begun and that sustainability may be a major driver of future returns. For those with the skills to adapt to this new reality, sustainability may create new sources of alpha, open up new investment opportunities and lead to enhanced return and reduced portfolio risk.

We believe that the transition from a WILD (Wasteful, Idle, Lopsided and Dirty) economy to a Circular, Lean, Inclusive and Clean (CLIC™) model is one of the most important drivers of future return and risk. The transition to CLIC™ will continue to accelerate in a COVID-affected world, powered by a positive feedback loop of economic and market forces. The CLIC™ model is geared towards leveraging the vast value-creation opportunities that sustainability has to offer, to help us identify companies with potential for sustainable growth.

[1] Source: LOIM. There can be no assurance that the investment objectives will be achieved or that there will be a return on capital.



CLIC™ and stewardship

During 2020, we have developed a robust, proprietary, science-based approach to analyse material forward-looking transition risks and opportunities. This framework supports investments and stewardship.

As CLIC™ is integral to our business strategy, it operates as a key articulator throughout our stewardship report. In more detail, CLIC™ is addressed in:

Principle 1	Our investment beliefs enshrine CLIC™
Principle 2	In our governance structures and processes, and the appropriate resourcing of the teams involved in stewardship
Principle 4	We see CLIC™ as a key driver of well-functioning markets and financial system
Principle 5	CLIC™ is incorporated into our suite of stewardship policies and review processes
Principle 6	CLIC™ serves as a both a trigger for client communication and as platform to engage with clients on how their own views and philosophies are aligned with CLIC™
Principle 7	Where CLIC™ plays a key role in our integration approach, helping us define and deliver on integration priorities
Principle 8	CLIC™ highlights the need for optimal data
Principles 9 & 10	Engagements: where we use CLIC™ themes to unlock value through CLIC™ -focused engagements
Principle 12	Voting: with CLIC™ considerations helping us hold companies accountable on transitioning to sustainable business models

Purpose & governance

Principle 1

› "Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."[1]

[1] Financial Reporting Council's UK Stewardship Code 2020.

Purpose, strategy and culture

Context

As an asset and wealth manager, we provide our clients with investment solutions that meet their needs for the long term and evolve to thrive in the challenging world in which we live.

Our culture is based on promoting curiosity, imagination and entrepreneurial skills. We seek out hidden opportunities and develop new ways of investing to build resilient strategies that can preserve and grow the long-term value of our clients' assets, evolving as the investment environment changes, old opportunities disappear and new ones arise. We take the same approach to sustainability, investing in innovative people, systems and data and partnering with world-class institutions to develop new sources of insight that may create alpha opportunities for our investment managers and underpin our dedicated sustainable strategies.

> "We believe it is our fiduciary duty to help our clients mitigate the risks and capture the opportunities associated with the transition to a CLIC™ economy"

How do we link this investment philosophy with stewardship?

We are firm believers in the importance of stewardship, participating in leading industry initiatives whilst also seeking to meet the highest corporate standards ourselves. This is a crucial approach aiming to protect and enhance the long-term value of the assets entrusted to us by our clients, and an indispensable tool to achieve measurable impact beyond financial returns. Through active ownership, we support best-practice-aligned corporate governance structures as the cornerstone for businesses to thrive.

This is turn allows us to help companies to transition to sustainable business models.

Through stewardship, we:

- Unlock value;
- Promote best-in-class business practices
- Promote alignment to transition pathways; and
- Manage controversies.

Our entrepreneurial and agile culture constantly fosters and invests in innovation to support this approach.

Activity

During 2020 we took several actions to ensure that our investment beliefs and purpose guide and inform our stewardship work. We group these actions under stewardship, talent, shaping investment offering, partnering and certifications.

Stewardship

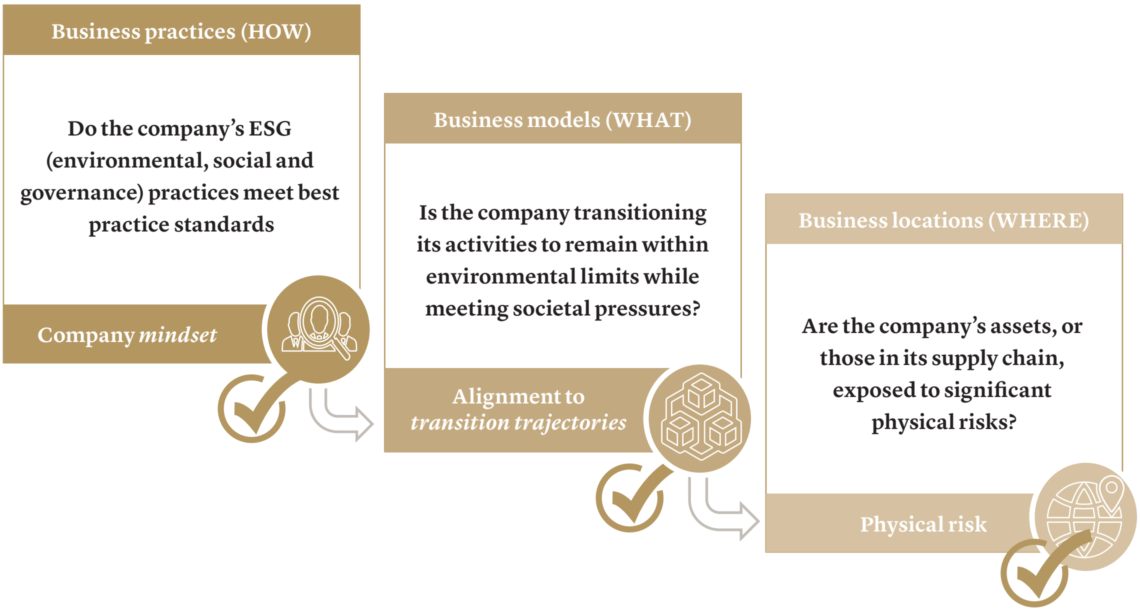
The first action was the creation and effective rollout of our stewardship function. This was a harmonisation of previous work. Stewardship has now been placed at the heart of our sustainability philosophy (stewardship is a key pillar of our Sustainable Investment Research, Strategy & Stewardship team, 'SIRSS'). Our sustainability philosophy is in turn integrated at the heart of the fundamental investment process (discussed in detail in Principle 7 – Integration). In practice, this means that we have the infrastructure, skills, knowledge and resources in place for us to manage our stewardship responsibilities, in close collaboration with the investment teams. We have also harmonized stewardship related policies and processes, IT, risk and content.

Stewardship and investments

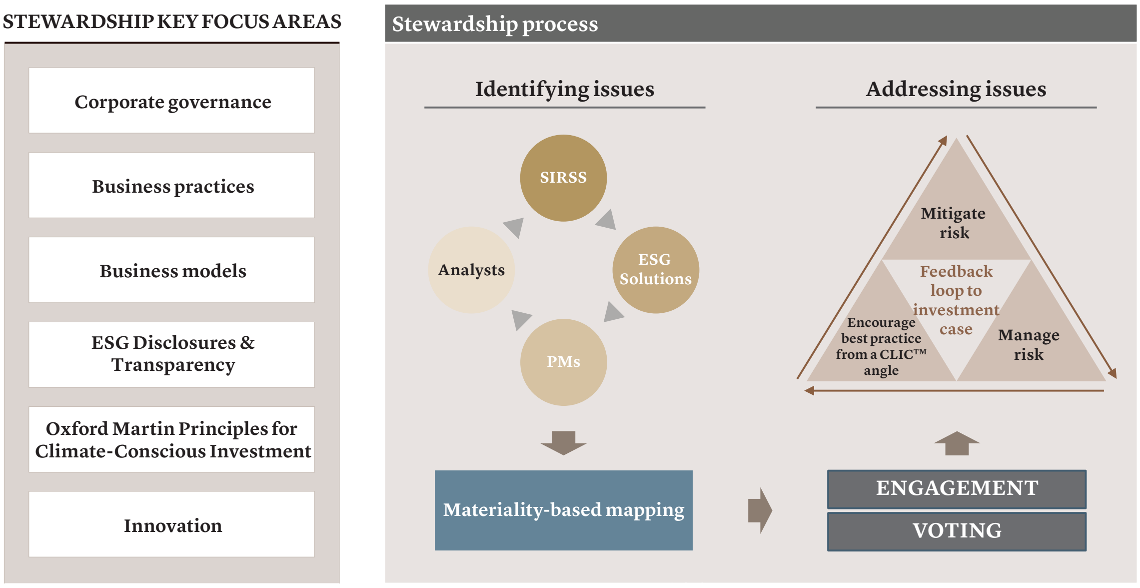
Our stewardship approach is designed to focus on addressing both systemic-level sustainability-related challenges, as well as those that are most financially material to the sector and industry a company belongs to (this is discussed in more detail under Principle 4 – Managing risks; Principle 7 – Integration; Principle 9 – Engagement; Principle 10 – Collaboration and Principle 12 – Voting). Stewardship, applied across asset classes at LOIM, rests on three main pillars, integration, engagement and voting (where applicable).

During 2020, we have discharged our stewardship responsibilities through two main frameworks: the 'what' (business practices), and the 'how' (business models). We are now starting to build a framework for stewardship under the 'where' angle (geospatial technology). This will be a key area of focus in 2021. We discuss these frameworks in detail in Principle 2 – Governance; Principle 4 – Managing risks; Principle 7 – Integration and Principle 9 – Engagement.

> "We believe stewardship may help to preserve and enhance the long-term value of client assets, address systemic-level issues by helping to accelerate the transition to a sustainable economy, and create positive environmental and social impact."



The figure below codifies our stewardship process and policy framework, which fully supports our investment philosophy.



Source: LOIM. For illustrative purposes only. There can be no assurance that the investment objectives will be achieved or that there will be a return on capital or that a substantial loss will not be incurred.

Talent development

The second action we have taken is to continually attract and retain sustainability talent, allowing us to give practical shape to our investment philosophy as it relates to investment stewardship and sustainability. In more detail, we are now privileged to have 16 employees fully dedicated to ESG and Sustainability. In order to reflect the complex and multi-faceted nature of sustainability challenges, the team brings together a diverse set of skillsets, including investment banking, macroeconomics, lifecycle analysis and data science. We discuss the teams in Principle 2 – Governance where we explain how their skills, experience and diversity facilitate our stewardship responsibilities.

Shaping investment offering

The third action we have taken is to shape our investment offering around five overarching themes in order to meet our beliefs and clients' needs.

Theme	Why	Investible strategies
Transition to a CLIC™ economy	Transition to CLIC™ is the most important drivers of future return and risk. The transition to CLIC™ will continue to accelerate in a Covid-affected world, powered by a positive feedback loop of economic and market forces.	Climate Transition Responsible Consumer Climate Bond Terre Neuve Natural Capital
Pockets of outsized growth exist, aligned to changing global trends	Global themes exist that create potential for out-sized growth across asset classes and geographies. Examples include digitisation, ageing populations and the economic transformation of Asian markets.	World Brands Golden Age Fin Tech Asia High Conviction China High Conviction
Hidden value can be found in established markets.	Although widely covered by asset managers and analysts alike, value exists for specialist managers with the knowledge and experience to identify hidden opportunities in established markets.	Swiss equities Swiss fixed income European HC equities European Family Leaders European fixed income
A requirement for income will persist in a perpetually low rate environment	With global growth likely to remain low amid unprecedented monetary and fiscal intervention, low rates will persist for years to come, highlighting a need for innovative income solutions.	Asia fixed income Crossover credit GFIO Inflation-linked bonds Climate bonds
Asymmetric investment solutions provide shelter and opportunity in uncertain times	The trend toward de-globalisation, polarised geo-politics and supply chain risk all point to increased volatility. Diversified portfolios and strategies designed to deliver asymmetric returns can give investors shelter in such uncertain times.	Convertible bonds All Roads

Source LOIM. Not all strategies may be available for retail investors in your country. Please contact your financial advisor for more information on these strategies.

Partnering with others

The fourth action is to continue to expand our partnership base with relevant national and international bodies to ensure that we are part of the wider conversation affecting stewardship and capital deployment. We also seek to provide knowledgeable inputs, voice our opinions, and embrace business innovation and regulatory changes promptly. In addition, we closely monitor all regulatory frameworks related to investment advice and products.

Through both LO Group and its operational entities, LOIM is part of the following associations and initiatives:

Associations and Initiatives	Level of engagement	Member since
CDP (formerly Carbon Disclosure Project) on Climate Change, Forests and Water)	Signatory	2004
United Nations Principles for Responsible Investment (UN PRI)	Signatory	2007
Sustainable Finance Geneva (SFG)	Active member	2008
Global Impact Investing Network (GIIN) Investor's Council	Founding partner/active member	2012
Swiss Sustainable Finance (SSF)	Founding partner and member	2014
Institutional Investors Group on Climate Change (IIGCC)	Member	2018
UN Global Compact	Participant	2018
B Corporation Certified	Certification	2019
Energy Transitions Commission	Member	2019
Task Force on Climate-Related Financial Disclosure (TCFD)	Signatory	2019
Business for Nature	Member	2020
The Circular Bioeconomy Alliance (founding member)	Founding partner	2020
Climate Action 100+	Participant	2020
The Finance for Biodiversity Pledge	Member	2020
Green Bond Principles, Social Bond Principles and Sustainable Bond Principles	Member (Investors)	2020
Sustainable Markets Initiative	Member	2020
UNEP Principles for Responsible Banking	Signatory	2020
Natural Capital Investment Alliance	Founding member	2021

Industry Associations	
Alternative Investment Management Association (AIMA)	Member
Asset Management Association Switzerland (formerly SFAMA)	Member
Association Française des Investisseurs Institutionnels (AF2I)	Member
Association Européenne des Institutions Paritaires (AEIP)	Member
Association of the Luxembourg Fund Industry (ALFI)	Member
European Fund and Asset Management Association (EFAMA)	Member
The Investment Association	Member
Pensions and Lifetime Savings Association (PLSA)	Member

Additionally, Lombard Odier participates in several key collaborative initiatives to encourage policy-makers and regulators to take ambitious action on climate change, including promoting the adoption of the TCFD reporting standards. These include:

- Signatory of the 2019 Global Investor Statement on Climate Change
- Signatory of the 2020 letter urging the US Securities and Exchange Commission to preserve shareholder rights
- Endorsed the 7 Priorities to Help the Global Economy Recover from the Energy Transition Commission in 2020

PRI Principles for Responsible Investment

A+

Strategy & Governance since 2017
Signatory since 2007

Certified B Corporation

1st

Global wealth and asset manager to be awarded B Corp certification

University of Oxford

1st

Endowed professorship of sustainable finance at any major research university

Part of the Sustainable Markets Initiative

Founding Member

of HRH Prince of Wales Circular Bioeconomy Alliance

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Memberships and signatories to advance sustainable investment

Climate Action 100+ · Energy Transitions Commission · Sustainable Finance Geneva · UN Global Compact · TCFD Task Force on Climate-Related Financial Disclosures · IIGCC The Institutional Investors Group on Climate Change

Source: LOIM. For illustrative purposes only. Awards and ratings may vary without notice. A high rating alone is not indictive of future performance.

Certifications

The fifth activity we have taken on relates to Certifications. It is extremely important for us to have ongoing external assessment of our work in order to minimise complacency and ensure our effort, position and ambitions in our sustainability and stewardship journeys are moving in the right directions.

Corporate level

- UN PRI: We submit an annual Transparency Report to the UN Principles for Responsible Investment (PRI). This includes a comprehensive review of our alignment with the guiding principles of the PRI.
- B Corp: Lombard Odier was the first global wealth and asset manager to obtain B Corp certification, one of the most widely recognised private sustainability certifications granted to companies that practice corporate sustainability at the highest level.

Investment level

- Towards Sustainability: We received the certification for two of our public funds in 2020. The label recognises the quality of our sustainable investment approach and the high standard to which we integrate sustainability-focused exclusions, analysis and stewardship into these strategies.

Research

- **Oxford University:** In September 2020, Lombard Odier launched a five-year partnership with Oxford University to foster research and teaching on sustainable finance and investment, with a particular focus on climate change, circular economy and nature.

Outcome

During 2020 we have codified our investment belief (the CLIC™ economic model): sustainability will be a key driver of returns. To support this, we present below our assessment of how our investment actions, activity and decisions have supported and guided stewardship.

Data infrastructure

- We continued to invest and expand the ESG data providers that we use to feed data points into our ESG and sustainability models. As we look at improvements, we have identified two areas of further progress for external data providers (employee gender and reputational risk), which will be added during 2021 (See Principle 8 – Monitoring providers).
- Our internal ESG methodologies have been updated; we moved from our ESG/CAR scoring to an ESG materiality mapping. This proprietary data tool gives practice recognition to our views on materiality.
- We have built forward-looking methodologies that allow us to measure the temperature of companies in our portfolio and their expected trajectory. The tool has been externally assured and verified and in 2021 we will release further internal updates to ensure the latest available data is reflected.
- We have built forward looking methodology that allows us to measure the manifestations of climate change, including chronic and acute events, as well as a near-real time tool for events developing on daily/weekly basis. The tool has been externally assured and verified and it will be launched during 2021.

Stewardship

As discussed, we have successfully created a stewardship function and integrated it at the heart of our sustainability approach and the investment process. As one of the three pillars of the SIRSS team (together with Research and Strategy), we have ensured that it has appropriate accountability mechanisms (the creation of the Stewardship Committee) as well as a direct line with investments and vice versa.

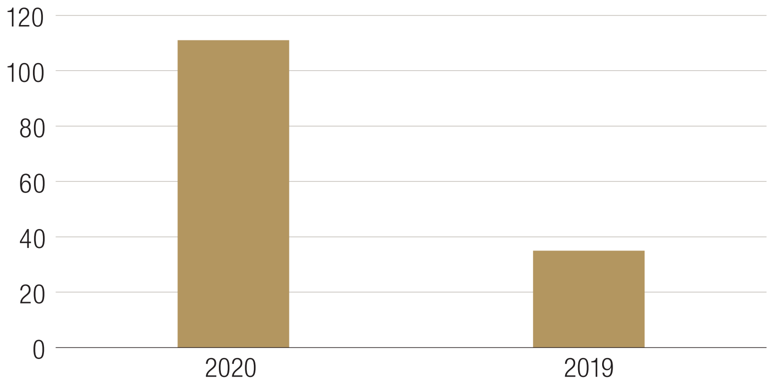
For example, investment professionals flag matters of concern to stewardship and stewardship flags matters to the investment team. Collaboration between both teams is a daily feature of our work. When assessing the effectiveness of the Stewardship Committee, we came to the conclusion that its remit ought to be expanded to include Sustainability. We thus changed the Committee name and remit at the end of 2020 and increased the resources allocated to stewardship, given the progressing internal collaborative nature of the team's work.

In terms of practical implementation of stewardship, the development of the stewardship function has allowed us to increase the number of engagements by 198% (compared to 2019).

We have designed our engagements to

- Inform our analysis and enhance our risk / return calibration, which links with our investment beliefs:
  - Encourage companies towards more sustainable business models and practices (particularly in governance), which links stewardship with our sustainability framework by our use of stewardship as a tool to unlock further value;
  - Provide disclosures of the material, information useful for decision-making that we believe to be relevant, which links with our ambition to contribute, as part of our investment belief, to the stability of the financial market that comes with comprehensive and easily available disclosures.

Total engagements 2020 versus 2019



Source LOIM. For illustrative purposes only.

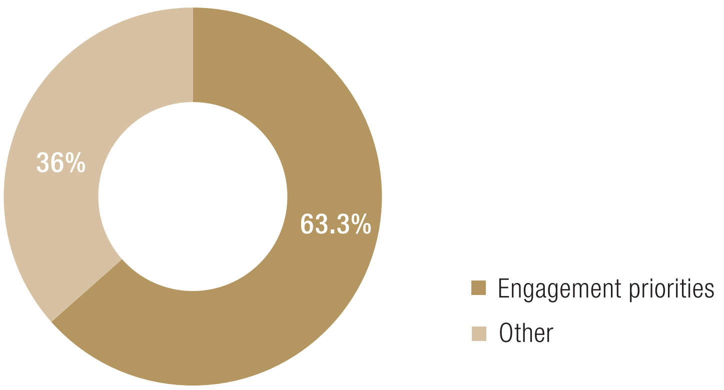
In addition, another tangible outcome of the link between investments and stewardship is our targeted approach. As a firm, we have set out two strategic engagement priorities, namely engaging for a move towards sustainable business models (underpinned by CLIC™, with an initial focus on net-zero business models, and business models that protect and harness natural capital) and engaging for improved ESG disclosures (thus underpinning best-in-class business practices).

We apply this approach to engagements across asset classes, both under business practices and under business models, for proxy voting, and wider engagements. For example, since early 2020, alongside the launch of our Climate Transition Sub-Fund, we have actively worked for the decarbonisation of business models by using the framework provided by the Oxford Martin Principles to engage with companies on their climate strategies and trajectory for emissions reduction. Since late 2020, alongside the launch of our Natural Capital Sub-fund, we have actively engaged on the issue of addressing natural capital and biodiversity factors in companies' business models, for example by offering input in formulating their own strategy and communication in relation to natural capital.

These stewardship engagement priorities are further discussed in Principle 2 – Governance; Principle 4 – Managing risks; Principle 7 – Integration; Principle 9 – Engagement; and Principle 12 – Voting. We firmly believe that by clearly defining and limiting where our stewardship activity can have a measurable outcome, we become net contributors to systemic gains and play a key role in enhancing long-term returns for our clients.

The graph below shows the breakdown of our engagements during 2020: 63% of them relate to our two strategic priorities, with the remaining 36% address other issues such as controversies, corporate governance, general ESG and proxy voting.

Engagement: priorities versus other



Source: LOIM. For illustrative purposes only.

In terms of voting, during 2020 we have been able to vote more and in a more targeted manner, concentrating on promoting strong traditional corporate governance practices (for example, boards that are majority independent and with the right mix of skills, background, knowledge, education and gender, executive pay structures that are aligned with performance and with business strategy); and CLIC™-practices (for example, voting against a remuneration policy when there is no alignment between a stated strategy of decarbonisation or protection of biodiversity in the company's business plan and the metrics driving the annual bonus and long-term incentive; or we may vote against some non-executive directors [especially nomination committee members] when we are not satisfied that the board has the necessary skills it needs on climate and natural capital), and this is discussed in more depth in Principle 12 – Voting.

