



LOMBARD ODIER
INVESTMENT MANAGERS

Lombard Odier – SRI Policy

June 2017

1. Our Values

Rethink. Anticipate. Adapt. Always.

For over 200 years Lombard Odier has been fully dedicated to its clients, remaining fully focused on what we do best. Our tradition of innovation has always stood us in good stead and enabled us to grow even during the more than 40 financial crises the world has experienced since our Bank was founded in 1796. Stability and continuity are amongst our core values and, while we remain true to our Swiss heritage, our outlook and approach are unabashedly international.

We have been pioneers from the start: Lombard Odier was a precursor in the defence of fundamental human rights and at the forefront of the major social movements of the time. In the 19th century our founding Partners were very much at the heart of Switzerland's industrial and financial development but at the same time remained sensitive to the social impact of those changes and their consequences. Alexandre Lombard, a second generation partner, was a driving force in abolishing Sunday labour. He was amongst the first to actively support Henri Dunant, the founder of the Red Cross, and more to the point, wrote an influential treatise on investing in North America wherein, on the subject of slavery, he openly condemned the Union as being built on a shameful principle and that this "sooner or later can only bring about its ruin". This is SRI in action in 1841! Between 1860 and 1910 a later partner, Alexis Lombard, well known as a philanthropist banker, put our Bank firmly on the road to expansion and in 1911, we were amongst the first private companies in Switzerland to set up a pension fund for our employees. And only a few decades later, just after World War II, our Bank looked beyond Europe and began opening offices overseas starting with Montreal in 1951. In 1979 Lombard Odier was the first European bank to have a seat on the New York Stock Exchange.

In 1997, merely five years after the Earth Summit in Rio and nine years **before the United Nations Principles of Responsible Investment (UNPRI)** were propounded, Lombard Odier remained true to its heritage as a precursor and co-founded the Ethos Foundation whose goal is to promote socially responsible investment in Switzerland. That same year we built an investment model with sustainable development as its core concept. Since then Lombard Odier has continued to build on that model and now provides a wide range of sustainable and impact investment solutions (advisory, dedicated and public funds, bespoke mandate strategies, environmental and social reporting) thereby remaining true to its tradition of applying a mix of prudence and openness to new ideas in order to meet the challenges of a constantly changing world. In 2007 we partnered with IM Generation, founded by Al Gore and David Blood, whose investment style blends traditional equity research with a focus on ESG factors.

And so, given our values and heritage, it comes as no surprise that our Bank will always seek to identify and anticipate the main trends changing today's society and shaping tomorrow's. Today we are convinced **that sustainable and impact investing** are the best way to ensure durable returns for our clients' while supporting the world's transition to a more sustainable and positive future.

2. Our commitment to sustainable finance and impact investing

As an investor, we are convinced that it is our responsibility and duty to support the transition of our economies to more inclusive and sustainable models. Environmental and social challenges (depletion of natural resources, pollution, climate change, skewed demographics and wealth distribution etc.) are ushering in a new paradigm and exposing investors to yet another set of risks: stranded assets, regulatory instability, reputational fallout, environmental surtaxes, costs from lengthy court proceedings and heightened market volatility to name but a few. But those risks are also a new source of investment opportunities. Clean energy, low carbon real estate, enhanced mobility, inclusive technologies, microfinance are all major areas of innovation representing significant growth prospects. Our priority is to best meet our clients' long term objectives while fostering the adoption of economic models that are fully consistent with the UN Sustainable Development Goals. This engagement is not only expressed in our investment process and portfolios, it is also reflected in the strong support we bring to collaborative initiatives that contribute to shaping our industry. Lombard Odier is a signatory of the six United Nations Principles for Responsible Investment since 2007 and is committed to developing its own business in line with those principles:

- **Principle 1 - “Incorporation of ESG issues into investment analysis and decision-making processes”:** Lombard Odier supports and promotes the use of ESG factors (Environmental, Social, Governance) in its investment strategies in order to represent its clients' values as truly as possible. Our Bank offers a wide range of services starting with establishing sustainable investment policies, exercising voting rights, publishing regular and transparent reports and ultimately actively managing and monitoring portfolios.
- **Principle 2 - “Be an active owner with ESG issues incorporated in ownership policies and practices”:** Lombard Odier is an active investor that closely checks the quality of governance of the companies in which it invests. We have established a clear policy regarding the exercise of voting rights during General Assemblies. Our main goal is to favour proposals that protect and maximise shareholder interests and value respectively. Lombard Odier subscribes to the UK Stewardship code and participates in collaborative engagement initiatives.
- **Principle 3 – “Seek appropriate ESG disclosure by the entities in which we invest”:** Lombard Odier strives to have the companies it invests in include ESG issues and other non-financial information in their standard reports. Since 2015, we have been supporting an investor group run by the United Nations that aims to have stock exchanges adopt guidelines requiring the companies they quote to report non-financial data in a transparent and standardised way.
- **Principle 4 – “Promote acceptance and implementation within the industry”:** Our Bank is an active member, when not cofounder, of many initiatives and associations that promote the adoption of SRI throughout the financial industry:
 - Active member of Sustainable Finance Geneva (SFG) which promotes Sustainable Finance and positions Geneva as a sustainable finance centre
 - Founding partner and active member of Swiss Sustainable Finance (SSF)
 - Founding partner and active member of Global Impact Investing Network (GIIN) 's Investors Council
 - Signatory of the 2014 Global Investor Statement on Climate Change
 - Signatory of the Carbon Disclosure Project (CDP) since 2004

