LOIM Group Companies

Engagement Policy

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Definitions

CAR	Consciousness, Action, Results
CEO	LOIM Chief Executive Officer
CFO	LOIM Chief Financial Officer
ESG	Means Environmental, Social and Governance
GRI Standards	Create a common language for organisations to report on their sustainability impacts
LO Group	means Lombard Odier Group and includes Banque Lombard Odier & Cie SA, LOIM Group entities and other subsidiaries of LO Holding SA.
LOIM	Means Lombard Odier Investment Managers
LOIM Group	Consists of the following companies: Lombard Odier Asset Management (Switzerland) SA Lombard Odier Asset Management (Europe) Limited Lombard Odier Asset Management (USA) Corp Lombard Odier Funds (Europe) S.A. and its Branches Each a "LOIM Company " and ultimately owned by LO Holding SA
LOIM UCITS range	Means Lombard Odier Funds and Lombard Odier Funds III
LOPTA	Means Lombard Odier Portfolio Temperature Alignment
OMP	Means the Oxford Martin Principles for Climate Conscious Investors
SIRSS	Sustainable Investment Research Strategy and Stewardship Team
Stewardship Committee	Means the committee appointed by the LOIM Companies to oversee the implementation of the LOIM stewardship activities
UCITS	Means undertakings for collective investment on transferable securities following Part I of the the Law of 17 December 2010

1. Stewardship framework

Stewardship statement

At LOIM, we believe the sustainability transition will be a key driver of risks and returns for the foreseeable future. The world is on the brink of a profound transition. Our prevailing economic model is wasteful, idle, lopsided, and dirty (WILD). It is unsustainable in the long term and built on a linear take-make-waste model that excessively extracts materials, including fossil fuels, ores and minerals. However, we see evidence that the next economic revolution has already begun. A powerful feedback loop of forces including regulatory pressure, market forces and technological innovation, investor capital re-allocation and consumer preferences is starting to force a rethink of business models. We think this transition to a circular, leaner, more inclusive, and cleaner economy (CLIC™) will unlock huge untapped value. The transition from a WILD to a CLIC economy represents a move from a value-destructive economy to a value-creating economy, in our view, and will be a key investment driver for the foreseeable future.

In this transition, we are firm believers in the importance of stewardship. This is a crucial approach to protect and enhance the long-term sustainable value of the assets entrusted to us by our clients, and an indispensable tool to achieve lasting impact beyond financial returns. Through active ownership, we aim to help companies align themselves to sustainable transition pathways, which are net-zero, nature-positive and fair. We promote and uphold best-in-class business practices and aim to manage controversies. We believe this combination is the cornerstone for businesses to thrive over the long term. This means that through stewardship, we make a positive contribution to the CLIC™ economy.

We discharge our stewardship responsibilities through engagement across asset classes and through voting. We enter a dialogue with companies, engage with them and use our votes (when applicable) to help guide them towards more sustainable business models and best-in-class business practices. We use this dialogue to enhance our understanding of a company's sustainability, which allows us to feed it back into investment analysis.

Voting and Engagement, key tools of our stewardship efforts

We use voting and engagement as constituents of our stewardship continuum. Through engagement, a meaningful two-way conversation, we seek to build trust with our investee companies. It is a crucial, integrated approach throughout the investment lifecycle, that seeks to ensure our companies are aligned with the sustainability challenges they face. We first seek to understand where companies are in the sustainability transition process, and then respectfully and constructively suggest the changes that we believe are necessary. Through engagement, we raise issues, seek to understand how the company can react to them and how it engages itself in an internal process to address them.

As a baseline, voting allows us to hold management accountable at least once a year and express and convey our views and preferences, even if no prior engagement has taken place. Enhanced voting – that is voting against a management resolution or for a shareholder proposal following an engagement – is one of the more powerful stewardship escalation mechanisms we have at our disposal, given the legally-binding nature of most resolutions that are put to a vote; the readiness and availability that companies display around shareholders' meetings season; and the fact that a company will have full prior visibility on the rationale for the vote against. This vote against may trigger further engagements, allowing us to incorporate a stewardship outlook into our financial analysis.

Overarching objectives of our stewardship efforts

As a responsible investor, we have the duty to engage and vote to shape sustainable companies to generate value over the long term. Using stewardship, we specifically aim to reach three key objectives:

1. Encourage companies to align themselves to sustainable transition pathways

Adopting a sustainable transition pathway is crucial for companies to maintain and increase their value over the years to come. It is our duty as a responsible investor to encourage them to move in this direction. We define transition pathways in alignment with our CLIC™ vision, which reflects the change underway at the level of the economy that affects sectors and industries.