Purpose & governance

Principle 2

› "Signatories' governance, resources and incentives support stewardship."[1]

[1] Financial Reporting Council's UK Stewardship Code 2020.

Governance, resources and incentives

Activity

Governance and oversight

Our governance of sustainability has two key centers of responsibility:

i. Our **Sustainability Steering Forum** oversees our sustainability philosophy, investment approach, and related policies;

ii. Our **CSR Steering Forum** ensures that our non-investment-related actions, operations and policies align with our sustainability values.

Supported by our private ownership structure of six Managing Partners at the Lombard Odier Group level, our sustainability philosophy, investment approach, and related policies are overseen by a Sustainability Steering Forum, which meets at least every two months, but more frequently as needed. The Sustainability Steering Forum is also responsible for agreeing and reviewing the firm's overall objectives for its responsible investment activities.

Both forums consist of senior management representatives from across our business, including the wide range of groups involved in driving Lombard Odier's sustainability work. Both the Sustainability Steering Forum and the CSR Steering Forum report to the Board of Managing Partners of Lombard Odier. Principle 5 – Review explains in more detail our review process and Principle 9 – Engagement and Principle 12 – Voting also discuss how our Governance structure has supported changes to engagement and voting policies.

Additional groups responsible for layers of oversight and governance around the implementation of our sustainable investment philosophy and policies report to the Sustainability Steering Forum, and one or more members of the management team oversee each group:

- **Stewardship Committee:** Our Stewardship Committee is responsible for overseeing and guiding our stewardship responsibilities for internally managed funds. It includes the CEOs, representatives from across our asset classes, dedicated sustainability teams, and the Compliance, Risk and Legal departments. It reviews and provides guidance on voting and engagement and serves as an escalation mechanism when necessary. The Committee is responsible for the final sign-off on voting and engagement reports to boards and committees.

- **LOIM Sustainability Forums:** Within each asset class or investment team, investment professionals act as internal sustainability specialists in close collaboration with our two dedicated sustainability teams. LOIM Sustainability Forum members are particularly involved in the implementation and monitoring of Sustainable Investing policies and features across the portfolios or mandates of each investment team.

Human Capital

As explained in Principle 1 – Purpose, we have taken an integrated approach to stewardship, and have some professionals specifically dedicated to sustainability and ste wardship. However, all of our investment professionals receive ESG training. Although during 2020 the geographical location has become less relevant, as we moved to remote working, we note that our sustainability professionals are based both in London and Geneva.

Number	Number of employees	Average years of experience	% of women
Investment professionals	134	16	15%
Investment Professionals dedicated to sustainability	16	14	31%
Professionals	237	18	42%
Total	**387**	**17**	**32%**

Source: LOIM. For illustrative purposes only. Awards and ratings may vary without notice.

Sustainability teams

Our Sustainable Investment Research, Strategy & Stewardship team (SIRSS) is responsible for identifying, analysing and mapping material sustainability challenges that are likely to affect the long-term viability of companies' business activities and models. The team analyses the exposure of different sectors and industries to sustainability challenges, and companies' susceptibility to those challenges. The team draws on third-party data suppliers (discussed further under Principle 8 – Monitoring providers; and we explain our engagement work on ESG data in Principle 9 – Engagement.The team develops and maintains proprietary, internal datasets to evaluate companies' positioning with respect to sustainability challenges. The team also has developed and launched new sustainable investment products and solutions and produces verification of green, social and sustainability bonds.

Our ESG Solutions team focuses on companies' business practices and government sustainable policies. The team is responsible for measuring various environmental impact metrics and the alignment of portfolios temperature with the Paris Agreement on climate change. The team has conceived, developed and distributed (for investment integration) various ESG assessment tools such as business practices scorings, controversy indicators and impact metrics. It collects comprehensive conventional and alternative data in order to assess companies' sustainability through their business practices and their products/services offering, allowing the creation of our in-house scoring system which verifies that companies' business practices comply with the highest international ESG standards for their industry and measures their alignment with the United Nations Sustainable Development Goals (SDGs).

Human capital development

Sustainability is central to our approach to investment across the vast majority of our strategies and asset classes. We consider it essential that our employees are regularly updated on the latest developments, tools and technologies relating to sustainability, ESG integration and stewardship. Our dedicated sustainability teams regularly provide comprehensive training on our sustainable investment frameworks to ensure high levels of understanding and engagement. Principle 7 – Integration) explains formal and informal training in more detail.

Below we provide some specific examples of formal training provided:

- Following the launch in September 2020 of a five-year partnership with Oxford University, the first 'Oxford-LO Sustainable Finance Accelerator' course was delivered remotely during autumn 2020 to selected staff.

- In 2019, LOIM introduced Lunch & Learn sessions, which are open to all employees and offer a program of educational sessions covering all aspects of sustainable investment from our philosophy, developments in our capabilities and offering, to integration into specific products. It is carefully designed to focus on the most pertinent developments and to ensure high levels of engagement, understanding and consistency across our workforce. To account for the impact of Covid-19, during the majority of 2020, these sessions were amended to focus on employee mental and physical wellbeing and resilience.

Sustainability is also included in our induction program for all new joiners.

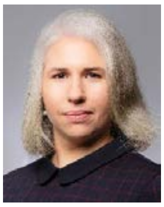
Our internal intranet has an increased focus on sustainability content (thought leadership and strategic developments).

Over the past year, we provided training sessions to our investment teams on the new tools and methodologies being deployed (ESG Materiality Mapping, LOPTA, physical risks tool, engaging for net-zero).

Finally, as part of its Human Resources policy, Lombard Odier gives its employees easy access to a complete professional training program including certificate ESG courses like the CFA UK ESG certification.

Stewardship experts

Please find below the biography of the investment professionals highly involved in the LOIM stewardship process and our assessment of how their skills, knowledge and experience have been effective in supporting our stewardship priorities. A clear outcome is that as our work progressed during the year, the need for further resources and specific skills was clear. The information below reflects our stewardship workforce structure as of 2020 year end.



Rebeca Coriat – London office

Rebeca is the Head of Stewardship at LOIM and has 13 years' experience in stewardship.

Active ownership development, roll out and implementation, ESG and sustainability integration, engagement, proxy voting.

Theme focus: Corporate Governance of Sustainability, and CLIC™ stewardship.

Rebeca's skills and knowledge have facilitated the implementation of LOIM's strategic investment stewardship objectives, including governance of the Stewardship function, following the creation of the Stewardship Committee in Q1 2020 under her guidance. Rebeca has built, in collaboration with other functions and colleagues, the current Stewardship framework. Rebeca's prior ESG integration experience has been key in further deepening our own integration. Her engagement and proxy voting expertise have allowed us to undertake targeted engagement and voting, as well as a realignment of our policies. Rebeca read Politics at Universidad Complutense de Madrid and Institut D'Etudes Politiques, Grenoble and holds a Masters in Global Politics from the LSE.

Nicolas Barben – Geneva office

Nicolas is ESG Analyst at LOIM, having joined in 2013.

Qualitative analysis & quantitative modelling for countries and companies' sustainability assessment, portfolio analysis and reporting, carbon research.

Theme focus: companies' disclosures.

Nicolas, throughout his tenure at LOIM, has been a key contributor to our in-house ESG database and scoring system (now Materiality Mapping). He routinely supports and guides our investment colleagues when they are faced with disclosure issues. His expert knowledge of sector level materiality of ESG issues supports and of carbon disclosures supports the implementation of two strategic priorities: engaging for improved disclosures and decarbonisation of business models. He also supervises the relationship with ESG data providers. Nicolas earned a Masters in Economics and is a Geography Graduate, both from the University of Fribourg.

Anouchka Miquel – Geneva office

Anouchka is Stewardship Analyst at LOIM. She joined LOIM in 2019 as Investment Proposal Writer and became Stewardship Analyst in end of 2020.

Engagement (individual, collective), ESG and sustainability research, ESG and sustainability integration, reporting and impact investing.

Theme focus: sustainability research.

Anouchka's work is inherently linked to the delivery of our stewardship objectives: she provides research on issues relating to qualitative ESG and sustainability analysis thereby supporting the investment function on integration, specifically engagements. Her previous experience as an Investment Analyst focusing on agriculture, food and waste management businesses is linked to her supporting our CLIC™ outlook. Anouchka takes the lead on stewardship reporting given her knowledge of our client base and client expectations. With her ability to think outside the box, Anouchka will focus in 2021 on further strengthening our IT of stewardship. Anouchka holds a BSc in International Hospitality Management from École Hotelière de Lausanne with a specialisation in finance and a CFA ESG certificate.

Michael Urban – London office

Michael is Senior Sustainability Analyst at LOIM.

ESG integration, economics, sustainable regulation, climate change, circular economy.

Theme focus: transversal to Research, Strategy and Stewardship.

Michael provides useful insights from market regulations and acts as a link between the Research, Strategy and Stewardship pillars of the SIRSS team. He provides research on key themes that support our engagement priorities. On climate transition, he initiated research on investment on fossil fuel in the banking industry. His strong academic background and network fully supports our work to become a center of applied excellence for sustainability-related knowledge. Michael holds a PhD in Economic Geography from the University of Oxford, a MSc in Environment, Politics and Globalisation from King's College London and a BSc in management from HEC Lausanne.

Source LOIM. For illustrative purposes only. The investment management team is subject to change without prior notice.

Sustainability teams

In addition to the four people above, we present a high-level view of the experience and expertise of our dedicated sustainability investment professionals. We believe that the diversity we have in terms of skills, experience, knowledge, educational background, and languages spoken as well as gender and nationality facilitates creative thinking, healthy and constructive criticism. As the team expanded in 2020, we have been privileged to witness how our increasing diversity has led to more capacity to innovate as well as more effective decision-making, which have created a powerful and intangible tool to support our wider sustainability and stewardship priorities.

Name	Title	Expertise	In the industry since
		Sustainable Investment Research, Strategy and Stewardship	
Christopher Kaminker PhD FRGS	Head of SIRSS	Cross-asset research & strategy, capital markets, stewardship, governmental policy, energy and environmental economics, climate change	2005
Ruairidh Cumming	Quantitative Analyst	Quantitative modelling, data science, machine learning, mechanical engineering	2017
Laura Garcia Velez	Quantitative Analyst	Geo-information science, earth observation, climate science, physical risk, environmental engineering	2013
Foort Hamelink PhD	Solutions/ ESG research	Quantamental investment solutions, data science, ESG integration, carbon pricing, factor investing	1990
Thomas Hohne-Sparborth PhD	Senior Sustainability Analyst	Economics & econometrics, data science, climate change, circular economy, mobility, supply chains, mining	2008
Khangzhen Leow	Quantitative Analyst	Quantitative analysis, climate change, emissions, Paris Agreement, carbon pricing, abatement costs	2020
Sarah Manvel	Team Assistant	Organisation and communication, copywriting, copyediting, proofreading, data entry	1999
		ESG Solutions	
Robert de Guigné	Head of ESG Solutions	Lead on modelling of sustainability assessments, ESG integration in portfolios across all asset classes. Advisory for tailor-made sustainability investment solutions	2007
Elise Beaufils	ESG Quantitative Analyst	Qualitative & quantitative modeling for companies & countries' sustainability assessment, portfolio analysis and reporting, carbon research, machine learning	2018
Basile Nguyen PhD	ESG Quantitative Analyst	Quantitative modelling for companies & countries' sustainability assessment, portfolio analysis and reporting, machine learning	2020
		CLIC™ Solutions team	
Kristina Church ACA	Head of CLIC™ (Sustainable) Solutions	Equity and cross-asset research & strategy, mobility, electrification, smart cities, climate change, circular economy, natural capital	2003
Richard Tyszkiewicz	Client Portfolio Manager CLIC™ (Sustainable)	Institutional investment consultancy, ESG portfolio strategy and implementation	1991
		Corporate Social Responsibility	
Ebba Lepage	Head Of Corporate Social Responsibility	Corporate Social Responsibility strategy and execution, net zero pathway, carbon footprint, B Corp, UN PRB, client and employee engagement on CSR topics	2007

Name	Title	Expertise	In the industry since
		Expert from our investment boutiques	
Alina Donets	Portfolio Manager	Portfolio management in long-only equity funds, public equity investing, sustainable and thematic investing, ESG integration, stewardship, equity research	2012
Paul Udall	Portfolio Manager	Portfolio management, equity sustainability, targeting climate change and disruptive clean technology	1995
Maxime Perrin	Client Portfolio Manager	Integration of Sustainability in investment processes, macro-economic analysis, convertible bond valuations	1997
Ashton Parker	Head of Credit Research	Fundamental credit analysis, credit portfolio management	2000
Pascal Menges	Head of Equity Research and Investment process Client Portfolio Manager	Equity research, valuation, capital markets, portfolio management	1995
Yannik Zufferey	Chief Investment Officer, Fixed Income	Fixed Income strategy, portfolio management	1999

Source LOIM. For illustrative purposes only. The investment management team is subject to change without prior notice.

Service providers' resourcing

Our governance structures fully support the investments necessary to ensure sustainability integration and the effective implementation of our stewardship responsibilities. In Principle 8 – Monitoring providers; we discuss in more detail how we have ensured that our service providers meet our needs and expectations, and what actions we have taken when this was not the case.

> “Leveraging the dedicated IT infrastructure that we have developed over the years, conventional data and alternative data are combined within our systems to make them fully available to our investment teams. This focus on raw data, and the proprietary model we build to analyse it, gives us a better understanding of the true sustainability of companies or countries and their resilience to the transition to a more sustainable economic model. We can consequently forge an independent opinion on the real quality of issuers as regards of sustainability.”

In addition to our proxy research provider which supports vote analysis and execution, we use a full set of ESG data providers in order to enrich our stewardship analysis. We work with several third-party research providers:

Provider	Focus	Speciality
ISS	Proxy vote research and vote execution	Provides research, analysis and recommendations for proxy voting, as well as the platform for vote execution
ProxyInsight	Shareholder voting intelligence	Provides comprehensive, aggregated and easily comparable information on global voting
Sustainalytics	Primary ESG data provider	Provides comprehensive ESG raw data on a large universe, as well as controversies monitoring, products/activities involvement tracking, and identification of companies involved in controversial weapons
Inrate	Environmental data and metrics for Swiss companies	Provides comprehensive ESG raw data and controversies involvement with a specific focus in our home market, especially on small and mid caps
Trucost	Environmental data provider	Provides environmental data that helps us to measure the environmental impact of our investments (greenhouse gas emissions scope 1,2,3 used to calculate the carbon footprint of our portfolios and compare their carbon intensity, water consumption, waste generation, NACE sector involvement, electricity generation and consumption by types of sources, air and water pollutants, physical risks)
Carbone 4	Climate change adaptation	Provides carbon impact metrics with induced emissions and emissions savings data
CDP	Collective CDP database	Provides detailed data on companies carbon emissions and climate change strategies
Exiobase	Global, detailed Multi-regional Environmentally Extended Supply and Use / Input Output database	Database provides data at an advanced level of consistent detail in terms of sectors, products, emissions and resources for all the countries covered, including 43 countries, 160 industry sectors, and 200 product categories
FactSet GeoRev	Companies' revenue exposure in regions impacts by geopolitical, macroeconomic, and market risk	Enabling the analysis of the geographic footprint of a company based on sources of revenue versus country of domicile
Bloomberg	Technology enabler	

Source: LOIM. For illustrative purposes only.

Outcome

Stewardship framework and governance

2020 was a pivotal year at LOIM. As discussed, we built and rolled out a stewardship function and integrated it into the existing governance framework. We have defined stewardship as a key enabler and contributor to our investment philosophy (CLIC™) and appropriately invested in technology and data to support our views and commitment towards a CLIC™ economy. Our governing bodies and fora have also supported the development of the CLIC™ investment philosophy and worked as a key accountability mechanism internally.

As we advanced in our work during the year, it became clear that stewardship is closely linked to sustainability. This led to a discussion during our Q4 Committee to expand its remit to formally include sustainability in the title (because the Committee quarterly conversations already included wider sustainability). It was thus approved at the December 2020 Stewardship Committee to change the name to Sustainability & Stewardship Committee.

Human capital

The exponential growth in sustainability teams reflects the commitments taken by management to appropriately resource the investment, sustainability and stewardship vision. We are satisfied about the diversity of the teams and we will continue to promote diversity (in its widest sense) in new and current talent, in close collaboration with our HR function.

The firm does not currently incorporate formal ESG/SRI objectives including engagement into its remuneration policy. This has been discussed during 2020 with the HR function, including our Head of HR and Portfolio Managers as well. Work is underway to address this, which will continue in 2021.

Purpose & governance

Principle 3

› "Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first."[1]

[1] Financial Reporting Council's UK Stewardship Code 2020.

Conflicts of Interest

Context

LOIM is committed to the highest degree of professionalism and integrity in doing business. We have an over-arching Group policy addressing Conflicts of Interest, a specific Conflicts of Interest in Stewardship section in our Engagement policy and a dedicated section in Voting guidelines.

Group-wide policy

Lombard Odier's Conflicts of Interest Policy specifies that 'regulated entities and employees within the Firm are required to take all appropriate steps to identify and to prevent or manage conflicts of interest between them and their clients, or between one client of the Firm and another'.

The Policy also lists the types of conflicts identified by the Firm (Firm vs Clients, Client vs Clients) and discusses how it manages Conflicts of Interest, which emphasizes the escalation spectrum: 1) conflicts of interest should be avoided whenever possible; 2) when identified, employees have a duty to ensure the fair treatment of all the parties involved and make appropriate disclosures; and 3) when a conflict of interest cannot be avoided, such conflicts must be disclosed to all parties and reported to Compliance.

A key element in Lombard Odier's approach to identifying, managing and mitigating real or perceived conflicts of interest is the governance structure that has been built for its management:

- Key business decisions are taken by the Board or the LOIM Management Committee, and are recorded
- A Remuneration Policy has been established to ensure that there is no unnecessary risk taking and to encourage responsible business practices
- The Risk and Compliance Committee, periodically, and at least annually, provides a written report to the Board and the Risk and Compliance Committee covering:
  - The operation of the Firm's conflict of interest policy
  - Identified conflicts recorded in the Firms' conflicts of interest register
  - An assessment of the effectiveness of the organizational and administrative arrangements established to manage conflicts of interest

Linked to our review policy process (Principle 5 – Review), our Conflicts of Interest policy was reviewed at the end of 2020. Our Engagement Policy was also adjusted to include a more wide-ranging description and explanation of how real or perceived Conflicts of Interest may impact our Stewardship work, specifically Engagements and Voting.

Our ownership and governance structures further support our Conflicts of Interest architecture.

Lombard Odier is an independent family business owned by six managing partners who represent the seventh generation of bankers managing the firm.

- LOIM entities are wholly owned subsidiaries of LO Holding SA, a private holding company, structured as a *société anonyme* (corporation) incorporated in Geneva, Switzerland.
- LO Holding SA is wholly owned by Compagnie Lombard Odier SCmA and is a holding company incorporated in Geneva, Switzerland. The managing partners solely own Compagnie Lombard Odier SCmA, therefore no further economic or voting interests are held by external individuals or entities.

The managing partners (as at 31 December 2020).

Source: LOIM. For illustrative purposes only. The investment management team is subject to change without prior notice. From left to right: Denis Pittet · Patrick Odier · Hubert Keller · Frédéric Rochat · Annika Falkengren · Alexandre Zeller.

> “Given our independent structure, we believe that LOIM is free from some of the conflicts of interests faced by publicly held financial institutions. However, we acknowledge that conflicts of interest may indeed sometimes occur when we discharge our stewardship responsibilities, especially when we vote and engage on behalf of our clients’ shares.”

Activity

Stewardship & Conflicts of Interest

We seek to act in the interest of all our clients when we carry out engagement and voting.

In line with the Group-wide Conflicts of Interest policy and the expansion of our stewardship work in 2020, we have updated and expanded the dedicated conflict of interest section in our engagement policy.

This section gives public shape and recognition to LOIM's practices around conflicts of interests in the stewardship arena, namely: we are committed as a fiduciary to all our clients and we always strive to act in their best interest. As such, we actively identify any potential, real or perceived conflict of interest, manage it and mitigate any risks. We do so to prevent them from influencing our vote decisions, engagement and accompanying investment processes.

Our Conflicts of Interest in stewardship process is an escalation mechanism in itself, allowing us to move up and down the range of potential actions we may take when we may take when faced with a real or perceived conflicts of interest. It includes three main entry points:

- identification of a conflict (stock selection, voting – analysis/discussion – and instructing final votes, before, during and after an engagement).
- assessment of a conflict: this step helps us ascertain whether the conflict is material enough that it needs to be escalated.
- escalation of a conflict: if deemed necessary, the matter will be escalated first to the respective PM, then to the respective CIO, and finally to the Stewardship Committee.

For voting, such processes include an over-ride process, whereby our Stewardship team is notified of any conflict of interest that would arise in connection with our exercise of voting rights.

For engagement, such processes include structures that ensure that no investee company is favoured in the engagement identification and engagement rollout process. Within the engagement itself, we have procedures highlighting the most appropriate interlocutors for certain engagement topics; for example, we will not discuss a remuneration policy with the beneficiaries of the policy, and we won't generally accept the presence of company advisors during an engagement call.

Conflicts of Interest are also discussed under our Principle 2 – Governance ; Principle 7 – Integration and Principle 11 – Escalation.

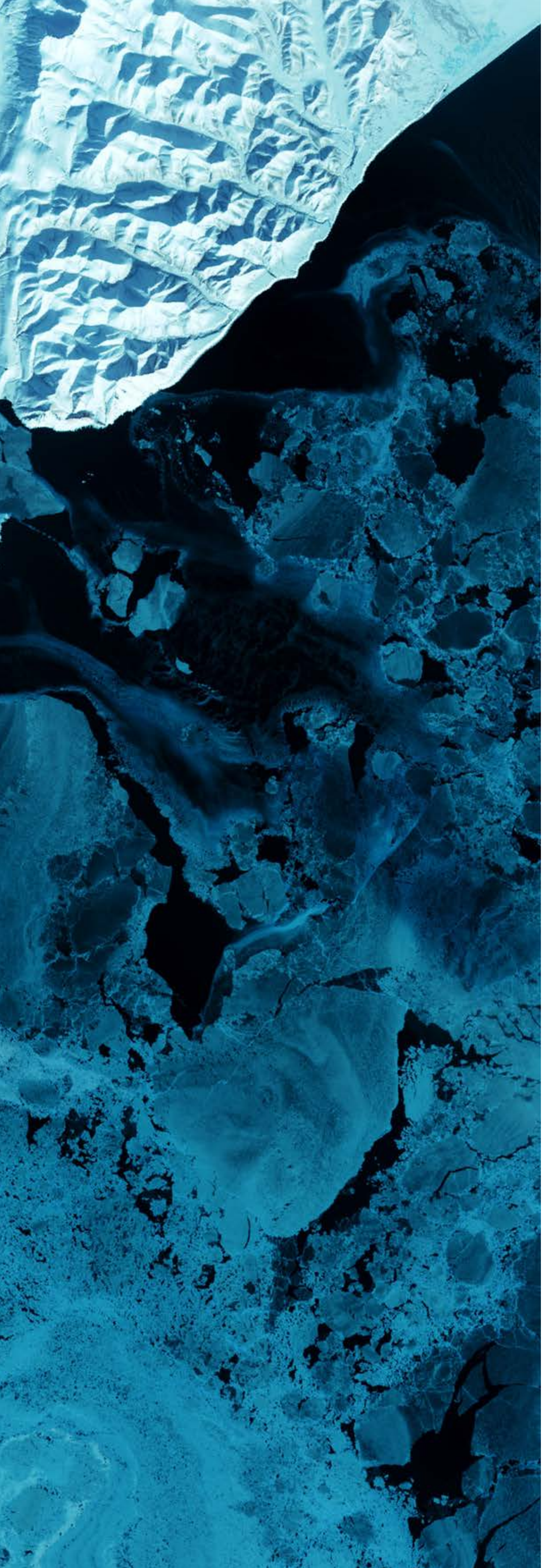
Conflicts of Interest may arise:

- when an investment is also a client;
- where the interests of two or more of our clients are in conflict;
- when a LOIM employee is also a director of an investee company.

Outcome

During 2020, we have paid close attention to conflicts of interest, given the roll out of our stewardship function, with increased voting and engagement. We have particularly monitored the conflict identification phase in order to prevent any real or perceived conflict from materializing. This has allowed us to stop conflicts from happening and undertake further escalation. Some of the conflicts we have identified and managed this year:

- the desired voting instructions of a client being different to those recommended by our proxy guidelines. As we have a preference not to instruct split voting (although operationally possible), we engaged with the party to better understand their views on the vote. It became clear that their views were informed, researched and justified. We then engaged with the company itself in order to get a complete picture. We instructed votes that took into account the conflict (acting in the interests of all clients).
- during some engagements seeking to better understand business practices, we have had CEOs or CFOs attending the calls as well. Overall, we think this is positive, as it sends the message that those responsible for implementing strategy are also taking responsibility for ESG and sustainability matters. Our conversations included remuneration matters, at which point, we have been stern in stopping the conversation, explaining that it would not be appropriate to discuss the matters with the beneficiaries being present.



Purpose & governance

Principle 4

› "Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system."[1]

[1] Financial Reporting Council's UK Stewardship Code 2020.

Promoting well-functioning markets

Activity

Risk identification LOIM framework

We are an independent group and we do not invest in proprietary capital. As an institution, we are not a globally systemic one. The way we look at risk relates to the risks to which the portfolios we are managing can be exposed, these being systemic risks. Back in 2008, systemic risks were exposure to derivatives market, whereas today, the next frontier of what we see as being a key risk is the sustainability risks. We believe that tilting our portfolio at this stage towards companies that are transitioning is a core part of our investment building blocks and our risk management approach.

We spent the last 18 months creating a framework that allows us to identify key systemic challenges and accompanying risks, as well as tools to respond to these risks. This research process is anchored our view from WILD to CLIC™. In our response to sustainability-related systemic risk, as discussed, we emphasise an economy that is circular, lean, inclusive and clean. We have addressed these risks in 2020 in relation to climate change, natural capital and physical risks.

Climate change

Climate-related risk identification and management are intrinsic to our investment process. The transition to a low-carbon and climate-resilient economy is one of the most important cross-cutting features of this CLIC™ economic transformation. Decarbonisation commitments are increasingly enshrined in law by many countries and are being adopted directly by companies. This is consistent with the reality of the transition to net-zero emissions, which will require concerted action across all sectors of the economy. It is, however, remarkably complicated for asset owners to invest sustainably, because of a lack of standards and definitions, incomplete disclosure of data and nascent understanding of the decarbonisation pathways that are particular to individual industries and geographies.

To address the above systemic threats posed by climate change, we have taken a science-based approach to develop in-house systems to assess and manage transition as well as physical risks. Our approach is determined by how we approach our contribution to climate mitigation and climate adaptation & resilience through our own operations as well as our investments.

> “In particular, we believe it is vital to quantify the temperature trajectory of individual companies within our investment universes. This means assessing the degree of alignment of companies to the decarbonisation pathways implied by the goals of the Paris Agreement, which seeks to limit global warming to 1.5-2°C.”

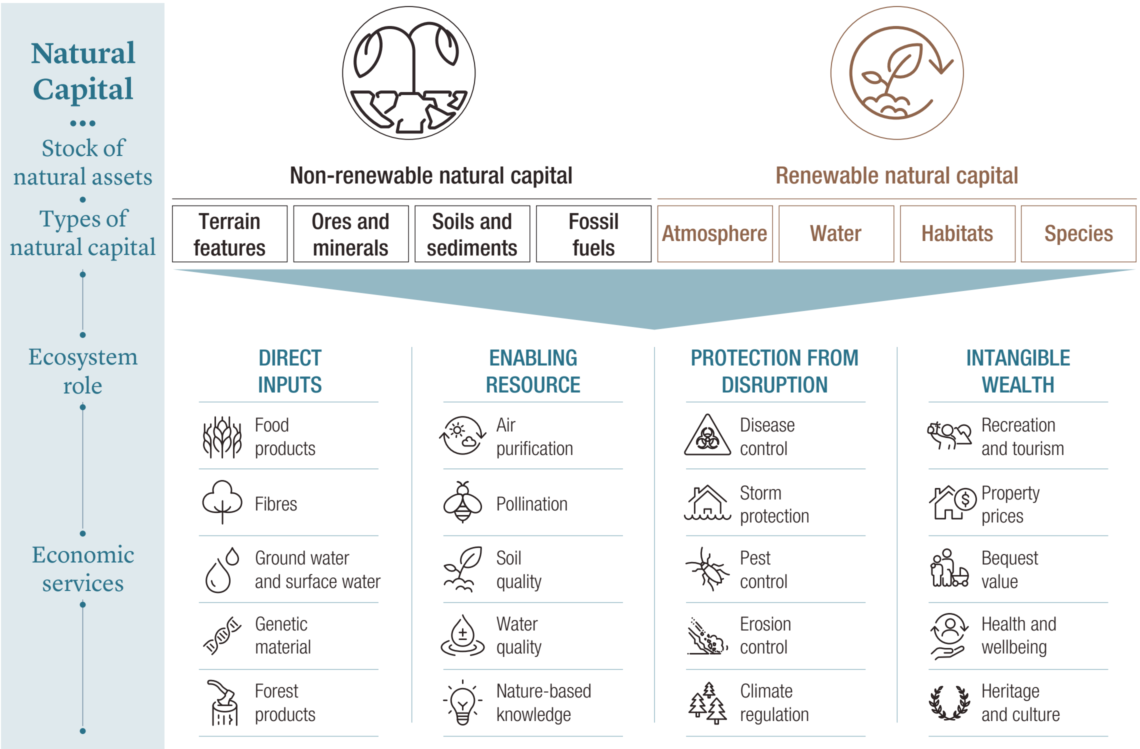
For example, a company that is on a trajectory aligned to a 3°C outcome might be cutting its direct and indirect CO_2 and greenhouse gas emissions to some extent, but is not decarbonizing at a pace sufficient to meet the goals set by the Paris Agreement. This may lead to more stringent operating circumstances, loss of competitiveness, restricted growth prospects and asset stranding; all having a negative impact on future profitability.

Natural capital

Over 50% of our economy, today, is moderately or highly dependent on natural capital.[1] Natural capital includes all of the earth's natural resources such as our soils, forests, water reserves, ores and minerals. These also forms the basis for various ecosystem services, such as pollination, which is now threatened by declining insect populations.[2] Similarly, in the USD 1 trillion pharmaceutical industry, as many as 63% of new drugs rely on natural products, but are put at risk by declining biodiversity.[3] Natural capital also protects our cities, forms the bedrock of our tourism industry and supports the value of our real estate.

While many industries vitally depend on nature, they also have a propensity to destroy it, and through this economic model, we have crossed four key planetary boundaries (climate change, species, habitats, soil and sediment).

To address this risk we are working to develop the necessary metrics allowing us to track and measure progress on the protection of natural capital.



Source: LOIM. For illustrative purposes only.

[1] As much as USD 44 trillion of our GDP is moderately or highly-dependent on nature according to the The World Economic Forum, Nature Risk Rising (2020) / [2] Biodiversity Finance, http://biodiversityfinance.net/about-biofin/what-biodiversity-finance / [3] Schmidt BM, Ribnicky DM, Lipsky PE and Raskin I, Revisiting the ancient concept of botanical therapeutics, Nat Chem Biol 3(7): pp360-366, 2007.

Physical risks

These refer to the manifestations of a changing climate, and include both chronic (e.g. water stress) and acute events (e.g. floods). We believe it is vital to quantify the physical risks of individual companies within our investment universes.

Considering that the intensity and frequency of physical risks vary depending of the location, the nature of LOIM physical risk tool is geo-spatial. The tool, developed during 2020 and to be launched in 2021, determines the exposure of a company's assets to six hazards (river floods, coastal floods, wildfires, heatwaves, tropical cyclones and water stress) by 2050 under different climate scenarios. The risk scores for each hazard are aggregated at a company level using a simple average approach (e.g. aggregating all assets scores belonging to a specific company). A measure of materiality is also provided, indicating the percentage of assets at "high risk". The analysis of both metrics allows characterizing both companies with a high average exposure to a specific hazard, but also risky assets within their portfolio. This may lead to direct and indirect impacts of investments, including the disruptions of operations and supply chain, but more broadly macro-conditions affecting the resilience of the broader business environment.

Risk identification (process and investment alignment)

At Lombard Odier, we follow a three-step iterative, ongoing process to identify and manage sustainability (systemic) risks.

Negative screening

We apply negative screening techniques designed, for example, to exclude sectors that can be considered 'unsustainable' or 'unethical', as well as companies that breach internationally-agreed standards or norms (i.e., child labour and other complicit violations of human rights as defined by the United Nations Global Compact principles). We have three levels of negative screening:

i. Group-wide exclusions

Reflecting our Group policy on controversial investments, we systematically exclude:

- Companies involved in the production or distribution of controversial weapons.
- Financial instruments directly linked to essential food commodities.
- Securities relating to any countries, companies, entities or individuals subject to sanctions by the UN, EU, US and/or Switzerland, as well as relevant local sanctions.

ii. SRI Restrictions

In addition to the above, we believe certain companies and sectors are unsustainable in the long term and should be subject to exclusion in actively managed funds. Companies in the tobacco, thermal coal, and unconventional oil & gas sectors are subject to thresholds to determine whether they should be excluded. These restrictions are imposed on a 'comply or explain' basis whereby a stock that falls within the threshold will be flagged to the manager. These exclusions can only be over-ridden with the approvals of the relevant CIO and are subject to regular risk review by an internal committee, and shared quarterly with the Stewardship Committee.

For active strategies, we would also normally look to exclude companies impacted by the most severe controversies from our responsible investment universe unless there are extenuating circumstances, with lower-level controversies subject to ongoing monitoring.

iii. Additional exclusions / Restrictions

In some cases, our strategies may apply additional values-based exclusions or restrictions that are individual to the fund, or to individual client mandates upon request.

Sustainability risk assessments:

As discussed in Principle 1 – Purpose, Lombard Odier's sustainable investment framework covers two dimensions of corporate sustainability: What businesses do (their business model) and how businesses operate (their business practices). For each dimension, we focus on the most financially material issues to the sector and industry. In our view, both dimensions are essential to better inform investment decision-making based on in-depth, forward-looking analysis of how well companies are positioned for the transition to a sustainable economy.

Active engagement & voting

As discussed in Principles 1– Purpose, Principle 4 – Managing risks, Principle 9 – Engagement, Principle 10 – Collaboration and Principle 12 – Voting, based upon the intelligence and analysis gained from our dedicated sustainability teams, we address risks that are financially material at the systemic, sector or company level through engagement and voting, either directly or through collaborative initiatives. Our dialogue with companies tests and challenges their approach to the sustainability factors we think are most material to their prospects and will seek to influence their sustainability positioning in areas we think are weak or where there is room for improvement.

We place great importance on being active stewards with debt issuers, and believe the characteristics of corporate credit lend themselves especially well to stewardship. In particular, engaging in dialogue with companies is critical to assessing creditworthiness because it improves our understanding of the issuer's risk profile.

When it comes to exercising our equity voting rights, we look to form an aggregated view across our asset classes as much as possible. As such, our voting is often reflective of the engagement views and objectives of our fixed income teams (Reporting under Principles 9 – Engagement & Principle 10 – Collaboration explains in more detail our engagement approach).

Engagement

Engagement on sustainability issues allows us to go beyond systematic data screening and integration by testing, challenging and influencing a company's sustainability profile. Engagement is therefore part of our fundamental investment process. We carry out engagement across our asset classes relating to business practices and business models. More specifically, on climate transition, we have engaged companies using the Oxford Martin Principles Framework. The Framework has allowed has to carry out wide-ranging engagements with companies, and we report on the outcomes in the section below.

Proxy voting

We recognise that exercising voting rights is an important part of investment management and a key component of the stewardship activities we undertake on our clients' behalf. Exercising voting rights on behalf of our clients allows us to express our view on critical matters affecting our investee companies, and also companies' impact on societies and the environment. In doing so, we consider matters (this list is not exhaustive) such as strategy, corporate governance, share capital management, shareholders' rights, audit issues, transparency, disclosure, remuneration, social and environmental matters and companies' alignment with the transition to a low-carbon and climate-resilient economy.

These principles reflect our belief that sound and solid corporate governance structures and the effective management of social and environmental risks create a framework within which a company can be run in the long-term interests of its shareholders and stakeholders. Our voting policy, guidelines and changes during 2020 are discussed in detail under Principle 12 – Voting, and we also provide an overview under Principle 1 – Purpose and Principle 7 – Integration.

Outcome

As of 2020 year-end, we have made substantial progress in addressing systemic sustainability risks on temperature alignment, climate-related risks and natural capital. The section below discuss the outcomes of our work on matters relating to the proprietary frameworks we have developed, partnerships with academia we have entered into, initiatives we have joined or co-founded to contribute and further enhance progress in managing these risks, and engagement and voting.

As discussed earlier, in September 2020, Lombard Odier and the University of Oxford formed an initial five-year strategic partnership. Our LOPTA tool [discussed below] and Physical Risks tools have undergone a rigorous peer-review by world-leading experts from Oxford University's Smith School of Enterprise and the Environment (SSEE) and the Environmental Change Institute (ECI). Our continuous efforts to foster collaborative work with academia as well as other industry leaders in finance and science-based climate data climate are key components of our contribution to the functioning of financial markets.

Climate change: development of a temperature tool

To address climate change as a systemic risk, we have launched The Lombard Odier Portfolio Temperature Alignment (LOPTA) tool.

LOPTA allows us and our clients to make informed decisions on investments' alignment with the objectives of the Paris Agreement. LOPTA provides temperature metrics for over 23,000 companies and enables us to calculate the overall temperature of entire portfolios. In December 2020, the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) recognized our LOPTA tool as a leading temperature alignment tool. For more details, please refer to the full report published by the TCFD at: https://www.tcfdhub.org/wp-content/uploads/2020/10/PAT-Report-20201109-Final.pdf.

Through this approach we help our clients understand the decarbonisation targets and pathway of their portfolio companies through a single and easy-to-use metric. LOPTA has also become a key element in our stewardship work, facilitating and promoting discussions between investment and stewardship specialists leading to temperature alignment enhanced engagement and voting and portfolio adjustment when necessary.

Case study

Airline industry, US.

Engagement background

We wanted to engage with a company in the airline industry that LOPTA flagged as being an issue, despite its having already taken important steps towards decarbonisation. It was important to us to tie the engagement with the macro context, as even before the pandemic began the industry as a whole was facing the challenge of reducing its carbon emissions in line to goals to reach net-zero.

What did we discuss and asked for?

The company confirmed its commitment with the ultimate goal of decarbonising aviation, as it seeks to reduce emissions by 50% by 2050, relative to 2005 levels. The strategy for emissions reductions rests on building a more efficient fleet, reducing emissions through carbon offset and the use of alternative fuels. We emphasised that aircraft efficiency comes not only from a newer fleet, but from route management. We also highlighted the importance of investing in sustainable aviation fuels: the company has two partnerships with producers for feasibility studies, although it is not currently possible to buy biofuels at scale. We encouraged the company to increase investments in biofuels as part of the large investment already publicly announced. We also asked about the alignment between their decarbonisation strategy and executive remuneration, as we believe this is a feature that is missing and that is key to drive the strategy forward.

What was the outcome?

This engagement allowed us to better understand the company's current net-zero strategy and the obstacles it faces, such as the industry-wide lack of adequate fuel technology. We were able to emphasise our view on investments and the need to set more ambitious targets as well as suggest that carbon-neutral targets are included in variable executive compensation. As next steps, we will continue to press on the message and may escalate our votes at the 2021 AGM if we see no progress on remuneration policy alignment with climate strategy.

Natural capital: Strategic partnerships

Conscious of these profound challenges and the systemic risks attached to them, Lombard Odier, together with HSBC Pollination Climate Asset Management and Mirova, are the founding members of the Sustainable Markets Initiative's Natural Capital Investment Alliance (NCIA). The Alliance was established by His Royal Highness The Prince of Wales, under his Sustainable Markets Initiative, and aims to mobilise USD 10 billion towards Natural Capital themes across asset classes by 2022.

We have also joined the Finance for Biodiversity Pledge, and as part of our membership and a key focus for 2021, we will continue to support improved disclosures to reverse nature loss undertaken through the Pledge's five commitments: 1) collaboration and knowledge sharing; 2) engaging with companies; 3) assessing impact; 4) setting targets; and 5) reporting publicly seek to support some of the working groups established.

Physical risks: development of a physical risks tool

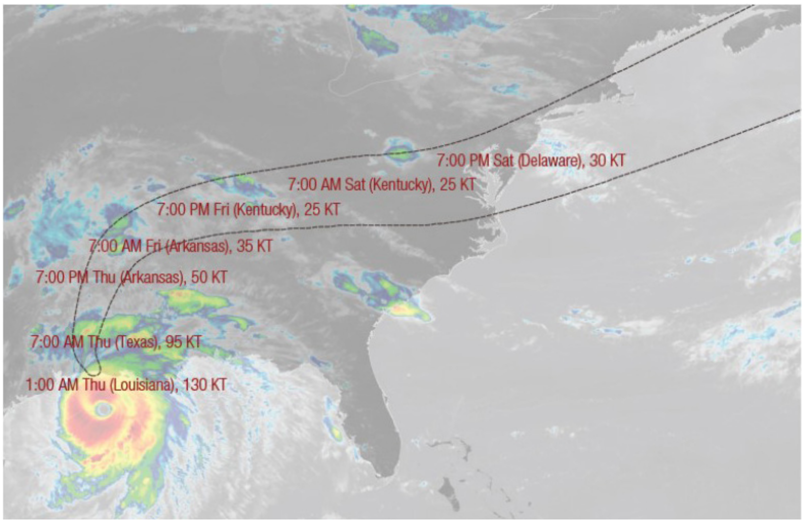
For our physical risks tool, we are currently using raw information provided by climate research projects, such as the Coupled Model Intercomparison Project Phase 5 (CMIP5), which has modelled the impacts that different scenarios of climate change will likely have on the frequency and severity of different weather hazards. Currently we are looking at six hazards (e.g. river floods, coastal floods, wildfires, heatwaves, tropical cyclones and water stress) and their related projections by 2050 under different climate scenarios. To model these risks at a company level, we use a proprietary geospatial analysis, which broadly consists of overlapping assets associated to specific companies against each of the geographical layers of predicted weather hazards mentioned above. As a result, we obtain risk scores at an asset level for specific years and climate scenarios, which are aggregated at a company level using a simple average approach. In addition, a materiality measure is provided, indicating the percentage of assets with a risk score considered at "high risk". As mentioned above, Physical Risks tools have undergone a rigorous peer-review by world-leading experts from Oxford University's Smith School of Enterprise and the Environment (SSEE) and the Environmental Change Institute (ECI).

In addition, we also provide investment teams with real-time alerts on physical hazards (e.g. assets and companies in the pathways of ongoing hurricanes). To do this, we work with data provided by different meteorological agencies as well as our proprietary asset-company database. Our views regarding this process are not only to provide information on the medium-term about climate change risks, but also to create a more dynamic risk assessment process which allows portfolio managers to conduct horizon-scanning surveillance on the exposure, vulnerability and preparedness of specific companies to physical risks.

Our pioneering geospatial work and its relevance to investment management has been recently featured in Bloomberg.