2. Promote and uphold best-in-class business practices

Sound and robust business practices, reflecting a coherent framework aligned with a company's vision and mission, are a key element to successfully create value over the long term.

3. Manage controversies

As an investor, we are faced with unexpected but also in-the-making controversies. As an active owner, we engage with companies subject to certain levels of controversies to gain the most complete understanding of the source of the controversy, and of the remedial action that can be taken. Divestment always remains an option open to us, but we regard it as the last step in our stewardship escalation mechanism.

2. Engagement policy

2.1. Engagement, a meaningful conversation

As an active asset manager, engagement is how we open and maintain continuous and constructive dialogue with a company throughout the investment lifecycle, and across different asset classes. Our engagements are carried out to pursue, support and promote our three stewardship objectives. The outcomes of such a process influence our investment views, thereby ensuring a circular and integrated approach.

1. Why is it important to have a dialogue?

Engaging companies in purposeful dialogue on matters linked to long-term business success contributes to our investment research and decision-making. Our dialogue with companies provides us with insights about the mind-set of a company's management and its willingness to move toward sustainable transition and better business practices.

Dialogue also enables us to improve the quality of the data that our portfolio managers use. Quantitative and qualitative analysis naturally relies on robust data to produce compelling results. However, in our experience, many companies may not communicate adequately this data. This does not necessarily mean they lack strong business practices – they just may not be documenting the relevant policies and practices in a transparent manner. By engaging with companies to improve the information they make publicly available, we can strengthen the robustness of our data, making the comparisons between companies in a sector more accurate and therefore more investment-relevant.

In addition to helping us build a better, more complete understanding of a company and its positioning in the sustainable transition journey, this engagement approach allows us to link sustainable transitions with proxy voting.

2. How do we select the companies we engage with?

We prioritise engagement with companies that we consider are most at risk vis-à-vis our three key stewardship objectives. To identify them, we rely on proprietary innovative tools, such as the Lombard Odier Portfolio Temperature Alignment ("LOPTA") tool or our proprietary ESG/CAR materiality framework ("LO ESG/CAR Materiality"). These tools help us identify the real potential laggards regarding sustainability transition and/or material business practices in their relevant company's industry and engage with them.

Our engagement candidate selection process is a reiterative, collaborative process involving portfolio management, sustainability and stewardship teams. The process includes the following steps:

- company and issue identification based on internal tools
- company and issue analysis, engagement objectives preparation, driven by the Stewardship team with inputs from the investment team
- follow-up meetings, and escalation process launched, if required

3. Who is our dialogue conducted with?

Our dialogue with companies can be undertaken in a variety of ways, including one-to-one calls/meetings with management (Chairman, Senior Independent Director, other Non-Executive Directors, CFO, CEO, ESG and Sustainability Officers, etc.), periodic investor calls/meetings, written dialogue, during pre-offering capital markets roadshows, as well as through collective/coalition investor initiatives.

4. Why does our dialogue cover fixed income as well as equities?

We open a dialogue with companies regardless of whether we are equity or fixed-income investors. Traditionally, as owners of companies, equity investors have taken the lead on engagement since they are directly impacted by the failure to manage or mitigate corporate governance risks. When it comes to fixed income, particularly in the case of corporate bonds, we believe dialogue with companies is a critical aspect of credit analysis as it gives us a better understanding of the risk profile of the issuer. The unique characteristics of this asset class lend themselves to dialogue on different issues than equity investments. Leverage, liquidity, and tail-risk are among the key issues, which become even more important for lower-rated issuers.

5. How do we monitor and report on our engagements?

We seek to keep regular contact with companies so that we can track long-term progress against defined goals over a multi-year framework, following our escalation principle. Our ongoing dialogue keeps track of any changes, progress, or lack of with regards to our engagement objectives.

2.2. *Guiding principles shaping our engagement framework*

To effectively discharge our engagement responsibilities and reach the three key objectives of our Stewardship strategy, we rely on key Principles that provide guidance internally and externally in relation to our expectations of companies.

Our engagement Principles specifically seek to engage companies on their boards' skills, knowledge, experience, and readiness to guide companies to transition pathways (board leadership), companies' transparency and disclosures, the alignment between transition pathways and executive remuneration policies, and share capital management. In addition to helping us build a better, more complete understanding of a company and its positioning in the sustainable transition journey, this approach allows us to link sustainable transitions and best-in-class business practices with proxy voting.

This guidance is provided under the following engagement frameworks:

1. Engagement framework for Stewardship objective 1: Oxford Martin Principles[1]

Under this framework, we seek to encourage companies to align their business models with sustainable transition pathways. We focus on those sectors where Greenhouse Gas (GHG) emissions are harder-to-abated or in sensitive sectors and industries relative to climate transition and natural capital protection. We address the need to decarbonize business models via the Oxford Martin Principles, as well as focusing on the governance of both climate transition and natural capital.