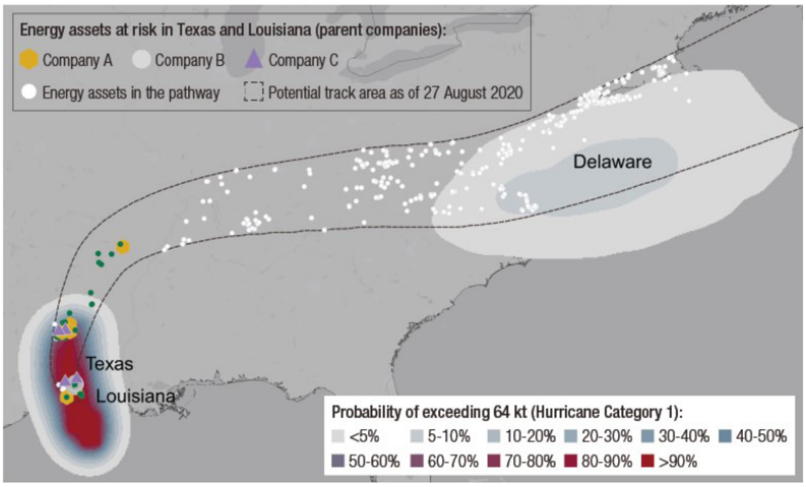
Case study

When a hurricane alert is released, different meteorological agencies provide data on its consolidation, and predicted pathways as shown in the image below for Hurricane Laura on 27 September 2020. It is possible to retrieve satellite captions and predicted pathways on average every 10 minutes. Infrared sensors on board satellite systems allow us to capture temperatures of storms, which are "visible" during the day and at night. These temperatures can be associated with wind speeds, and therefore potential economic damage, depending on the location of predicted landfall and preparedness of people and assets in relation to it.



Source: NASA (GOES-East), National Hurricane Center (NOAA).

This data allows us to evaluate the physical risk for specific companies in the pathway using our relational databases with information on asset locations. We combine this exposure analysis with bottom-up analysis by our investment teams on the preparedness of a company to confront these hazards.



Source: National Hurrican Centre (NOAA), various asset data providers.

By using spatial finance, our investment teams were able to assess potential risks to assets in our portfolio on a near-real time basis arising from Hurricane Laura. On a forward-looking basis, integrating geospatial data analysis into financial theory allows our investment teams to analyse the effects of climate change and preparedness of current business models to confront these challenges. The logical next step is to use stewardship (especially engagement) to address preparedness with investee companies.

REFERENCES:

World Economic Forum. (2020). Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy. Colgne/Geneva.

Purpose & governance
Principle 5

› "Signatories review their policies, assure their processes and assess the effectiveness of their activities."[1]

[1] Financial Reporting Council's UK Stewardship Code 2020.

Review and assurance

Activity

Policy framework

Policies are crucial for our stewardship activities in order to provide (internally and externally) the adequate framework for expectations, responsibilities and processes.

Our stewardship framework is publicly available

- SRI Policy
- Engagement Policy
- Proxy-voting Policy

Our policies relating to sustainability and stewardship are reviewed at least once a year and updated on an ad-hoc basis as and when required (e.g. by law following a new regulation to transpose or following an internal policy update).

Many departments are involved in our policy review process. For our stewardship and sustainability framework:

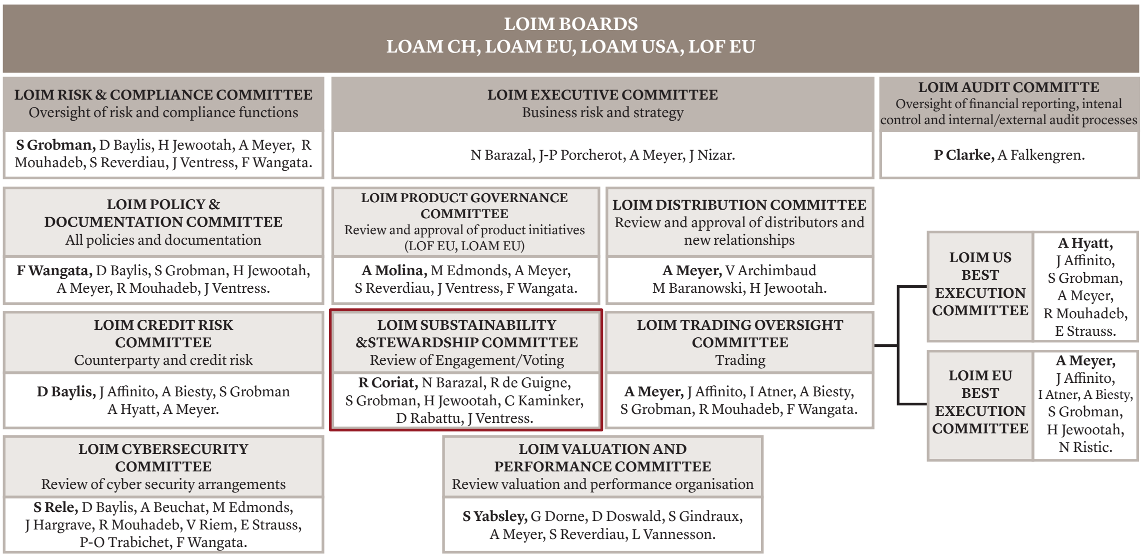
- Our sustainability experts review policies in order to ensure alignment with investment beliefs, and for idea generation
- CIOs of investment boutiques provide comments on the impact on strategies of proposed changes
- Investment teams provide comments the concrete application of the proposed changes
- Legal review from their side
- Policy Committee approves the policy
- Other committees (Stewardship, or Risk) also approve the policy, once approved by the Policy Committee

Internal assurance

LOIM Sustainability and Stewardship committee meets on a quarterly basis. The Committee comprises 9 members (described below) and it invites people to join ad hoc when necessary.

LOIM Sustainability and Stewardship committee members:

- Two Co-heads LOIM
- Head of SIRSS
- Head of ESG Solutions
- Head of Stewardship
- Chief Risk Officer
- Head of Legal
- Europe Chief Compliance Officer
- Head of Boutique



Source: LOIM. For illustrative purposes only. Data as of February 2021. The investment management team is subject to change without prior notice.

Boards of Directors

The Board of Directors, which meets on a quarterly basis, is comprised of five non-executive directors, three of whom are independent from the Lombard Odier Group. All directors have a wealth of experience in the financial services industry and are kept informed of relevant policy updates.

Outcome

The table summarises our main policies related to stewardship and sustainability and the main actions taken after the annual review.

Policy name	SRI Policy
Summary	LOIM Sustainable Responsible Investment Policy summarize all principles in terms of · ESG methodology and integration in investment processes · ESG resources and capacities · Impact measurements · Engagement · Proxy-voting · SRI Reporting · Normed based screening · Value based screening · It gives a clear overview of our sustainability philosophy and activities to employees and clients
Review process participants	· SIRSS team · ESG team · Legal · Investment teams
Review/outcome	The Policy has been reviewed but purposely not updated as of year end 2020. Given the significant shifts in our approach, we decided to wait until after year end to undertake a full review and update of our SRI Policy. The SRI policy will thus be updated during 2021 to include our new ESG scoring process, new forward-looking tools, and changes in voting guidelines and engagement.
Policy name	**Engagement Policy**
Summary	Summarizes our views on engagement and how it supports stewardship. Includes an overview of sustainability and engagement, our ESG integration methodology and engagement.
Review process participants	Head of Stewardship mapped weaknesses in our Policy. Proposed changes were discussed with all relevant internal stakeholders (wider SIRSS and ESG teams, investment teams, including CIOS, legal and risk), before being tabled for Policy and Stewardship Committee approval.
Review/outcome	During 2020 we updated the engagement policy twice, reflecting how our internal review and assurance process had led to improvements in our approach to stewardship. We realised that our escalation approach needed further definition and articulation and a more explicit link to both engagement and voting. The policy was updated (Stewardship & Escalation Strategy) to reflect our views on mechanism available to us to express dissatisfaction. We also realised that further articulation was needed in relation to Stewardship and Conflicts of Interest. We have updated the policy to reflect that when considering voting and engagement we act in the interest of all our clients at all times and seek to actively identify any potential, real or perceived conflict of interest. The Policy now also codifies our use of the Oxford Martin Principles for Climate-Conscious Investment, as the key engagement framework we use for engagements on net-zero and transition pathways. The proxy voting section has also been updated to reflect changes (please see below).
Policy name	**Proxy-voting Policy**
Summary	The policy set out the principles for the exercising of voting rights in respect of companies in which the LOIM invest on behalf of the clients.
Review process participants	Head of Stewardship mapped weaknesses in our Policy. Proposed changes were discussed with all relevant internal stakeholders (with particular emphasis on investment teams, and how the changes may impact our proxy voting activity), before being tabled for Policy and Stewardship Committee approval.

Review/outcome	During 2020, we developed a custom set of views relating to proxy voting allowing us to initiate a house view. These have been codified in rules we share with our proxy research provider. In the updated Policy, we have reorganised how we may vote under certain categories, and specified that sustainability voting matters, shareholder resolutions and companies under engagement are referred by default to the stewardship team. During 2021 we intend to continue to provide more granularity on our views and how we are likely to vote.
Policy name	**Stewardship reporting**
Summary	Vote disclosures are publicly available via Vote Disclosure Service.
Review process participants	Head of Stewardship in close collaboration with our proxy voting operations team and legal and risk functions.
Review/outcome	Our voting records became publicly available for the first time during 2020. We believe this is an exponential improvement in our stewardship framework, although we recognise we have not yet codified this approach into policy. We will keep this under review during 2021, as well as the option of providing public disclosures for our votes against management.
	Additional policies reflecting our values as a firm
Policy name	**Controversial weapons Policy**
Summary	Lombard Odier does not invest in companies that produce, trade or store controversial weapons. The Policy applies to the following controversial weapons: · Anti-personnel mines · Cluster weapons · Biological and chemical weapons · Depleted uranium · White phosphorus
Review process participants	ESG team led on idea generation, engagement with data providers and policy changes. Proposed changes were discussed with investment teams, risk and legal as well.
Review/outcome	We identified a need from clients especially in Switzerland to add nuclear weapons to our controversial weapons list. This Policy is currently not publicly available although our SRI policy includes a discussion of our exclusions. In 2021 we will continue to review the suitability of this arrangement.
Policy name	**Tobacco, Thermal coal & Unconventional oil & gas Policy**
Summary	For Equity/Fixed Income/ Convertibles high conviction strategies. Unless otherwise validated by the relevant Boutique CIO, exclusions of companies deriving more than 10% of the following activities: · Tobacco (production and retail) · Coal (thermal coal extraction ant coal power generation) · Unconventional Oil & Gas (tar sands, shale gas and oil and arctic oil & gas exploration)
Review process participants	ESG team led in close collaboration with Equity/FI team worked on idea generation. Proposed changes were discussed with investment teams, risk and legal as well.
Review/outcome	Expansion of the scope which includes now some Alternatives funds such as hedge funds. Realisation of the needs in the Alternatives to stronger control in order to reflect our sustainability philosophy. It also helps in aligning our commitment to net zero strategies.
Policy name	**Essential food commodities Policy**
Summary	Given concerns on the volatility of essential food (wheat, rice, corn and soybeans) prices, we permanently exclude all instruments (futures, options, swaps, indices, exchange-traded funds) that invest in essential food commodities.
Review process participants	NA
Review/outcome	No changes foreseen. This Policy is currently not publicly available, although our SRI Policy includes a discussion of our exclusions. In 2021 we will continue to review the suitability of this arrangement.

Investment approach
Principle 6

› "Signatories take account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them."[1]

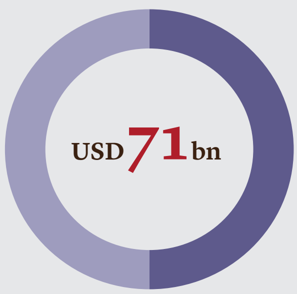
[1] Financial Reporting Council's UK Stewardship Code 2020.

Client and beneficiary needs

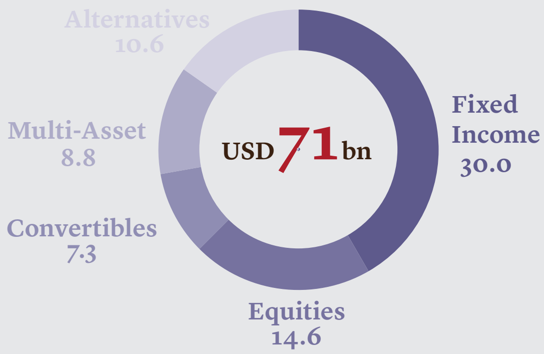
Context

AuM by asset class and client type

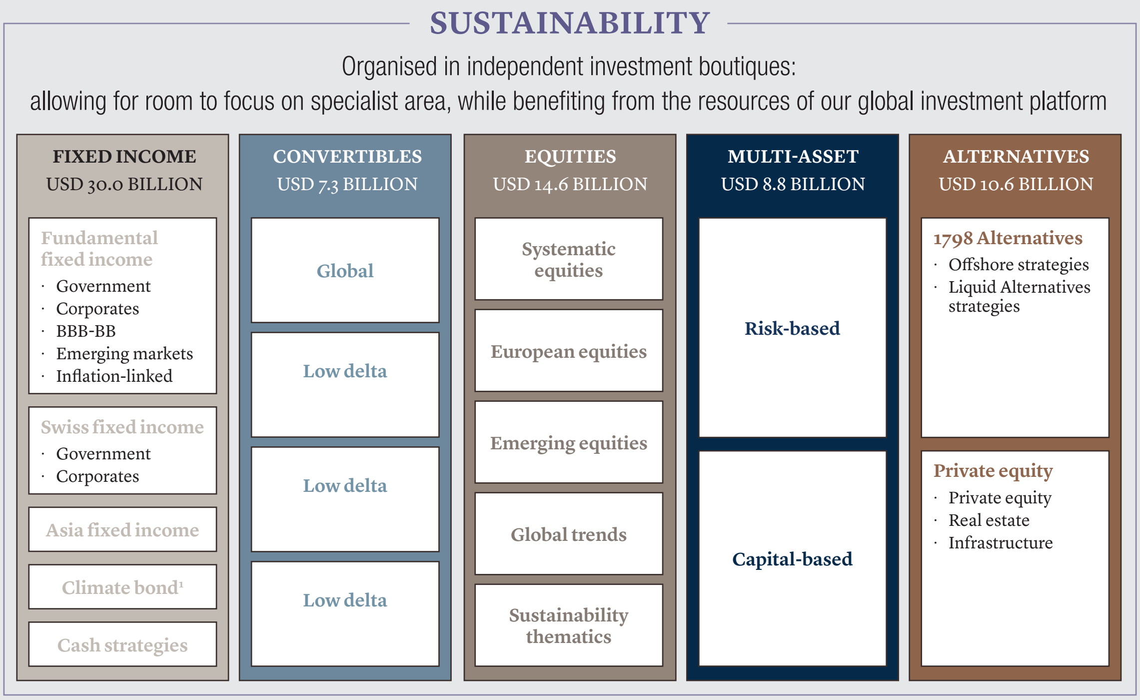
AuM by client type



AuM by asset class



Source: LOIM. AUM as at 31 December 2020. For illustrative purposes only, Allocations are subject to change.



[1] Partnership with AIM (Affirmative Investment Management).
Source: LOIM. AUM as at 31 December 2020. For illustrative purposes only. Allocations are subject to change.

Activities

Our client service model is to be close to our clients to understand their needs in reporting and beyond. We meet with our clients on a regular basis to get feedback. In addition, we are committed to sustainability and aim to maximize the impact we can deliver within the scale we have. This forms the basis of our approach. As discussed, we enhanced our ESG tools to look at materiality-led considerations to be able to have much more targeted engagement with clients. We also adopted the Oxford Martin principles to climate-related engagement in terms of information we receive from companies and the feedback we can provide in exchange. One particular example relates to how we took on board feedback from a large client on their requirement to understand engagement activities at a LO level. We were able to expand our engagement report to cover both fund-specific information and wider activities related to engagement.

We aim to get regular (and at a minimum) annual feedback from most clients. Based on this feedback, we continue to meet client needs, but we always strive to improve and refine our communications with clients.

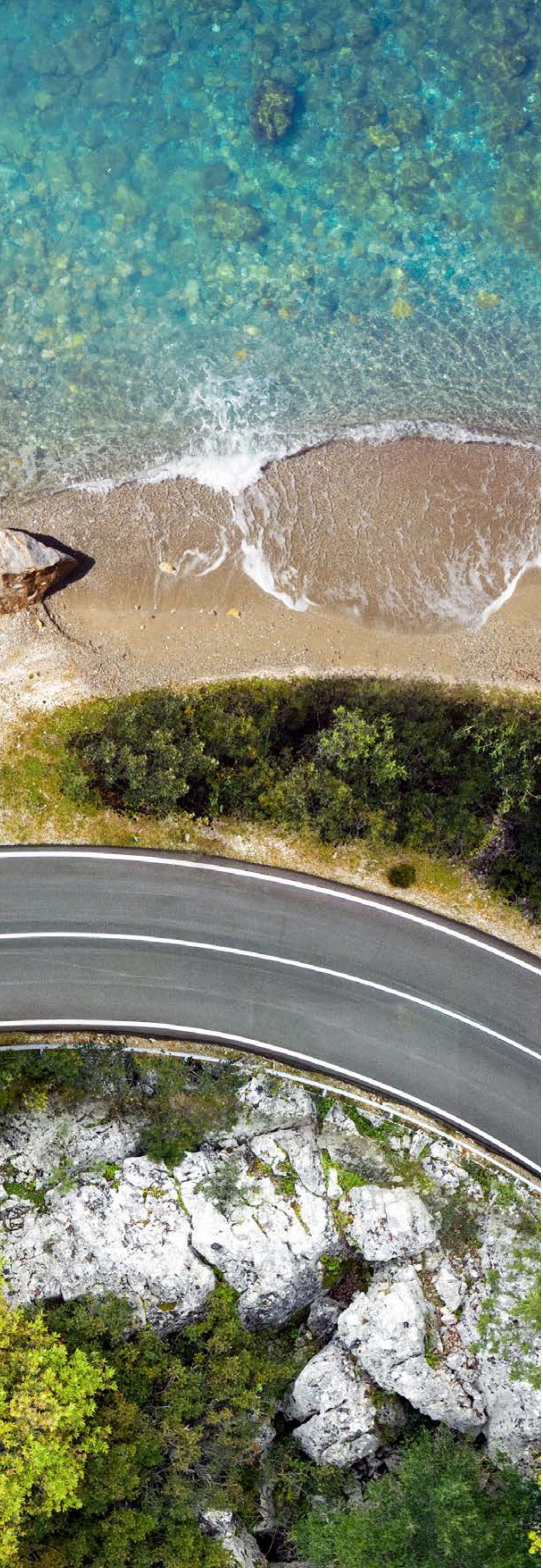
Regarding investment horizons, we have put in place a number of deliverables that meet existing client needs. But we also appreciate that different clients have different needs and the whole landscape itself is evolving. We therefore continuously collate feedback and aim to enhance deliverables on an ongoing basis.

Outcome

We provide quarterly sustainability reports for the funds that integrate ESG data, and can provide ad-hoc sustainability reports on request. Our reports display a portfolio comprehensive screening, with historical ESG trend and with a comparison with a relevant benchmark.

The ESG metrics used to build such reports and to monitor portfolios:

- ESG materiality in-house rating aggregated scores.
- Aggregated ESG materiality score by sectors GICS 1.
- Concentration of the ESG materiality scores in the portfolio per quintile (GICS industry level 2).
- TOP/Worst 5 positions.
- Product involvement that can be tailor-made to fit the specific ethical values of a client.
- Controversies involvement and analysis of the event that impacted the company.
- Child labor screening (direct and in the supply chain).
- Screening of our exclusion policy on controversial weapons.
- Carbon and water intensity trend (3 years historical data) and carbon/water footprint of the portfolio.
- Green/brown shares analysis at portfolio level.
- Temperature alignment of portfolios (LOPTA).
- Investment in green/social/sustainable bonds.
- Electricity generation mix analysis.
- Full portfolio breakdown and transparency.
- Country analysis when sovereign bonds or government related issuers are identified.



Investment approach

Principle 7

› "Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities."[1]

[1] Financial Reporting Council's UK Stewardship Code 2020.

Stewardship, investment and ESG integration

Context

Integration belief and approach

We systematically integrate stewardship and investment along the whole suite of sustainability risks and opportunities to fulfil our responsibilities as active investors. The ultimate objective is to do so across all investments. We continue to move the stewardship horizon by building sustainability on top of ESG and developing new metrics that allow us to assess our investable universe and portfolios' exposure to CLIC™ themes. Sustainability is a cross-team collaboration between investment teams and our dedicated ESG sustainability experts, which allows us to blend systematic and fundamental analysis at all levels of the investment process. It also enhances our ability to identify risks and opportunities, and turn them into actionable intelligence.

In order to better support integration at LOIM, we have taken the conscious decision to develop an ESG/Sustainability internal centre of knowledge and excellence responsible for the development of specific, cutting-edge methodologies for ESG and sustainability data such as LOPTA and our in-house ESG materiality methodology.

In addition to methodology building, the teams support our investment professionals in ensuring that ESG and sustainability matters are integrated into the investment process. Our stewardship policy framework reflects this; indeed our engagement policy states that we understand engagement in its widest sense: it is how we maintain and open and continuous dialogue with a company throughout the investment lifecycle. As such, the vast majority of our stewardship work (integration, engagement and voting) is carried out jointly by investment, sustainability and engagement colleagues. We do not see this as duplication of work, but rather as casting a very wide net on the same issue, to make sure that our assessments reflect and integrate all angles. Whilst there is a centralised hub creating and disseminating information and training, investment decisions are ultimately made by the portfolio managers, the individuals who know the companies best.

Integration: data - What data do we have, use and produce?

We have an extensive quantitative platform that gathers data on companies and key ESG issues systematically. At Lombard Odier, we believe it is essential to focus on the Environmental, Social and Governance (ESG) issues that are most relevant to the sustainability of companies business practices based on industry they operate in.

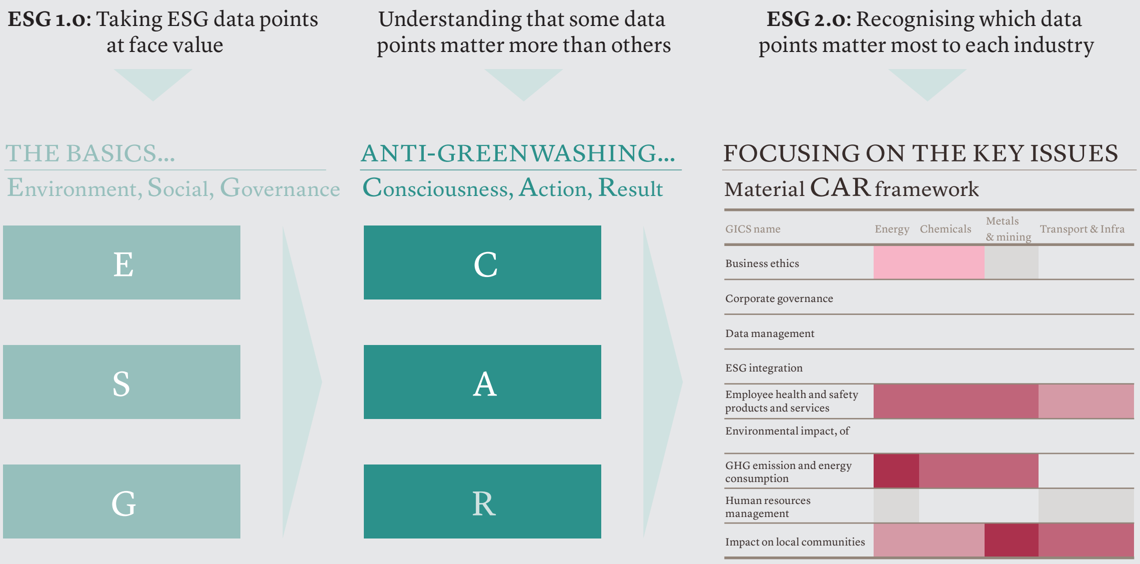
Our proprietary framework includes 14 dimensions that reflects the main dimensions of ESG opportunities and risks companies can be exposed to across their value chain. This includes (the list is not exhaustive) upstream risks mainly related to the supply chain or the natural resource use; operational risks directly related to a company's direct production and operational processes; and downstream risks related to the potential negative impact of products and services sold.

We have identified and ranked the most material ESG dimensions for 158 GICS Level 4 sub-industries, which is captured in our LO ESG Materiality Heatmap ('LO ESG'). For each company, we then calculate a rating that integrates materiality by overweighting the information that matters most based on the industry they operate within, and underweighting general information that is less relevant. Using this methodology we then calculate our LO ESG Rating for each company, ranking them from A+ to D based on a comparison with its peers.

Our LO ESG Rating also embeds our proprietary 'CAR' methodology, which stands for 'Consciousness', 'Actions' and 'Results'. We believe companies making measurable progress towards sustainability are more likely to outperform and, as such, we overweight the 'R' component – ESG indicators linked to definitive outcomes. This data is made available to all investment teams on our quant platform.

Integration: governance

As mentioned under Principle 2 – Governance; our governance structure supports the necessary investment for the data needs we have to support stewardship. This structure also holds teams accountable for integration. The Sustainability Steering Forum is a key driver for this. The Stewardship Committee provides further, and stewardship specific guidance and sign-offs.



Source: LOIM. For illustrative purposes only. There can be no assurance that the investment objective will be achieved or that there will be a return on capital.

Activity

Investment professionals training

All colleagues are regularly updated on the latest developments, tools and technologies relating to sustainability and ESG integration. Our dedicated sustainability teams regularly provide comprehensive training on our sustainable investment frameworks to ensure high levels of understanding and targeted, priority-specific engagements. Our approach to training is both formal and continuous, and informal and collaborative, to ensure the information provided both reflects our latest thinking and capabilities and is tailored to individuals' requirements. We have placed a particular emphasis on knowledge-sharing across teams (our IT infrastructure reflects this) to ensure that the outcomes from fundamental research, engagement and voting (when applicable) are clear and available to all investment professionals.

In addition to the more formal trainings (see Principle 2 – Governance), we discuss what we call 'informal training', that is, 'on-the-job' discussions, between our sustainability, investment teams and other functions around the business (we highlight the role of the Risk and IT functions in facilitating integration).

Our dedicated sustainability professionals are in constant contact with portfolio managers and analysts to help them interpret sustainability-related data and analysis, and/or to help guide stewardship & dialogue with companies (Principle 8 – Monitoring providers; explains how our ESG data team supports the investment teams with data queries, for example). We have also set up more structured engagement monthly fora attended by investment and stewardship professionals to discuss engagement experiences and improve our internal 'engagement know-how'. Finally, one-to-ones between analysts and stewardship professionals take place on a bimonthly basis to ensure adequate progress and alignment with stated stewardship objectives on a per issuer, fund and/or strategy basis.

How do investment professionals integrate the available data?

As we have described above, in addition to financial analysis, the investment professionals use the ESG and sustainability data that is readily available to them in an applied, three-pillar approach to assess sustainability (with a focus on materiality) across our portfolios by looking at:

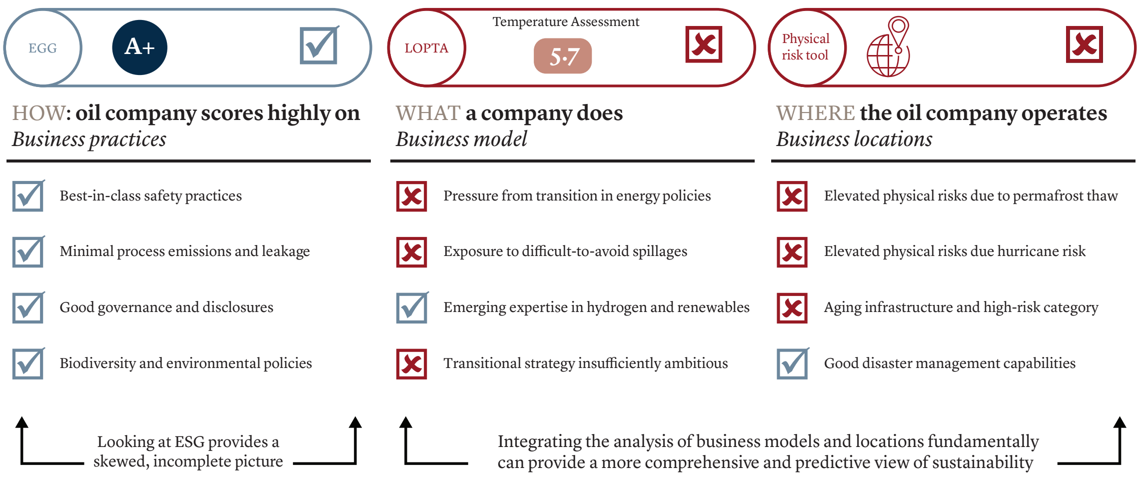
1 the sustainability of companies' business practices, using our ESG materiality framework, ('the how');

2 the sustainability of their business models, using our CLIC™ key sustainability challenges framework, ('the what); and

3 a further analysis of physical risk by using geospatial analysis to support assessments (the ‘where’).

Assessing the How - business practices

As described above, LOIM’s investment professionals follow a materiality-based scoring of ESG business practices which reflects the fact that companies are exposed to very different challenges depending on the nature of their activities. Our materiality heatmap is in addition to our proprietary 'CAR' methodology, which enables us to differentiate between the 'talkers', 'doers', and 'achievers', and identify companies that are making measurable progress in material ESG sub-dimensions in the transition to more sustainable business practices.



Source: LOIM. For illustrative purposes only. Portfolio construction process is subject to change.

Case study

LOIM's investment teams use data to address the appropriateness of companies overall ESG disclosures and indicators. During 2020, this led the team, in collaboration with the stewardship function, to engage with companies, across different geographies in the following sectors:

SECTOR	MATERIAL AREAS
Banking	Business ethics, data privacy
Real Estate	Environmental impact of their operations
IT	Diversity, talent retention and promotion
Pharma	Whistleblowing, ethical conduct
Across sectors	Board and committee independence, skills and diversity on the board, alignment between pay and performance, impact of COVID in employees, operations and stakeholders.

Assessing the What - business models

LOIM's investment professionals use the data to better assess

- the exposure of different sectors/industries to risks & opportunities arising from sustainability dynamics, including climate change scenarios, the macroeconomic world view, energy and mobility forecasts;
- the susceptibility of each sector/industry to those risks & opportunities, including what business strategies exist to mitigate the risks or capture the opportunities.

Case study

LOIM's investment teams use data to address the extent to which companies have business models that are sustainable in the long term. During the year review, this has led the team, in collaboration with the stewardship function, to engage with companies primarily around transitioning to net-zero. Some of questions we have asked: has the company made commitments to achieving net-zero emissions associated with their activities? Does the commitment include a date to achieve net-zero? Does it include supply chain and products sold? How are offsets used? Is the company willing to adopt science-based targets? Has the company set medium-term targets? Do these targets include the rate and trajectory of CO_2 emissions reduction? Is progress against these targets reported? Does the company disclose adequate data regarding the additionality of its carbon footprint?

When you engage on board composition, what is the difference if you apply a business practices and a business model framework:

Board composition	
BUSINESS PRACTICES	**BUSINESS MODELS**
Is the board majority independent?	Does your board have a majority of directors with climate knowledge?
If there is a controlling shareholder, how do you ensure that minority shareholders’ rights are respected and upheld?	Does the board have a large enough critical mass of directors with climate knowledge ?

“By focusing on the **what** and the **how** in our engagements, we are able to build a more holistic picture of **where** boards are today and where they need to get to in order to support a transition to a sustainable business model ”

LOIM’S investment teams also look at the same data points to assess alignment of business practices with the 17 UN Sustainable Development Goals (SDGs). Our analysis of business practices also looks at companies' exposure to controversies, which occur when companies breach internationally accepted standards or norms as defined by the United Nations Global Compact Principles. In our view, controversies have a major impact on a company's reputation and lead to lower market performance.

For sovereign bonds, although our macro criteria already incorporates some societal and political criteria, we incorporate ESG considerations into our investment process at the fundamental analysis level. Our sovereign analysts look at the potential impact of environmental, social and governance issues in countries' ability to repay its debt and use the UN's 17 SDGs as a framework.

Outcome

In evaluating the outcomes from our integration approach we have looked at the following dimensions.

Integration: belief and structure

We think we have made significant progress during 2020 in developing our sustainability framework as a potential driver for returns.[1] Our CLIC™ framework successfully articulates why we cannot ignore the sustainability revolution, and, more importantly, offers proprietary tools to measure CLIC™ themes: it allows us to CLIC™-ify investments and CLIC™-ify stewardship. Hundreds of hours of training have been provided internally to ensure that our investment professionals are able to use these tools to assess the long-term suitability of an investment.

During 2020, we have started by focusing our CLIC™ work on two key themes, climate transition and natural capital. During 2021 and beyond, our goal is to develop CLIC™ tools for the remaining six themes. This of course is a work in progress which we will report on in our next Stewardship Report.

Integration of data

Although this is discussed as well under Principle 8 – Monitoring providers, we rely on external data providers to run our models. We review their data constantly and proactively discuss with them when expectations are not met (for example, when there is a significant time lag between an issuer releasing a Sustainability Report and their own data/rating update).

Integration in practice

We have articulated our stewardship priorities, and supported portfolio managers with integrating them in the investment process. Our investment professionals routinely and de facto include an ESG, Sustainability and CLIC™ assessment in the research they produce and share internally. Based on this assessment, the investment professional may decide (in collaboration with the stewardship function) that engagement is needed. When this is the case, our investment and stewardship teams work together to develop bespoke engagement objectives to address the concerns that arose from the data and models. Once the objectives are agreed, we start a communication with the target company, which in the vast majority of cases leads to a meeting. To support an integrated approach, engagement meetings/calls with our investee companies always include at least one representative from the investment and stewardship teams. This joint attendance also facilitates the internal debrief to address the extent to which concerns are mitigated or not. An engagement note is created, and shared internally with all investment professionals.

Case study

US developer and producer of sustainable ingredients

Engagement background

The investment team identified a company radically contributing to the transition to net-zero by virtue of its business model and strategy (producer of sustainable ingredients) but not capitalising nor reporting adequately on its many contributions to the transition and aspirations going forward.

[1] Source: LOIM. There can be no assurance that the investment objective will be achieved or that there will be a return on capital or that a substantial loss will not be incurred.

What did we discuss and asked for?

We discussed corporate governance, general ESG, the company's online disclosures and their potential commitment to a net-zero business model. We suggested that the website should be updated to include up-to-date information on governance, ESG and sustainability and that the focus should be on centralising their ESG reporting, including the company's contribution to the SDGs. We were encouraged by the existence of a Sustainability Committee and suggested that it led the way in developing an ESG strategy and establishing short and medium-term targets. We emphasised that any future commitment to net-zero should emphasise what their products bring to society (i.e. their solutions provide less carbon intensive fuels).

What was the outcome?

The company's ESG and sustainability sections of the website have been reorganised, providing better, more informative centralised reporting, and a discussion of how the company contributes to some of the SDGs. The latest ESG factsheet includes emissions reduction short-term targets (from a 2020 baseline). We will continue to engage with the company to push forward net-zero.

Nordic Oil refining company

Engagement background

We wanted to engage with a company which already had a profitable business plan under net zero (in this case, at their renewable business) both to understand their approach and best practice, and encourage them to extend the net-zero commitment across the whole business strategy in order to enhance the governance of climate and decarbonisation at board level.

What did we discuss and asked for?

In our dialogue, it became clear that the company has a very sophisticated and mature approach towards sustainability and transitioning to net-zero. In fact, the transition appeared to be well embedded in the business strategy. During our discussions, we identified several areas where we thought the company could move ahead and continue to show leadership in climate transition: incorporation of more specific climate metrics in variable executive remuneration, continuing investment in innovation for raw material options, a commitment to a future scope three disclosure, and most importantly, developing net-zero across the business.

What was the outcome?

The 2020 engagement has been the first iteration of our climate transition engagement with the company. The company was responsive to our questions and requests and confirmed that it would continue to keep them under review. Our main focus in the future will be on changes to remuneration metrics and net zero scope 3 work.

Investment approach
Principle 8

› "Signatories monitor and hold to account managers and/or service providers."[1]

[1] Financial Reporting Council's UK Stewardship Code 2020.

Monitoring managers and service providers

Activity

Using service providers

In recent years, we have witnessed a significant rise in the number of ESG data providers. Although increasing investors' appetite for sustainability metrics is in itself a cause for celebration, we are wary of the lack of standardization and third-party verification in ESG-rating processes. A recent study published by MIT found that the correlation in ESG scores across six leading providers averaged a meagre 0.54, ranging between 0.38 and 0.71 (Berg el. Al, 2019). These differences result the fact that each provider tends to measure different ESG sub-dimensions, follow different methodology to measure them and use different ways to aggregate them into a final scope.

We often see a similar variety when we engage with investee companies on their ESG disclosures, one of LOIM's strategic engagement priorities. Depending on where they are in their ESG journey, issuers will comment on the ESG ratings frustration: larger and more ESG-disclosure advanced companies acknowledge the need to undertake engagements with, if not all, as many data provider firms as possible to ensure that each methodology is correctly applied to their data, whereas smaller and/or companies less advanced in their ESG-disclosure journey will share with us their observations that 'they are not quite sure where to start' because the engagement field is too vast.

Bridging the missing data gap

Given the above two considerations, we take the view that this low commensurability between third-party providers coupled with their lack of methodological transparency warrants, wherever possible, the development of bespoke in-house tools. This why we have built two dedicated methodologies, which form an integral part of our Purpose and strategy (Principle 1); our promoting of well-functioning markets, Principle 4; our approach to Stewardship, investment and integration, Principle 7; our engagements Principle 9 and 10; and our proxy voting Principle 12.

Business practices

For ESG backward-looking data, our dedicated ESG team assess business practices across four key areas:

1. **Long-term metrics** based on our proprietary LO ESG Materiality framework and alignment with the United Nations Sustainable Development Goals.
2. **Short-term metrics** based on companies' exposure to controversies and violations of UN Global Compact Principles, OECD Guidelines for Multinational Enterprises chapters and UN Guiding Principles on Business and Human Rights.
3. **Impact metrics to** assess the physical impact a company creates (carbon, water, waste).
4. Identification of companies' **involvement in product** areas that could be subject to exclusions or restrictions based on our clients' values.

Business models

Lombard Odier is developing a range of forward-looking metrics for business model data. For instance, in order to monitor ex-ante climate change risks, as detailed in Principle 4 – Managing risks, we have developed a proprietary tool to measure the temperature alignment of companies and portfolios, LOPTA.

Outcome

Outcomes: monitoring service providers

We not only monitor service providers, but maintain dialogue with competing providers to better understand what new services and products exist, are in development, and how they could fit with our data needs. More specifically:

- We monitor our proxy research provider (Institutional Shareholder Services, 'ISS') to ensure that a) the recommendations in our custom policy are the correct ones; and b) that votes have been cast according to our policy. In instances when we over-ride our custom policy recommendations, we seek to review the vote ultimately cast on a quarterly basis. We carry out an annual vote audit to get full visibility on any missed votes. For that we ask ISS to provide an explanation detailing the reason for each missed vote. The 2020 audit showed that a very small number of our votable meetings were, in fact, missed. Within the missed meetings category, we identified a cluster with a particular sub-custodian. Based on these findings, we asked our proxy research provider to implement an even stricter vote cut-off for all shareholders' meetings where this specific sub-custodian is responsible for our votes.
- Vote transparency remains an area of concern and focus, as we cannot always and easily see if our final instructions were instructed as per our views, or may have been bundled into an omnibus account and instructed differently. An area of focus for 2021 will be a vote audit at the issuer level.
- We use a wide range of in-house and external research techniques and sources to collect, verify, enhance and analyse large amounts of raw ESG data at the most granular level possible. This is critical in making sure our data and analysis is truly investment-relevant so we can construct portfolios that capture opportunities and mitigate risks created by sustainability dynamics. Over the last 20 years, our dedicated ESG Solutions team have developed an extensive ESG database platform with a high level of granularity. Combining these extensive sources, LOIM works with several third-party research providers for primary ESG data on large scale, for environmental data and metrics and for specialized data on specific issues (gender equality, small & mid cap on specific universes). In more detail, the main fields covered by our data are:
  - Environmental impact metrics (carbon emissions, water use, air & water pollutants release, waste generation)
  - Environmental & social supply chain monitoring and management (natural resources, human rights and working conditions for suppliers and contractors, animal welfare)
  - Management of ESG issues in direct operations (corporate governance, business ethics, data management, human resources management, gender equality, management of relationship communities, carbon emissions, environmental management systems and certifications)
  - Environmental & social impact of products and services sold (quality and safety, E&S impact of products use, responsible and sustainable financial products offering)

We have in place a continuous monitoring process of all the data delivered and subsequently integrated into our rating system. Together with our market data team, we also review thorough the year new data offering and complete our database if necessary. More specifically:

- Each provider that we use has been audited and compared with peers on two key aspects: their raw data quality and their ability to enrich our in-house methodology. All the ESG and financial information is collected by our in-house quantitative platform, where the Lombard Odier ESG models are constructed and distributed to the different teams across the group. Our IT team regularly verifies the quality of the regular and scheduled data delivery and have set up a ESG data-dedicated monitoring platform that allows ESG experts and portfolio management teams to detect any possible anomalies in the data feed delivery (i.e. important change in the information coverage, critical scores evolution). Companies' ESG analyses are then distributed to the portfolio management teams to build strategies and to the different relevant teams to monitor the implementation. When any user detects any data issue, they duly escalate the problem to the ESG team, the team in charge to contact the data provider to investigate each cases.

- When the quality of conventional data is not deemed sufficient, we can use alternative data sources from our own internal research to supplement and enhance our opinion. Despite an overall decent quality, conventional data can nonetheless show certain weaknesses and lack of information that we try to overcome by using alternative resources. Our ESG analysts challenge the available data by diversifying information sources (e.g. company websites and media releases). At this stage, the benefits of the active ownership and open dialogue are key and our portfolio managers and analysts are instrumental sources of new information with their own knowledge about the companies that they invest in or analyse.

In addition, our in-house research includes advanced/alternative technological methodologies to collect and aggregate data from a wide range of sources including geospatial data, governmental and non-governmental organisations, international organisations, data aggregation platforms and the media.

Finally, we have seen a clear improvement in recent years in the quality of data provided by rating agencies and data providers. Their responsiveness to new information is constantly improving and their reviewing process of newly released companies' CSR, ESG, or Sustainability reports is faster and better. Nevertheless, we still have had occasion to intervene with our suppliers to point out shortcomings in the data delivered, with regards to:

- Information that is still not updated in a satisfactory way, including delays deemed by us to be too long between the publication of a company new CSR, ESG, or Sustainability report and their inclusion in the rating system. For example, sometimes new data from updated company reports are only integrated several months after their initial publication.

- Environmental data points such as carbon emissions and water use that are sometimes very different between data providers, or is inconsistent (questionable proxy or aggregation methodologies).

- Errors in data feed deliveries, such as missing data, false identifiers, huge and unexplainable scores variations.

When these situations arise, we contact the technical and research teams of our providers directly to alert them and ask them to implement the necessary changes to improve the quality of the data provided. This is in addition to organizing regular meetings with them on these subjects.

If we do not get immediate satisfaction or if a solution cannot be found quickly (e.g. if we dispute the validity of their information on environmental data), the ESG team implements corrective measures directly in our data management system.

Engagements

Principle 9 - Engagement

› "Signatories engage with issuers to maintain or enhance the value of assets."[1]

[1] Financial Reporting Council's UK Stewardship Code 2020.

Engagements

Activity

At Lombard Odier, we look at and understand engagement in its widest sense: it is how we maintain an open and continuous dialogue with a company throughout the investment lifecycle. Our engagement strategy is part of our fundamental investment process. We believe that sustainability will drive returns potential and determine which companies will succeed over the long term. We assess and monitor the sustainability profile of potential and existing investee companies through a variety of data tools and analytics, but to truly understand (and where necessary influence) a company's positioning on sustainability, we need to have an active dialogue with them.

Our firm-wide engagement policy reflects and expands these considerations and principles.

2020 Overview

For us, engagement is more of an art than a science and we realise that patience and perseverance when engaging are a must. Engagement is carried out internally and is never delegated to any third party.

We engage across asset classes. In 2020, 51% of our engagements were for Equities, 27% for Fixed Income and 18% for Convertibles. We are aware that our engagement work is naturally tilted towards equities, but for 2020 we are satisfied at the level of engagements we have carried in other asset classes. As we look at 2021, it is our ambition to increase the relative weight of engagements for non-equities.