We use the strategic framework provided by the Oxford Martin Principles for Climate Conscious Investors to engage companies on their commitment to climate transition with the goal of net-zero alignment. This ranges from governance of climate transition to appropriate target setting and reportable outcomes. Our engagement with companies through this framework is articulated alongside the following three questions:

1. Does the company have a commitment to transition to net-zero emissions?
2. Does the company have a profitable net-zero business model under net-zero?
3. Has the company set quantitative medium-term targets that will be reported against?

For engagements related to Natural Capital, we use emerging best practice as well as our materiality framework to guide our conversations with companies. Climate change and natural capital are intrinsically connected, and as business models shift towards decarbonised propositions, we engage with companies to ensure they can demonstrate how they minimise their negative impacts on, and how they harness and protect, natural capital. We encourage companies to disclose how material natural capital risks and opportunities may affect their operations, long-term strategy, capital expenditures and risk management, and to set clear, measurable natural capital KPIs.

We remain committed to climate transition engagements for improved disclosures under the rubric of the Financial Stability Board (FSB) Task Force on Climate-related Disclosures and other reporting frameworks, such as Global Reporting Initiative (GRI).

2. Engagement framework for Stewardship objective 2 and 3: LOIM Corporate Governance Guidelines.

When engaging a company about any issue related to our second objective (best-in-class business practices) and our third objective (controversy management), we specifically rely on the expectations described in our Corporate Governance Guidelines. This set of guidelines reflects our belief that sound corporate governance structures, built to effectively manage social and environmental risks, create a framework within which a company can be run in the long-term interests of its shareholders and stakeholders. These principles focus on five major areas of Corporate Governance: leadership, transparency, remuneration, share capital and shareholder proposals.

For a broader perspective, we also refer to the G20/OECD Principles of Corporate Governance (2015) and ICGN Global Corporate Governance Principles (2021).

2.3. *Escalation*

We believe that constructive, private, non-confrontational dialogue tends to be more effective. We will generally give a company no less than 18-24 months to make progress before, if necessary, we escalate our approach. LOIM's engagement policy sets out the following escalation provisions:

- increasing the intensity of the engagement (individual engagements with more senior board members, and collaborative engagements)
- appropriately using our vote to hold boards accountable for lack of response or lack of action: voting against the most relevant management resolutions, supporting shareholder proposals seeking to address the issue, and filing or co-filing shareholder proposals, and requesting an EGM.
- expressing concerns through the companies' advisors, making a public statement in advance of a shareholders' meeting, and speaking at a shareholders' meeting and requesting a general meeting.
- ultimately, in the last resort, we keep the possibility to divest and exclude a company from our investment universe.

[1] Principles_For_Climate_Conscious_Investment_Feb2018.pdf (ox.ac.uk).

Our escalation approach rests on 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 approach. We seek to address concerns through ongoing engagement dialogue with our investee companies. These conversations take place between the investment analysts, portfolio managers (PMs) and sustainability and stewardship teams to ensure integration and full internal visibility.

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 PM, CIO, Stewardship team and Stewardship Committee.

2.4. Conflicts of interest

Given Lombard Odier's independent ownership structure, we are free from some of the stewardship conflicts of interest held by publicly-owned financial institutions. However, we acknowledge that conflicts of interest may indeed occur when we discharge our stewardship responsibilities, especially when we vote and engage on behalf of our clients' shares. As such, we seek to actively identify any potential, real or perceived conflict of interest, manage it and mitigate any risks.

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 dedicated section in our Corporate Governance and Voting guidelines, as well as this engagement and conflicts of interest section.

Our principal objective when considering our engagements (both process and content) is to ensure that we fulfil our fiduciary duty by always acting in the interests of our clients. We have implemented processes to address potential conflicts of interest to prevent them from influencing engagement processes. 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 to avoid a topic related conflict of interest.

2.5. Collaboration, memberships and affiliations

We support investor collaborations, investor networks and investor affiliations on engagement activities as a tool to achieve further impact and to leverage and scale size.

LOIM is an active member of stewardship-related organisations and memberships. Since September 2021, we have been signatories of the UK 2020 Stewardship Code.

For an up-to-date list of stewardship and sustainability-related membership, please visit our website.

Note: Whilst this policy is intended to broadly apply to the management of the LOIM Luxembourg UCITS range of funds, it should be noted that it may not always be possible/practical to implement across all strategies/funds within the LOIM UCITS range.