When it is warranted our engagements bring together asset classes. We find this is a powerful approach when we enter into a dialogue with a company. For example, when we instruct a vote, we seek to take into account the views of our fixed income and convertible holders as well.

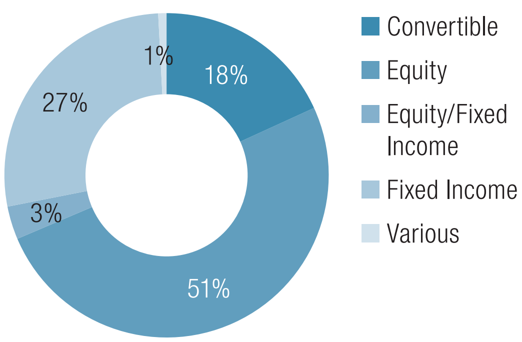
Prioritisation

As discussed, we engage on the what (business practices), the how (business models) and we will also engage on the where (geospatial) going forward. We engage using our proprietary financial materiality approach that highlights key issues on a sectorial basis thereby enhancing risk/return calibration.

We prioritise engagements following the guidance included in LOIM's Stewardship Implementation approach. Through our engagements, we promote sustainable business practices and encourage sustainable business models.

Breakdown of engagements

Individual Engagements 2020 by asset classes



Source: LOIM. For illustrative purposes only.

> “In other words, we use our engagement work to unlock value, promote best-in-class business practices, seek company alignment with transition pathways, and manage controversies.”

As such, during 2020 our two strategic engagement priorities as a business have been engaging companies on:

- transitioning towards net-zero, profitable business models.
- improved disclosures, with a particular focus on those companies that are in the bottom quintile in our proprietary materiality-ESG model.

In addition we carry out, and remain committed to:

- Engagements for improved disclosures under the rubric of the FSB Task Force on Climate-related Disclosures, or similar frameworks, such as GRI.
- Engagement on the financially-material ESG factors flagged through our proprietary materiality-mapping system.
- Engagements on wider ESG issues, paying particular attention to corporate governance, social issues, and non-climate environmental matters, seeking to promote best-in-class business practices.
- Proxy-related engagements, which may lead to vote outcomes.
  - We will vote for the proxies in the best long-term interest of our underlying clients and may in some cases use the discretion we have built in our proxy voting guidelines to over-ride the relevant vote recommendation.
  - Before casting a vote against management (should it come to this), we aim to engage with the company to explain our concerns, advise of the rationale for the intended vote and seek mitigation from the issuer.
  - We publicly disclose our votes on a quarterly basis and we will report on voting to clients on a quarterly and/or annual basis.

How do we define and refine engagements?

Although the methodologies we use for each engagement are the same, an engagement is always a highly customised exercise, with intensive preparatory research and internal debate involved to agree on the engagement objective(s) that are then shared with the company.

Business models

For engagements under **business models** (allowing us to unlock value and promote alignment to transition pathways), we use forward-looking, raw data disclosed by companies and feed it into our proprietary models. This allows to ascertain the extent to which a company’s business model is aligned with the demands and challenges brought by the CLIC™ economic model.

For example, under this business model pillar, we engage with a company on.

- Alignment with net-zero: is your business model aligned with the transition to 1.5 degrees? For climate transition engagements we use the framework provided by the Oxford Martin Principles, which are Science-Based and propose three questions:
    - Has your company made a commitment to net-zero?
    - Is there a profitable business plan under net-zero?
    - Have you set quantitative targets for the above business plan?
- Increased disclosure on GHG emissions, by scopes, including scope 4 (aka additionality).
- Governance of climate transition: does your board have the necessary skills and knowledge on the board to support that transition to net-zero?

Business practices

For engagements under **business practices** (allowing us to promote best-in-class and seek to mitigate concerns arising from controversies) we use a proprietary materiality heat map approach, highlighting where a company has weaknesses (from highly material to non-material) and specifies the areas that need improvement.

For example, under this business practices pillar, we engage with companies on:

- **Across ESG:** improved disclosures and reporting
- **Governance:** whether it has a board that is majority independent, and if not, why not. What mechanisms are in place to ensure that the independent directors are able to voice concerns and apply effective oversight? Or, if we are looking at the board of a company that has a controlling shareholder, we would not expect a majority independent board, but a board where minority shareholders' rights are respected and upheld, and we would engage to gain comfort on this.
- **Supply chain:** is there a code of conduct, is the supply chain audited, how are the different supply chain tiers organised?
- **Social:** what are the different health and safety policies? What protocols were put in place at the beginning of the pandemic to ensure the safety of the employees?
- Environmental: are you measuring your scopes 1, 2, and 3? To what extent are your offices energy efficient?

Tracking

Tracking of engagement progress is key, as we need to build a timeline of the engagement and have visibility on what is being achieved. In measuring progress against our own targets, we are mindful that some engagements advance slowly, whereas others can be (positively or negatively) resolved relatively quickly. For shorter engagements, progress and resolution are usually arrived to after one or two interactions, whereas for more structured, longer-term issues, our tracker allows us to build not only a content and a timeline view of the engagement objectives, but also rapidly flag when escalation may be necessary due to lack of response, or lack of an appropriate/ proportional response.

The engagement is an integral part of the overall investment process: it is done jointly by the PM and/or analyst with the guidance of the stewardship function and ESG teams. By doing this we ensure that the outcomes of the engagement are fed back into the investment process and that they affect (positively or negatively) the investment decision. We have described this process in detail under Principle 2 – Governance; Principle 4 – Managing risks; Principle 7 – Integration; and Principle 8 – Monitoring providers.

Interlocutors

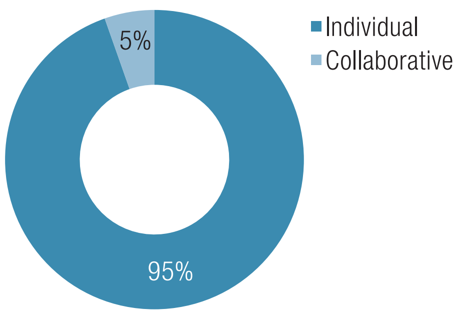
Interlocutors are varied: Investor Relations, ESG managers, sustainability officers, non-independent directors, non-executive chair, chair of the remuneration committee, chair of the nomination committee, chair of the ESG committee, chair of the audit committee, COO, and CEO in some cases.

We are mindful of potential conflict of interest that may arise depending on the topic under engagement: for example, we will not accept discussing executive remuneration with a CEO or CFO, that is, a direct beneficiary. In our experience, smaller companies, which generally may not have a dedicated and separate IR function, may tend to offer engagements with executives to discuss matters that would ideally be addressed by IR or specialist functions. In such cases, we prefer discussing these matters with non-executive directors. The targeted interlocutor may also reflect any Conflict of Interest (as discussed in Principle 3 – CoI) both in terms of engagement theme and in terms of real or perceived Conflict of Interest, and also where we are in our escalation strategy (as discussed in Principle 11 – Escalation).

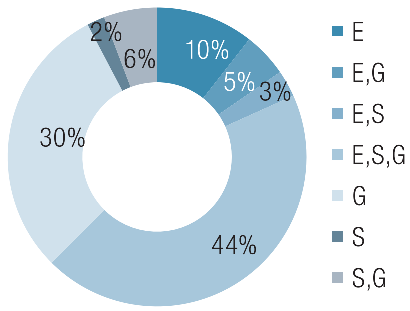
We have included engagement case studies in Principle 4 – Managing risks; Principle 7 – Integration; Principle 10 – Collaboration; Principle 11 – Escalation and Principle 12 – Voting.

2020 Engagement graphs

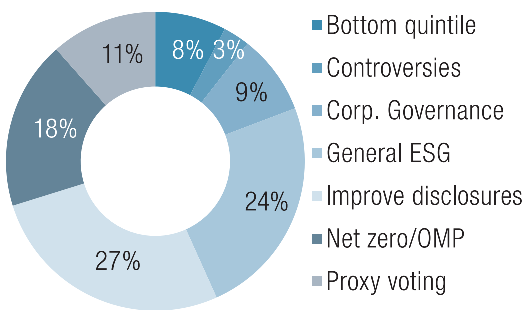
2020 Individual vs Collaborative Engagements



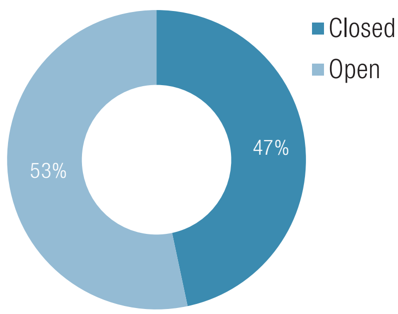
by ESG categorisation



by targets



by status



Source: LOIM. For illustrative purposes only.

Outcome

Internal outcomes

At Lombard Odier, we have come a long way in the last 12 months with the creation of the Stewardship function within the Sustainable Investment Research, Strategy and Stewardship team. Internal engagement has proven successful in integrating the approach and raising not only awareness but also action by investment professionals. We are very proud of the exponential internal gains, where PMs and analyst push, lead and brainstorm engagement ideas. We have developed an IT infrastructure for stewardship, and we have set up engagement fora which allow and facilitate the exchange of ideas with a view to overcome any obstacles and facilitate informal learning and knowledge transfer. This is discussed in more detail in Principle 1 – Purpose; Principle 2 – Governance; Principle 4 – Managing risks; Principle 7 – Integration; and Principle 8 – Monitoring providers.

External outcomes

Proxy voting

Outcomes from proxy voting engagements are overall positive. The past year's vote-related interactions allowed us to, in the majority of cases, obtain the detail we needed in order to cast an informed vote decision, and clarify doubts or areas where disclosures were not clear. An intangible outcome has been that through proxy voting engagement, we have established a network of relationships that did not exist before for us which facilitate ongoing engagements. In a minority of cases, although the engaged company was responsive, the explanation was not sufficient to mitigate concerns, and we voted against some resolutions. We discuss our some of our proxy engagements in Principle 12 – Voting.

Business practices

Business practices - Improving ESG disclosures

The most significant outcomes from engagement under this pillar are:

- **the two speeds:** companies are on a spectrum of realization/acknowledgement of the need for ESG data and sustainability vision and mission. The key driver for progress tends to be support from the very top, plus top-down structures. As such, engagement objectives range from the very basic to the very sophisticated. The ensuing action for LOIM in 2021 from this outcome will be to continue to identify and subsequently target those companies that are at the initial stages on their sustainability and disclosure journey in order to support them.
- **the two sizes:** smaller issuers tend to claim limited resourcing with large and mega caps committing vast resources. The ensuing action for LOIM in 2021 from this outcome will be to target those smaller companies and facilitate and support further and enhanced disclosures.
- **the shared acknowledgement** amongst investee companies of their difficulty to properly engage and cater to the different available service providers and reporting frameworks.

Business models

Based on our engagements seeking to promote a transition to a profitable net-zero business model, there is still little evidence of how key board decisions are influencing business models and company strategy. Although an increasing number of companies provide narrative reporting on net-zero it is unclear how they hope to achieve net zero and monitor that progress. A main outcome for these engagements has been making boards of investee companies aware of the need to increase climate knowledge and skills at board level and to embed this in audit, remuneration and nomination committees, update their policies, and provide a board-skills matrix that includes this assessment. The ensuing action for LOIM in 2021 will be to continue to have these conversations at board level, and also focus on engaging companies to set intermediate science-based targets in the short and medium-term.

Engagements

Principle 10 - Collaboration

› "Signatories, where necessary, participate in collaborative engagement to influence issuers."[1]

[1] Financial Reporting Council's UK Stewardship Code 2020.

Collaborative Engagements

Activity

During 2020 we took the decision to selectively target the collaborative engagements where we would participate. We are committed to working with others, as described throughout the report, and firmly believe in the need for and the power of joint action. However, given that 2020 was also the year when we effectively rolled out our stewardship function, and the particular workload and organizational set-up needed for some collaborative engagements, we have been mindful to carefully select our collaborations with others to those that are aligned with our strategic objectives as a firm, and where we could be contributors in earnest.

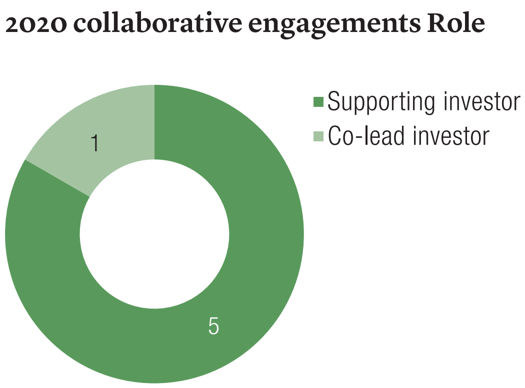
As discussed in Principle 1 – Purpose, **Lombard Odier** has been both a co-founder and an active participant in initiatives, associations, collaborative engagements and platforms that promote the adoption of socially responsible investing throughout the financial industry. We are particularly active in following organizations dedicated to collaborative engagements.

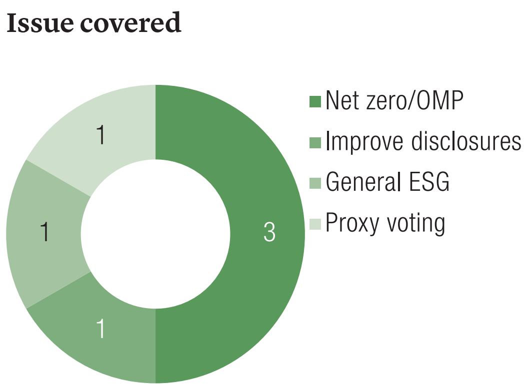
Here are the initiatives we joined and participated in during 2020, together with the rationale for doing so:

- We became a participant in Climate Action 100+ This initiative is intimately aligned with our investment objective of accelerating a transition towards a net-zero business model and a sustainable economic model, which includes hard-to-abate sectors. Within CA100+, we joined two on-going engagements in the Forestry & Paper industry and in the Household Product industry.
- We signed a **PRI-organised** letter to the Securities and Exchange Commission ('SEC') asking the SEC to preserve shareholders' rights in relation to shareholder proposals thresholds for submission and the independence of proxy voting advice. As active managers, we found the proposed SEC limitations concerning and impacting on our ability to discharge our fiduciary duties.
- We signed the Open Letter to EU Leaders from Investors on Sustainable EU Recovery from COVID-19. We believe it was vital to express our views on the need for a green recovery that also increases the resilience of society.
- We supported CDP's Science-Based Target Campaign, a new initiative designed to push the 1850 highest-emitting public companies to commit to setting a 1.5C emissions reduction target. Our engagement work has emphasized the need for companies to set science-based targets and joining this campaign further supports this vision.
- We joined an investor group (representing USD 2 trillion of assets under management) in a letter to the UN to address the **sustainability of the maritime industry and the humane treatment of seafarers** in the context of COVID-19. We saw this collective engagement as key in the context of social impact of COVID-19 and the exacerbation of inequalities.
- We are an active participant in the Investor Working Group of the "**Sustainable Stock Exchange Initiative (SSE)**", which is a partnership between the UN and its affiliated organizations, stock exchanges and their regulators, investors, and companies. The overarching objective of the SSE Investor Working Group focuses on stock exchanges and their regulators enhancing listing rules or regulatory initiatives on how to disclose

sustainability strategies among listed companies. Improved and enhanced disclosures is one of our key engagement priorities, as they enable and promote best-in-class business practices.

Collaborative engagements summary 2020





Source LOIM. For illustrative purposes only.

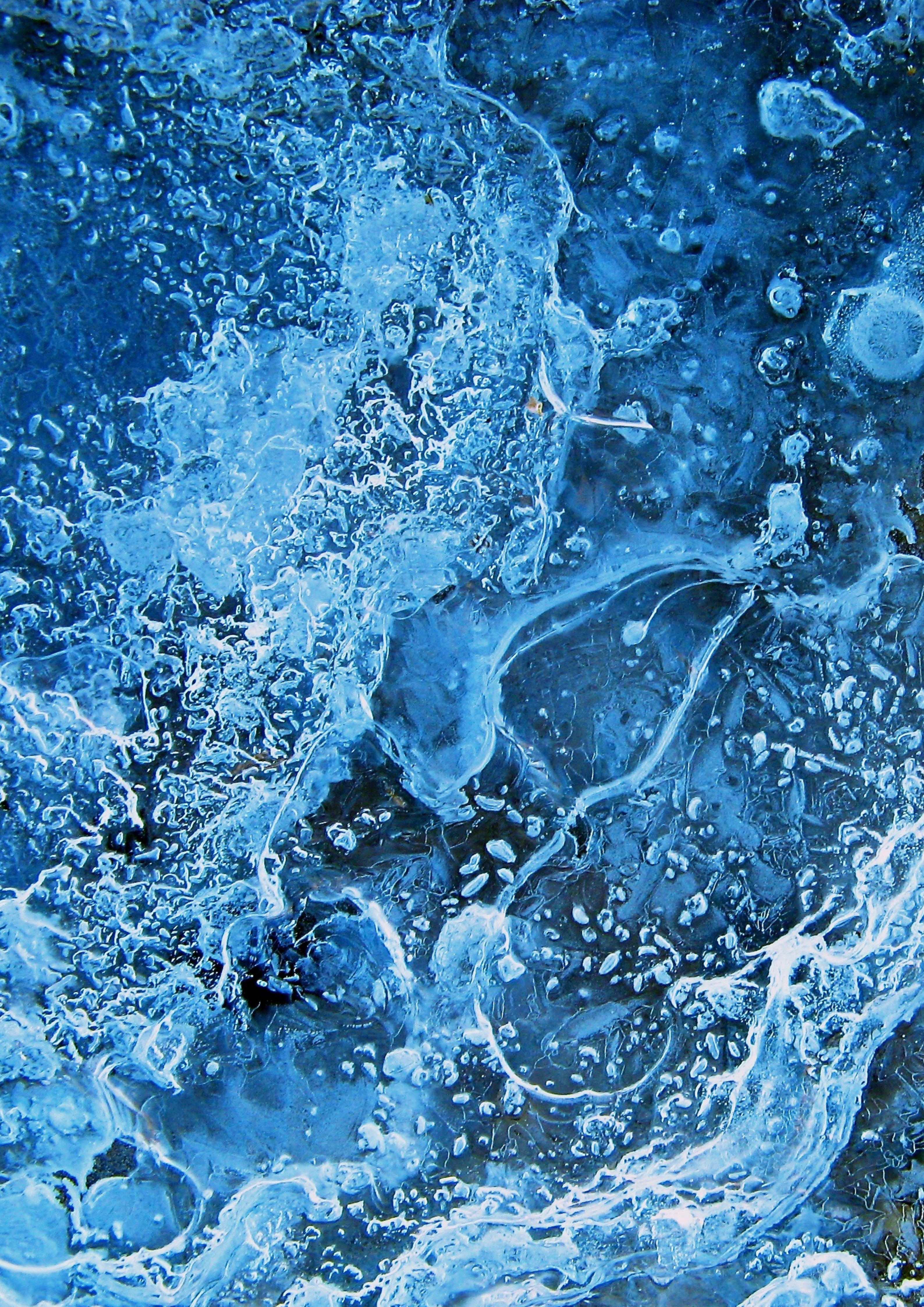
Outcome

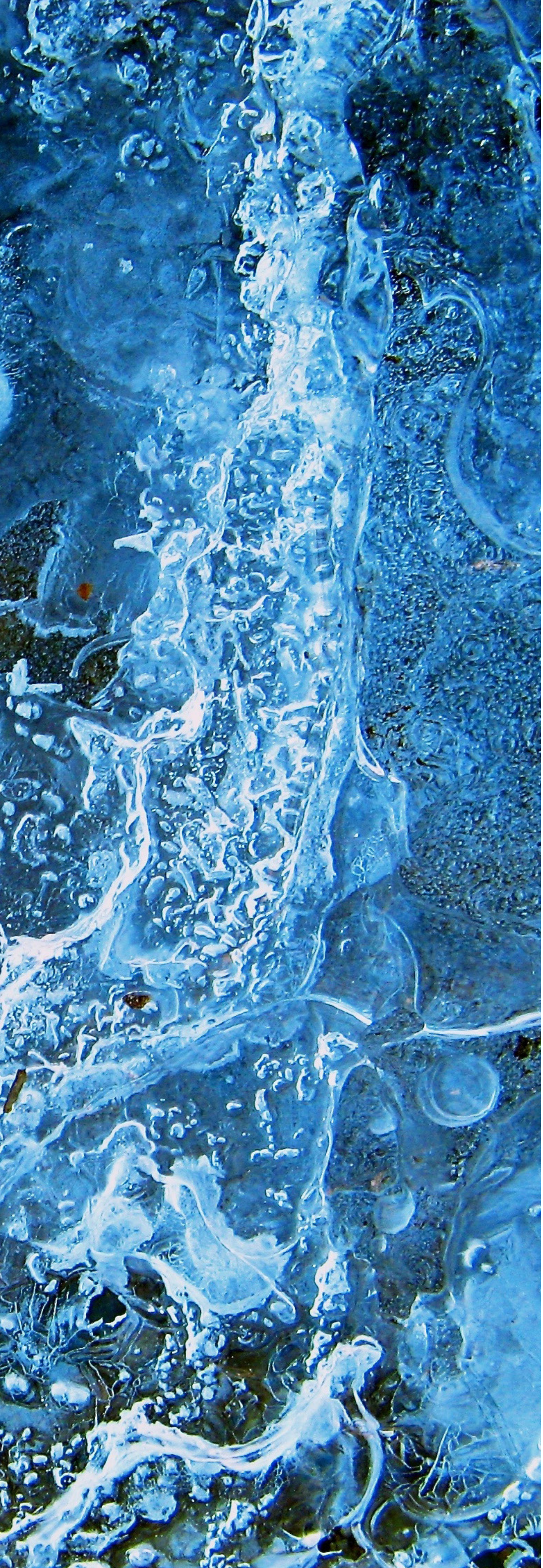
Actions taken by companies

We have been pleased to see that all the companies we collaboratively engaged with were open to dialogue. We always look to engagements over the long-term and were not expecting to see such a rapid seismic change.

In our Climate Action 100+ engagements, we continue to perceive a significant lack of awareness by companies on the need to urgently transition and set up science-based targets that support the transition pathway. We also find that board and overall governance structures are not ultimately set up to support, inform and provide independent oversight to this transition. One specific example is remuneration policies, where there appears to be a systemic lack of alignment between executive compensation metrics and the stated climate strategy and ambition.

As we look at our 2021 collaborative engagement work, we will continue to pursue the topics above and seek to expand the collaborations that we support.





Engagements
Principle 11

› "Signatories, where necessary, escalate stewardship activities to influence issuers."[1]

[1] Financial Reporting Council's UK Stewardship Code 2020.

Escalation

Activity

In line with the expansion of our stewardship work in 2020, we have updated and expanded the escalation approach in our engagement policy. This section gives public shape and recognition to LOIM's practices around stewardship escalation. Our guiding principle is that constructive dialogue is more effective and adds more value in the long term than a reactive, quick divestment decision, although we are prepared to divest and/or exclude from our universe.

Stewardship as a Process

We take a measured approach to stewardship, as we understand that some of our requests (for example, setting science-based targets, committing to the protection of biodiversity and integrating both into the strategy of the business) will be a slow and long process, and we are prepared to be patient.

We believe, and stand ready to commit time and resources to this belief, that constructive, private, non-confrontational dialogue tends to be more effective. Within this category of stewardship, we will generally give a company no less than 12 to 18 months to make progress and ideally meet our expectations before, if necessary, we escalate our approach to more public fora. We may of course increase the intensity of the engagement (for example by speaking with the Chair, Senior Independent Director, and/or Senior Sustainability Officers), but we are committed to giving our investee companies time to ensure transitioning plans. During the before-escalation timeframe, we continue to maintain dialogue with companies and look for evidence that progress is taking place, even if in small steps. Our IT stewardship infrastructure allows us to easily keep track of ongoing engagements, and escalate as appropriate.

We see divestment as a last resort mechanism, an escalation strategy to be used after a) exhausting enhanced and intense engagement (individual, followed up by collaborative engagements); and b) appropriately using our vote to hold boards accountable for lack of action, both by voting against the most relevant management resolutions, supporting shareholder proposals seeking to address the issue, and also filing or co-filing shareholder proposals. In addition to, and separate to the above, our actions also include expressing concerns through the companies' advisors, making a public statement in advance of a shareholders' meeting, speaking at a shareholders' meeting and requesting a general meeting. The last step at LOIM is divesting and excluding a company from our investment universe.

We take the view that a) each company is unique, even if the topic under engagement is the same; and b) escalation action cannot be approached with a one-size-fits-all angle. Our stewardship and escalation approach reflect that.

In more detail:

- We seek to address concerns through ongoing engagement dialogue with our investee companies. These conversations take place between the investment analysts and PMs, and sustainability and stewardship teams to ensure integration and full internal visibility. In the majority of cases, our concerns are either sufficiently mitigated by extended explanations, or companies agree to look at the issue, report to the board (when conversation does not take place with board members), and report back to us within an agreed timeframe.
- Escalating our engagement is done on a case-by-case basis, and any decision will depend on the severity of the issue and the engagement history (i.e. whether the company has been responding well to our concerns, previous voting, and immediate controversies affecting the stock). Any decision to use tactical voting, file a shareholder proposal or divest will require input from the Portfolio Manager, CIO, Stewardship team and Stewardship Committee.

- The Stewardship Committee is the final decision maker for escalation matters. This is also discussed in Principle 2 – Governance; Principle 3 – Conflicts of Interest, and Principle 7 – Integration.

Escalation prioritisation

We apply the same escalation policy and approach across all the geographies where we are invested, and across asset classes. All teams share the understanding and knowledge that stewardship is a toolbox allowing us to unlock value in our investments. Our toolbox includes many different escalation tools. However, we are mindful that in some geographies there are limitations to the rights available to us as investors, the willingness of board members to speak directly with investors, language barriers or barriers to submitting shareholder proposals. In these cases we may pursue a collaborative route or jump ahead in the escalation steps (for example vote against).

At LOIM, we believe that the sustainability revolution has become one of the most important drivers of risk and return, and our escalation approach reflects this. Underpinning this approach is our belief that sound and solid corporate governance structures create the framework within which a company can be run in the long-term interests of its shareholders and stakeholders. In practice this means that our escalation approach may organically be more focused on some specific funds (LO Funds – Climate Transition, LO Funds – Natural Capital), assets (equities) and geographies (US and Europe). More specifically, we may naturally focus escalation on a) companies in our CLIC™ funds, as they are subject to enhanced discussions, engagements and voting oversight on a wide range of sustainability and ESG considerations; b) the two CLIC™ themes (transition to net-zero and the protection of natural capital); and c) corporate governance issues.

Outcome

Voting as escalation mechanism

This is, in our view, the most widely used escalation mechanism currently available to investors. The degree to which the voting process gives voice to investors' concerns about ESG and sustainability factors helps to shape not only individual issuers' business practices and business models, but also the resilience of the stock market. Public disclosures of voting records are a phenomenal mechanism showing the power and ability of votes in year 1 leading to changes in subsequent years.

Below we provide two examples of LOIM's escalation strategy. The first example led to changes in the issuer, and we were able to vote 'for'; the second example did not yield the expected result and we voted against. These two examples are not closely related to our investment and stewardship priorities (those arising from CLIC™). We think this is a positive outcome, and one that reflects our escalation strategy, where we are prepared to give time to business models' changes.

Case study – a German company

We were concerned about their Audit Committee composition. We set ourselves the engagement objective of improving the Committee's independence level and initiated an engagement with IR. We detailed our views, highlighting the need for Audit Committees to be ideally fully independent to ensure the effective delivery of their critical oversight function. Our first written correspondence led to a call with the company, in which IR acknowledged our concerns but were unable to provide us with reassurances that overall independence would be improved. Although we concluded this was an improvement, we shared with the company that lack of further action to ensure broader independence would lead us to vote against the re-election of those Non-Independent Directors serving as Audit Committee members, which included the Chair of the Board. This resulted in the company making a commitment that the Board Chair would not seek re-election as an Audit Committee member. Following this, as our engagement objective was achieved, we were able to support the re-election of all board members, leading to changes at the issuer.

Case study – a British company

We had concerns on the proposed Remuneration Policy and initiated an engagement, with the objective of obtaining further disclosures and granularity on the rationale for removing performance-driven long-term incentives and replacing them with a restricted share scheme. We did not think it was appropriate nor achievable to set ourselves the objective of changing the proposed policy, because it had already been subject to a shareholder consultation (which we had not been able to take part in). Following our email, we held a call with IR, which was successful, as the Company was able to give us a thorough review of their rationale for the changes. However, the explanations did not mitigate our concerns on the lack of measurable alignment between pay and performance, so we voted against the relevant resolutions at the AGM.

Following our votes, we internally determined the next steps, namely: to continue to engage with the company on the application of the policy during 2020, including a consideration of executive pay outcomes during the year, against the pandemic background. We have successfully continued the conversations with the company.

Increased communications as an escalation approach.

During 2020, we were faced with situations where our communications with an investee company for an initial engagement went unanswered. Despite the variety in asset class, geographies and sectors, our emails and letters had a common engagement thread and objective: a request to discuss the company's need to increase their own ESG and Sustainability disclosures. Based on our proprietary methodologies, we were concerned that these companies' disclosures were not aligned with expected best practice, and were particularly poor in areas that are financially material to each of their respective sectors. Our engagement objective sought to make companies aware of this and encourage them to improve their reporting (the need for improved disclosures is discussed throughout the report, but particularly in Principle 2 – Governance; Principle 4 – Managing risks; Principle 7 – Integration; Principle 8 – Monitoring providers; Principle 9 – Engagement; Principle 10 – Collaboration; and Principle 12 – Voting).

When faced with a lack of response, we increased the volume of communication with companies. This first escalation step resulted in a significant number of companies responding to us, in turn leading to one-to-one engagements on the need to improve disclosures. The outcomes of these engagements themselves are varied and we discuss our views on companies' Sustainability disclosures journeys in more detail under Principle 9 – Engagement. For companies in this bucket, we did not need to further escalate, and as of 2020 year end, our engagements continue to progress well. We expect that companies in this category will produce significantly improved ESG/Sustainability disclosures during 2021.

For a minority of companies, we were however still left with unanswered engagement requests. This lack of response triggered internal debates on how to proceed. We took the view to continue to increase communication pressures by getting in touch with each company every few weeks and expanding the number of contacts. Again, this twice-enhanced escalation eventually proved successful and we were able to fully deploy our engagements, which are ongoing.

Unfortunately, there was a small minority of companies within this category that never replied to us despite our enhanced communication approach. As a next step, we plan to reach out to them in 2021.

Exercising Rights and Responsibilities

Principle 12

› "Signatories actively exercise their rights and responsibilities."[1]

[1] Financial Reporting Council's UK Stewardship Code 2020.

Actively exercise rights and responsibilites

Context

At LOIM, we firmly believe that exercising voting rights is a fundamental responsibility as active stewards of our clients' economic interests. Voting appears as a key theme throughout this report, and particularly in Principle 1 – Purpose; Principle 2 – Governance; Principle 3 – CoI; Principle 4 – Managing risks; Principle 7 – Integration; Principle 8 – Monitoring providers; Principle 9 – Engagement; and Principle 10 – Collaboration. In this way, proxy voting is the common thread that triggers and cements integration.

Historically, voting had not featured as prominently, but during 2020, in parallel to the development of the centralized stewardship function, we have been able to raise the profile and importance of voting internally, and implement new policies, processes and rules that have both increased our voting coverage, and also deepened the analysts', portfolio managers', and stewardship colleagues' involvement in voting.

Voting policy, guidelines and processes

Our voting guidelines and proxy policy seek to ensure that our voting is aligned with our clients' long-term interests. Any change we encourage companies to make through the exercise of voting rights (or related engagement) is intended to improve a company's long-term performance. Accordingly our voting decisions (i) favour proposals that in our view tend to maximise clients' long-term shareholder value; and (ii) are not influenced by conflicts of interest. These principles reflect our belief that sound corporate governance and the effective management of social and environmental risks create a framework within which a company can be run in the interests of its shareholders.

As an overriding principle we follow the two main global governance standards (G20/OECD Principles of Corporate Governance (2015) and ICGN Global Corporate Governance Principles (2017, and the more recent 2020 update). In addition, we also believe that corporate governance is relative and context-dependent and we tailor our voting approach to local market practice by taking into account the recommendations issued by each local Corporate Governance Code/Listing rules.

Proxy research provider

We use Institutional Shareholders Services (Europe) S.A. ("ISS") to provide operational, recordkeeping, research and reporting services. We have established a two-pronged approach with ISS research: firstly, we use ISS' benchmark research report, which triggers written analysis and recommendation for each proxy vote. Secondly, based on our custom approach and views, contained in c.600 different rules, a second report is generated. We receive customised reports for every vote and portfolio managers and the stewardship team receives an automated alert when there is a misalignment with one of the approximately 600 corporate governance rules in our custom policy. Sustainability issues and companies under engagement are systematically referred to the stewardship team for further oversight. Once the teams have reviewed the materials, and where necessary engaged, votes are cast.

Categories

Our voting falls into five broad categories (it being understood that in practice certain topics may not fall into any of those categories and will be dependent on the view of either the stewardship or portfolio management teams).

Routine matters: Unless we determine otherwise in any particular case, the routine matters below are voted in accordance with our guiding principles, as determined by best market practices (audit, income distribution, amendment to Articles of Association, capital related resolutions, etc.)

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

Voting against a Company's Board: Certain Board-related topics, listed below, will be referred to the relevant portfolio management and stewardship team when the proposals are not aligned with our guiding principles (fixing the number of Directors and/or Auditors, eliminating Cumulative Voting, approving discharge of Management and Supervisory Board, electing Directors).

Material events: Material events, including those below, will be systematically referred to the relevant portfolio management team for a voting decision: merger agreement, reorganization/restructuring plan, joint venture agreement, plan of liquidation, spin-off agreement.

Sustainability topics: Sustainability-related topics, including those below, are systematically referred to our Stewardship team for a voting decision: robust oversight structures around ESG issues, climate-related risks and opportunities (including: taking action to address climate change and to establish environmental/social issue board committee, genetically modified organisms [GMO], weapons related, and M&A activity when it involves sustainability issues).

2020 Improvements

During 2020, we have exponentially increased our internal oversight of proxy voting by implementing several changes to the policies, but also to the way we collaborate across investment and stewardship teams for voting matters.

Changes

Below we list the key changes in 2020:

- Development of the specified guidelines, reflecting our view of optimal corporate governance and related environmental and social matters.
- Inclusion of a custom vote report in ISS' research and vote platform which includes vote recommendations according to our own internal guidelines (which in many cases include different vote recommendations to those based on ISS' benchmark reports).
- Creation of automated alerts to PMs and stewardship team when there is no alignment with specified guidelines.
- Clarification that although we subscribe to ISS research, and our votes may be significantly aligned with those recommended by ISS, our own custom view has grown in depth and breadth, and LOIM will exercise discretion when voting to reflect a different view, engagements in progress and/or any escalation procedures.
- Broadened the scope of our proxy voting coverage by lowering the thresholds that trigger a vote.
- With the aim of promoting stronger corporate governance practices at investee companies and supporting companies' sustainability and social profile, we have included in our voting guidelines and procedures an enhanced oversight layer by the Head of Stewardship for the following proxy voting areas:
    - Directors (re) elections and related resolutions.
    - Remuneration policy, report and related resolutions.
    - Changes to Articles of Association.
    - Environmental and Sustainability related resolutions.

- All shareholder resolutions.

- Specification that proxies for all companies under engagement, will be by default referred to the Head of Stewardship.

Clients may indeed override a house policy: a client may propose to vote differently from ISS' and our own custom recommendations on any topic, as long as the vote is motivated and justified. Once we are satisfied that the proposed vote is free from conflict of interests and the rationale is sound, we will instruct it on behalf of our clients.

We **recall** all positions lent by default in order to ensure that we can exercise our voting rights fully, and this approach is included in our proxy voting policy.

We have made significant progress in proxy voting related matters during 2020, but we recognize that our voting guidelines and policy need further development to provide more 1) a broader voting scope; and 2) specific disclosures on the expectations that Lombard Odier has around companies' corporate governance structures and related E & S activities. This is a key strategic area of work for 2021, as we have reflected in Principle 5 – Review.

Activity

Our voting records are publicly available online. They are updated on a quarterly retrospective basis. Given the ease of use of the interface, we have decided to not include voting records in this report itself.

We aim to cast votes on all meetings where our holding exceeds a certain threshold or where issues of particular importance arise. In 2019, this threshold was 1% of NAV of each fund, which resulted in 35% of our equity holding falling within our table universe. In 2019, we cast votes on 100% of these meetings. In 2020 the threshold was lowered to all holdings with a value at or above USD 250,000, expanding our voting universe to 55% of all equity holdings. In 2020, we again cast votes on 100% of our votable universe, and we also cast votes outside our votable universe on certain M&A or sustainability related general meetings that were identified as of importance. For 2021, we have further lowered this threshold to all holdings with a value at or above USD 100,000 which will expand our votable universe to 63% all of equity holdings. We continue to keep under review the appropriateness of our voting framework.

During the 2020 calendar year, LOIM reviewed, analysed and instructed votes at 1,864 shareholders' meetings including more than 23,300 voting items, across 51 different markets. We voted against management on at least one resolution at 40% of all meetings voted. On a per resolution basis, we did not support management at 9% of all resolutions.

97% of all votes cast were successfully processed, forwarded and received by issuers. Our vote instructions for 56 of these meetings were not received by the companies due to operational reasons (Power of Attorney, share-blocking, or sub-custodian issues). An audit of these 56 unvoted meetings has been provided to us by our service provider, including an explanation for each missed meeting, together with remedial action to prevent those issues from happening in the future.

Fixed income assets

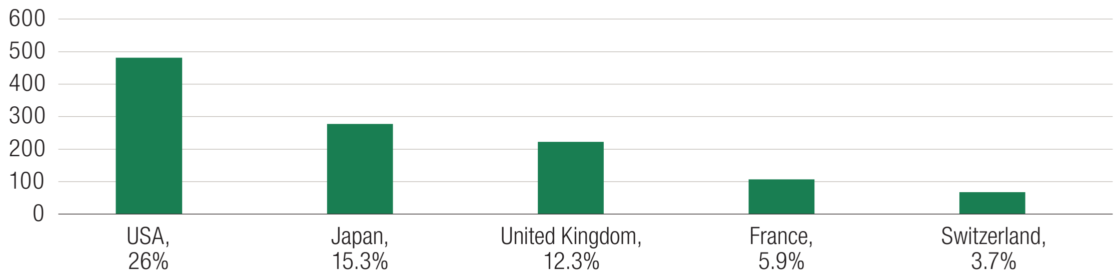
In relation to fixed income assets:

- We do not seek to change the terms of a company's contracts with third parties;

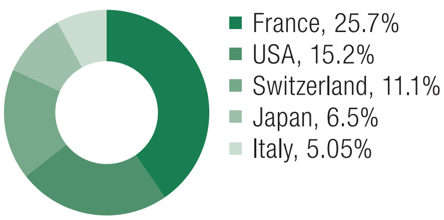
- As part of a financial review of a company's balance sheet, we can ask for additional information relating to a trust (assuming it is of significant size on the company's balance sheet).
- As debt holders, we expect to enquire about a substantial reduction in the recoverable amount of a fixed asset.
- Indeed, long-term assets (often the biggest amount on a company's balance sheet) are particularly at risk of impairment. This would result in the impairment the issuer's capital.
- As debt holders, we are duty-bound to review the prospectus outlining the terms of the credit instrument.

2020 voting snapshot

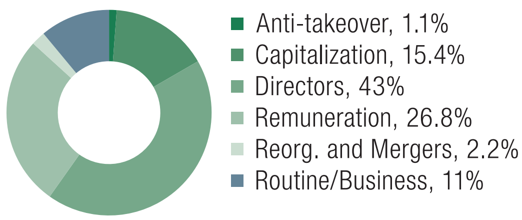
Meetings voted by market (top 5)



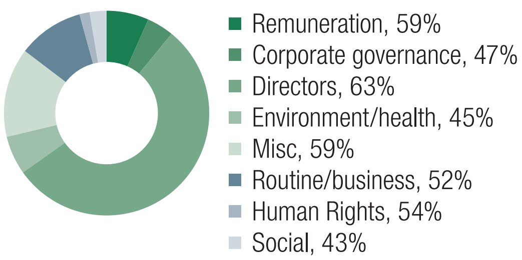
Votes against on a per market basis (top 5)



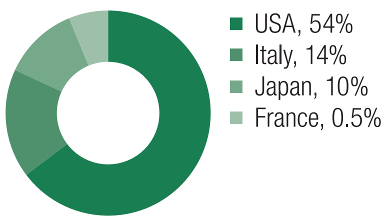
Votes against - category breakdown



Shareholder proposals - votes 'for'



Shareholder proposals - market breakdown



Source LOIM. For illustrative purposes only.

Outcome

Below we provide the rationale for some of our vote decisions across the ESG and sustainability spectrum during 2020, our assessment of how our voting may have impacted company strategies, and how approach to stakeholder engagement helped raise the profile of these issues. We do so against the main frameworks identified throughout the report, namely business practices and business models. The common thread is the use our proxy voting rights to unlock value, and promote best-in class business practices and alignment to transition pathways.

The 2020 proxy season was a voting season like no other, given the unexpected challenges brought on by the pandemic. Shareholder meetings were postponed, cancelled, and moved to online format, and dividend payments were cancelled. As we cast our votes during 2020, it became evident how much the ongoing crisis highlighted how critical balance sheet resilience is essential for companies' long-term viability. Equally important, Covid-19 has made clear the potential adverse impacts of non-financial risks on companies, but also rejigged the relative importance and interconnectedness of environmental, social, and governance matters on ballots.

Alignment with transition pathways

Topic: climate: transitioning plans

A UK Bank received a shareholder proposal, filed by Share Action together with another 100 investors, requesting it to 'set and disclose targets to phase out the provision of financial services to energy and utilities companies that are not Paris aligned. The timelines for phase out must be aligned with the Paris climate goals.' A few weeks later, the company submitted its own proposal committing to 'set an ambition to be a net zero bank in Scopes 1, 2 and 3 by 2050, in line with Paris Agreement, set, disclose and implement a strategy and report annually on progress.'

This meant we had the rare opportunity of a vote on two competing yet complementary resolutions. We engaged with the company several times and spoke with Share Action on more than one occasion as well. We voted in support of both resolutions as we wanted to send a strong message to the company. Whilst the company's proposal was an important forward move, we ultimately decided that that supporting the shareholder resolution as well would help bring a larger focus on the short and medium term targets and actions needed in order to achieve the net zero Scopes 1, 2 and 3 objectives. Our own approach to decarbonisation emphasizes the importance of transitioning plans (and the company's proposal focused on transitioning). However, we felt that the company did not address in earnest its lending practices, and we were concerned about the multiplier effect that capital deployment can have. The shareholder resolution received 24% support thereby sending a strong message to the company on the need for urgent, short term action in which to anchor the 2050 ambition.

Topic: climate transition and board accountability (an unresponsive company).

We were concerned about an American oil-and-gas company's climate governance and strategy. We saw it as a failure of corporate governance, and specifically, as a failure of independent directors to oversee management and expedite progress on reporting aligned with Taskforce on Climate-related Financial Disclosures. At the May 2020 AGM, shareholders (and the wider stakeholders) still had no plans from the company as to how the company intended to align with the Paris goals, and we were surprised by its announced increases in investment in oil and gas projects. In formulating our votes, we noted that the company is under engagement by Climate Action 100+, and had received several shareholder proposals in the past seeking to assess the same issues. This led us to vote against all directors, given the lack of response at board level over climate strategy, the remuneration policy, and the lack of inclusion of climate-related metrics. We also voted 'for' all shareholder proposals, as we sought to strengthen corporate governance structures and disclosures on climate transition. Although none of the shareholder resolutions passed, we think they were important in continuing to deliver the message to the company that climate-competent governance is a must.

In December 2020, the company announced a five-year plan to reduce greenhouse gas emissions and reach 'industry leading greenhouse gas performance across its business by 2030'. Although the plan is difficult to judge, we remain concerned that it neither significantly addresses scope 3 emissions nor long-term energy transition challenges. This may impact our votes at the 2021 AGM.

Topic: climate transition (a significantly responsive company).

We were concerned about a French oil-and-gas company's stated ambition to become net-zero by 2050 across scopes 1, 2 and 3, which were tabled in a resolution asking shareholders to support changes to its Articles of Association to 'enshrine consideration of the social and environmental challenges involved in the company's activities and in the duties of the board of directors'. Although this was a positive development, in our view the company's proposal fell short of the ambition required by oil and gas companies to meet the Paris goals; its net-zero ambition by 2050 only applied to energy products used by its customers in regions which governments have already committed to implementing regulation aiming at net-zero. In practice, the ambition applied (at the time of voting) to Europe, and more specifically, the EU, UK and Norway. Given that these countries have already committed to net-zero, our view was that the company was simply committing to following national legislation, i.e., the bare minimum.

We voted in support of all management proposals, including the re-election of board members, in recognition of the significant progress made by the company. However, we also voted in favour of a shareholder proposal asking the company to set and publish GHG emissions targets aligned with Paris Agreement Goal, as in our view, the ambition needs to apply across all geographies; and absolute emissions reductions, not intensity targets, are the path towards net-zero.

Through our votes, we pushed the company to expand its ambition to countries that have not yet committed to net-zero, and sent the company a message, alongside many other shareholders, that further commitments are needed.

Topic: climate transition (a responsive company).

A British-Dutch oil-and-gas company announced in early 2020 its intention to become net-zero by 2050 or sooner. The company also announced enhanced scopes 1, 2 and 3 emissions targets and a strengthened

Net Carbon Footprint Reduction target of 65% by 2050, with an interim target of 30% by 2035. Although we prefer more detailed and granular alignment between variable execution compensation and climate transition strategy, we voted in support of all management resolutions, given the significant progress made by the company both in ambition and commitment. We also decided to support the remuneration resolutions as the (then) current LTIP cycle finalises in 2021, making the 2021 AGM a better accountability forum for forward-looking remuneration matters. In addition, we voted against the shareholder proposal asking the company to set and publish GHG emissions targets aligned with the Paris Agreement, as in our opinion, the company's current climate strategy is sufficient and appropriate (more ambitious targets have been determined by aligning to a 1.5C warming scenario).

Topic: sustainable business model.

At a French packaged-foods company's AGM in 2020 we were proud to support a resolution seeking to amend the Company's Articles of Association to adopt the French 'Enterprise à Mission' status'. The resolution was approved by 99% of shareholders, making it France's first large listed company to adopt this new legal status; which requires the company to generate profit for shareholders but in a way that benefits customers' health and that of the planet. As such, their social and environmental objectives are considered and included in its Articles of Association. The company also committed to reporting on progress on an annual basis and having said progress judged by a committee of ten outside experts.

Best-in-class business practices

Topic: board composition and reputational risk.

At the AGM of a British airline, we were concerned about the re-election of one of the directors, given that the director was a director of another company which had collapsed earlier in the year. In our internal discussions, we recognized the skills and expertise in digital, data and cybersecurity, and saw them as an important addition to the board's overall makeup. However, when we weighted these against her membership of the other company's board, we concluded that the reputational risks from being associated with a team that did not meet the most basic corporate governance test was too large to ignore, and we decided to vote against her re-election.

The director resigned from the board two days before the AGM, which led to the withdrawal of the resolution to re-elect her. We understand that the vote intentions communicated by numerous shareholders may have impacted this decision.

Topic: social/labour issues in a Covid 19 environment.

We were concerned about a British airline's special meeting seeking to approve a capital raising as part of the company's response to Covid-19. The issuance, proposed on a non pre-emptive basis, was dilutive to shareholders (around 13%). The issuance was in addition to the standard share issuance authorities approved at the (pre-pandemic) AGM. We engaged with the company as we believed it was necessary to have more clarity on the capital raising request and the company's decision to make up to 30% of the workforce redundant.

Following our engagement, we decided to support the capital raising. Mitigating our dilution concerns were the fact that 1) the company only sought approval for 10% pre-emptive and 5% non pre-emptive basis at their 2020 AGM; and 2) the company has historically put forward a lower threshold than standard UK market practice for share issuances. Although we still had some concerns about the company's redundancy scheme, but given the historically strong relations between board, management, workforce and unions, we were satisfied that such a large restructuring was probably needed then (July 2020).

This capital raising received overwhelming shareholder support and was thus approved. We believe that our engagement with the company around labour issues reinforced the need for careful labour relations management and highlighted our expectations of alignment between executives' remuneration in 2020 and that of the employees.

Topic: legal structure change.

At the AGM of a German healthcare technology company, we were concerned about a resolution seeking to change their legal structure from Societas Europaea into a Kommanditgesellschaft auf Aktien (KGaA). We did not support the resolution as the KGaA structure is explicitly intended to allow shareholders to participate in the control of the company whilst granting the company access to public markets. We believed this would be detrimental to our rights as minority shareholders.

The significant vote against this resolution (despite the presence of a supportive controlling shareholder) sent a clear message to the company and to the market that institutional investors are vigilant about structural changes that erode the equal rights of all shareholders.

Topic: remuneration: pension contributions.

We were surprised by a remuneration policy resolution at the 2020 AGM of a British research and consulting services company, which maintained the CEO's pension contribution at six times the wider workforce's rate (30% of salary) without making any commitment to reducing it in the future, as recommended by 2018 UK Corporate Governance Code and the Investment Association's Remuneration Principles, which advise the need of a credible plan for incumbent directors to achieve alignment with the majority of the workforce by no later than the end of 2022.

We wrote to the company on this particular issue and were not satisfied with the outcome of the engagement and therefore voted against the remuneration policy. This contributed to the 42.9% votes against, making it the second-lowest level of support for a remuneration policy across the FTSE100. This has sent a very strong message to the company that institutional investors expect companies to follow the Code and prevailing best practice guidelines.

Closing statement

We hope that in this report we have shown that our commitment to the 12 Principles is an integral part of our business, a key approach to protecting and enhancing the long-term value of our clients' assets.

We are constantly assessing and improving our stewardship processes and look forward to building on the work we have done in 2020 as we go forward into a post-pandemic world.

If you have any comments or feedback, we would be delighted to hear from you. Please get in touch with us: LOIMStewardship@lombardodier.com

We would like to thank the employees who made key contributions to this report: Rebeca Coriat, Anouchka Miquel, Christopher Kaminker, Michael Urban, Nicolas Barben, Joshua Felgate, Jennifer Probst and Sarah Manvel.

Key facts about LO Funds – Natural Capital

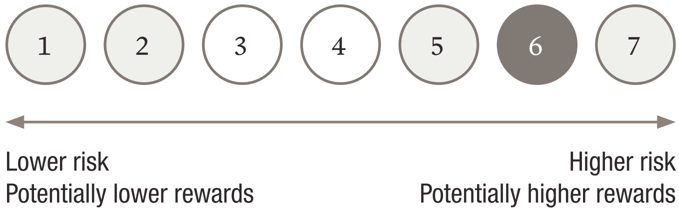
Legal structure	SICAV-UCITS (Luxembourg)[1]
Investment objectives	The Sub-Fund is actively managed. The MSCI World SMID Cap TR ND is used for performance and internal risk indicators comparison. The Sub-Fund invests in equity and equity related securities (including, but not limited to, warrants) issued by companies worldwide (including Emerging Markets) whose growth will benefit from regulations, innovations, services or products favoring the transition to a more circular economy and to an economy that values natural capital. It seeks to invest in high quality companies with sustainable financial models, business practices and business models showing resilience and the ability to evolve and benefit from long term structural trends using LOIM proprietary ESG and Sustainability Profiling tools and methodologies.
Investor profile	The Sub-Fund may be appropriate for investors, who seek capital appreciation over the long-term; and are willing to take on the increased risks associated with the categories of assets described in the investment objective and policy; and can withstand volatility in the value of their Shares. This Sub-Fund may not be appropriate for investors who plan to withdraw their money within 5 years.
Seeding period	19 October 2020 – 14 November 2020
Sub-Fund launch	16 November 2020
Custodian bank/administration	CACEIS Bank, Luxembourg Branch
Liquidity	Daily
Subscription/redemption details	Subscription deadline: T-1, 15:00 Luxembourg time Payment date: T+2
Registered countries[2]	Registered for distribution to retail investors in: Austria (AT), Finland (FI), Germany (DE), Italy (IT), Liechtenstein (LI), Luxembourg (LU), Netherlands (NL), Norway (NO), Spain (ES), Sweden (SE), United Kingdom (GB). **Switzerland** (CH): Registered for distribution to Swiss non-qualified investors with the FINMA. **Belgium** (BE): Not appropriate for Belgian retail investors unless the investment subscription is more than EUR 250,000.
Reference currency	USD
Minimum investment	EUR 3,000[3]
Management fee	0.375%
Distribution fee	0.75%
Conversion fee	Up to 0.50% (of the total amount switched)
Performance fee	None
Taxation in the EU	Tax treatments depends on the individual circumstances of each client and may be subject to change in the future. Please consult your tax advisor for more details.

Share class	ISIN	Entry charge	Exit charge	Ongoing charge	Countries of registration
LO Funds – Natural Capital, Seed, (USD) P A	LU2212485200	Up to 5%	-	1.10%	AT, BE, CH, DE, ES, FI, GB, LI, LU, NL, NO, SE
LO Funds – Natural Capital, Seed, (USD) P D	LU2212485382	Up to 5%	-	1.10%	AT, BE, CH, DE, FI, GB, LI, LU, NL, NO, SE
LO Funds – Natural Capital, Syst. NAV Hdg, Seed, (CHF) P A	LU2212487750	Up to 5%	-	1.10%	AT, BE, CH, DE, ES, GB, LI, LU, NL
LO Funds – Natural Capital, Syst. NAV Hdg, Seed, (CHF) P D	LU2212487834	Up to 5%	-	1.10%	AT, BE, CH, DE, GB, LI, LU, NL
LO Funds – Natural Capital, Syst. NAV Hdg, Seed, (EUR) P A	LU2212490465	Up to 5%	-	1.10%	AT, BE, CH, DE, ES, FI, GB, LI, LU, NL, NO, SE
LO Funds – Natural Capital, Syst. NAV Hdg, Seed, (EUR) P D	LU2212490549	Up to 5%	-	1.10%	AT, BE, CH, DE, FI, GB, LI, LU, NL, NO, SE
LO Funds – Natural Capital, Syst. NAV Hdg, Seed, (GBP) P A	LU2212493212	Up to 5%	-	1.10%	AT, BE, CH, DE, ES, GB, LI, LU, NL
LO Funds – Natural Capital, Syst. NAV Hdg, Seed, (GBP) P D	LU2212493303	Up to 5%	-	1.10%	AT, BE, CH, DE, GB, LI, LU, NL
LO Funds – Natural Capital, Syst. NAV Hdg, Seed, (JPY) P A	LU2212495183	Up to 5%	-	1.10%	AT, BE, CH, DE, ES, GB, LI, LU, NL
LO Funds – Natural Capital, Syst. NAV Hdg, Seed, (JPY) P D	LU2212495266	Up to 5%	-	1.10%	AT, BE, CH, DE, GB, LI, LU, NL

The above share classes are for illustrative purposes only. Other share classes may be available in your country. The prospectus, the Key Investor Information Documents (KIIDs), the articles of incorporation as well as the semi-annual and annual reports are available on www.loim.com and can be requested free of charge at the registered office of the Sub-Fund.

[1] Undertaking for the Collective Investment in Transferable Securities (UCITS) subject to Luxembourg laws. Natural Capital is a Sub-Fund of LO Funds. / [2] Not all share classes or currency units are available in every country where the Sub-Fund is registered. For further information on the availability of these share classes or currency unites, please refer to the fund documentation and/or your relationship manager. Please refer to important information at the end of this marketing communication. / [3] Or equivalent amount in another currency.

Risk Profile and Inherent Risks



The Sub-Fund invests mainly in equity securities and equity-related securities of retail and consumer-related companies issued by companies incorporated or exercising a prominent part of their business activities, directly or indirectly, in emerging markets.

The above indicator (SRRI) represents the annualized historical volatility of the Sub-Fund over a 5-year period. Where there are less than 5 years worth of data, missing returns are simulated using an appropriate benchmark. The SRRI may change over time and should not be used as an indicator of future risk or returns. Even the lowest risk classification does not imply that the Sub-Fund is risk-free or that capital is necessarily guaranteed or protected.

The value of these shares is exposed to high volatility, which means that this value may be subject to high variations both upward and downward that may create important short term latent losses.

The following risks may be materially relevant but may not always be adequately captured by the synthetic risk indicator and may cause additional loss:

Concentration risk: To the extent that the fund's investments are concentrated in a particular country, market, industry, sector or asset class, the fund may be susceptible to loss due to adverse occurrences affecting that country, market, industry, sector or asset class.

Emerging market risk: Significant investment in emerging markets may expose to difficulties when buying and selling investments. Emerging markets are also more likely to experience political uncertainty and investments held in these countries may not have the same protection as those held in more developed countries.

Active management risk: Active management relies on anticipating various market developments and/or security selection. There is a risk at any given time that the fund may not be invested in the highest-performing markets or securities. The fund's net asset value may also decline.

Please also pay particular attention to the inherent risks of the Sub-Fund such as:

- Risks related to Equities;
- Risks related to Small and Medium Sized Capitalisations;
- Risks related to Currencies;
- Risks related to Regional and Sectorial Concentration.

Before taking any investment decision, please read the latest version of the prospectus, the articles of incorporation, the Key Investor Information Documents (KIIDs) and the latest annual report and semi-annual report. Please pay attention to the Appendix B "Risk Factors Annex" of the prospectus.

Source: LOIM research. For illustrative purposes only.

Key facts about LO Funds – Climate Transition

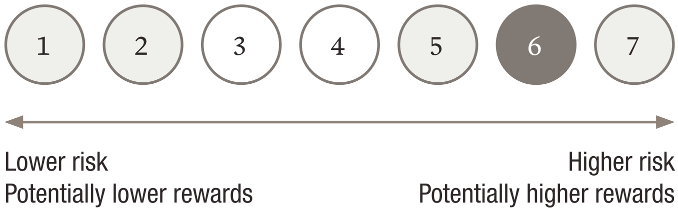
Legal structure	SICAV-UCITS (Luxembourg)1
Investment objectives	The Sub-Fund is actively managed. The MSCI World TR ND is used for performance and internal risk indicators comparison. The Sub-Fund invests in equity and equity related securities issued by companies worldwide (including Emerging Markets) whose growth will benefit from regulations, innovations, services or products related to the global fight against or adaptation to climate change. The Sub-Fund seeks to invest in high quality companies with sustainable financial models, business practices and business models showing resilience and the ability to evolve and benefit from long term structural trends using its proprietary environmental, social and governance factors. As part of its Emerging Market exposure, the Sub-Fund may invest up to 20% of its net assets in shares issued by mainland China-incorporated companies (including China A-Shares). The Investment Manager is authorized to use financial derivative instruments for hedging purposes or for EPM but not as part of the investment strategy.
Investor profile	The Sub-Fund may be appropriate for investors, who seek capital appreciation over the long-term; and are willing to take on the increased risks associated with the categories of assets described in the investment objective and policy; and can withstand volatility in the value of their Shares. This Sub-Fund may not be appropriate for investors who plan to withdraw their money within 5 years.
Sub-Fund launch	16 March 2020
Custodian bank/administration	CACEIS Bank, Luxembourg Branch
Liquidity	Daily
Subscription/redemption details	Subscription deadline: T-1, 15:00 Luxembourg time Payment date: Up to T+3
Registered countries[2]	Registered for distribution to retail investors in: Austria (AT), Finland (FI), France (FR), Germany (DE), Italy (IT), Liechtenstein (LI), Luxembourg (LU), Netherlands (NL), Norway (NO), Spain (ES), Sweden (SE), United Kingdom (GB). Switzerland (CH): Registered for distribution to Swiss non-qualified investors with the FINMA. Belgium (BE): Not appropriate for Belgian retail investors unless the investment subscription is more than EUR 250,000.
Reference currency	USD
Minimum investment	EUR 3,000 (Class P), EUR 1,000 (Class R)[3]
Management fee	0.75%
Distribution fee	0.75%
Conversion fee	Up to 0.50% (of the total amount switched)
Taxation in the EU	Tax treatments depends on the individual circumstances of each client and may be subject to change in the future. Please consult your tax advisor for more details.

Share class	ISIN	SRRI	Entry charge	Exit charge	Ongoing charge	Performance fee	Countries of registration
LO Funds – Climate Transition, (USD), PA	LU2107587557	6	Up to 5.00%	0.00%	1.85%	None	AT, BE, DE, ES, FI, FR, GB, IT, LI, LU, NL, NO, SE

The above share classes are for illustrative purposes only. Other share classes may be available in your country. The prospectus, the Key Investor Information Documents (KIIDs), the articles of incorporation as well as the semi-annual and annual reports are available on www.loim.com and can be requested free of charge at the registered office of the Sub-Fund.

[1] Undertaking for the Collective Investment in Transferable Securities (UCITS) subject to Luxembourg laws. Climate Transition is a Sub-Fund of LO Funds. / [2] Not all share classes or currency units are available in every country where the Sub-Fund is registered. For further information on the availability of these share classes or currency unites, please refer to the fund documentation and/or your relationship manager. Please refer to important information at the end of this marketing communication. / [3] Or equivalent amount in another currency.

Understanding the risks & Glossary



The Sub-Fund invests mainly in equity securities and equity-related securities of retail and consumer-related companies issued by companies incorporated or exercising a prominent part of their business activities, directly or indirectly, in emerging markets.

The above indicator (SRRI) represents the annualized historical volatility of the Sub-Fund over a 5-year period. Where there are less than 5 years worth of data, missing returns are simulated using an appropriate benchmark. The SRRI may change over time and should not be used as an indicator of future risk or returns. Even the lowest risk classification does not imply that the Sub-Fund is risk-free or that capital is necessarily guaranteed or protected.

The value of these shares is exposed to high volatility, which means that this value may be subject to high variations both upward and downward that may create important short term latent losses.

The following risks may be materially relevant but may not always be adequately captured by the synthetic risk indicator and may cause additional loss:

Concentration risk: To the extent that the fund's investments are concentrated in a particular country, market, industry, sector or asset class, the fund may be susceptible to loss due to adverse occurrences affecting that country, market, industry, sector or asset class.

Emerging market risk: Significant investment in emerging markets may expose to difficulties when buying and selling investments. Emerging markets are also more likely to experience political uncertainty and investments held in these countries may not have the same protection as those held in more developed countries.

Active management risk: Active management relies on anticipating various market developments and/or security selection. There is a risk at any given time that the fund may not be invested in the highest-performing markets or securities. The fund's net asset value may also decline.

Please also pay particular attention to the inherent risks of the Sub-Fund such as:

- Risks related to Equities;
- Risks related to Small and Medium Sized Capitalisations;
- Risks related to Currencies;
- Risks related to Regional and Sectorial Concentration

Before taking any investment decision, please read the latest version of the prospectus, the articles of incorporation, the Key Investor Information Documents (KIIDs) and the latest annual report and semi-annual report. Please pay attention to the Appendix B "Risk Factors Annex" of the prospectus.

Glossary:

For more definitions please refer to https://am.lombardodier.com/home/glossary.html

Source: LOIM research. For illustrative purposes only.

IMPORTANT INFORMATION

Lombard Odier Funds (hereinafter the “Fund”) is a Luxembourg investment company with variable capital (SICAV). The Fund is authorised and regulated by the Luxembourg Supervisory Authority of the Financial Sector (CSSF) as an Undertaking for Collective Investments in Transferable Securities UCITS under Part I of the Luxembourg law of the 17 December 2010 implementing the European directive 2009/65/EC, as amended (“UCITS Directive”). This marketing document particularly relates to Natural Capital and Climate Transition, both Sub-Funds of LO-Funds (hereinafter the “Sub-Funds”).

The Management Company of the Fund is Lombard Odier Funds (Europe) S.A. (hereinafter the “Management Company”), a Luxembourg based public limited company (SA), having its registered office at 291, route d'Arlon, 1150 Luxembourg, authorised and regulated by the CSSF as a Management Company within the meaning of EU Directive 2009/65/EC, as amended; and within the meaning of the EU Directive 2011/61/EU on Alternative Investment Fund Managers (AIFMD). The purpose of the Management Company is the creation, promotion, administration, management and the marketing of Luxembourg and foreign UCITS, alternative investment funds ("AIFs") and other regulated funds, collective investment vehicles or other investment vehicles, as well as the offering of portfolio management and investment advisory services.

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

The prospectus, the articles of incorporation, the Key Investor Information Documents, the subscription form and the most recent annual and semi-annual reports are the only official offering documents of the Sub-Fund's shares (the “Offering Documents”). The Offering Documents are/will become available in English, French, German and Italian at www.loim.com and can be requested free of charge at the registered office of the Sub-Fund in Luxembourg: 291 route d'Arlon, 1150 Luxembourg, Grand Duchy of Luxembourg.

The information contained in this marketing communication does not take into account any individual's specific circumstances, objectives or needs and does not constitute research or that any investment strategy is suitable or appropriate to individual circumstances or that any investment or strategy constitutes a personal investment advice to any investor. This marketing communication is not intended to substitute any professional advice on investment in financial products. Before making an investment in the Sub-Funds, an investor should read the entire Offering Documents, and in particular the risk factors pertaining to an investment in the Sub-Fund. We would like to draw the investor's attention toward the long-term nature of delivering returns across the economic cycle and the use of financial derivative instruments as part of the investment strategy may result in a higher level of leverage and increase the overall risk exposure of the Sub-Funds and the volatility of their Net Asset Value. Investors should take care to assess the suitability of such investment to his/her particular risk profile and circumstances and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. There can be no assurance that the Sub-Funds' investment objective will be achieved or that there will be a return on capital. Past performance is not a reliable indicator of future results. Where the Sub-Funds are denominated in a currency other than an investor's base currency, changes in the rate of exchange may have an adverse effect on price and income. Please take note of the risk factors.

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