Lombard Odier participates in numerous public events promoting responsible investing (Geneva Summit on Sustainable Finance as well as microfinance and impact investing conferences).

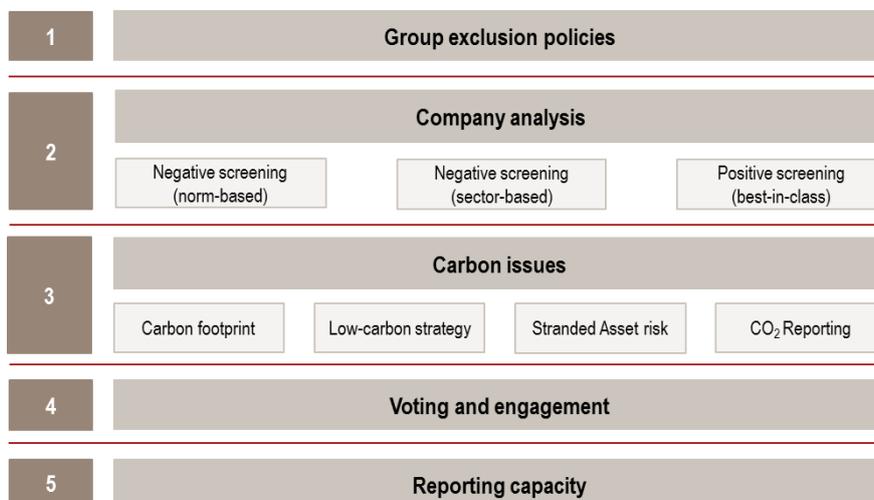
- **Principle 5 – “Work together for ever-better implementation”:** Lombard Odier supports UNPRI collaborative initiatives and is actively involved with local, national and international regulatory and political authorities in order to promote a sustainable finance framework.
- **Principle 6 – “Transparency on our own activity and implementation progress”:** Lombard Odier completes the annual United Nations PRI questionnaire the responses to which are available to the public on the UNPRI's website: <https://www.unpri.org/organisation/lombard-odier-144263>. Out of a commitment to transparency for our Clients, we pay great care to the quality of the non-financial reports that we prepare for them. Charts, detailed analyses, follow-ups on controversies, ESG scores, carbon intensity, industry exclusions etc. are examples of the type of information that enable our clients to have a clear view of the environmental and social profile of their portfolios and, upon request, we send a detailed history of how we exercised the voting rights in their name.

3. A specialist SRI and impact investing team at the heart of the investment process

Our SRI and impact investing team is comprised of five specialists with, on average, 14 years' experience each. Those specialists are embedded in our investment, marketing and sales teams which gives them maximum exposure to all the branches of our Bank. Our quantitative platform enables our team to implement and manage any type of sustainable and impact investment strategy over time. Every month, our sustainable and impact Investment Committee brings together our SRI specialists and representatives of our investment and risk teams to discuss progress on strategy implementation. And last but not least, our Partners and top Management meet with our SRI and impact specialists in the Controversial Investments Committee on a regular basis and jointly determine our Group's strategic guidelines in terms of Sustainable and Impact investing.

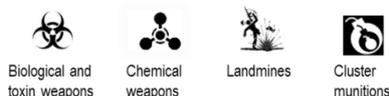
4. Our SRI strategies and solutions

Our Responsible Investing (RI) model was created in 1997 and since then it has continuously been reviewed and improved. Our strategies are focused on five different areas, which supports our principal concerns on sustainability issues.



The **first pillar** reflects our group policies on controversial investments, which excludes:

- a) Companies involved in the production or distribution of **controversial weapons**. Lombard Odier does not invest in companies that produce, trade or store controversial weapons (biological and chemical weapons, anti-personnel mines, cluster weapons, depleted uranium, white phosphorus) as defined by the United Nations conventions. These controversial weapons kill, seriously injure and maim civilians in an indiscriminate way, and often continue to do so long after conflicts have ended. With the exception of depleted uranium and white phosphorus, the production and use of such weapons has been banned or outlawed by international treaties, namely the Biological and Toxin Weapons Convention (BWC – 1972), the Chemical Weapons Convention (CWC – 1993), the Ottawa Treaty on landmines (effective 1999), and the Convention on Cluster Munition (Oslo Convention -2008). The identification and monitoring of these companies is made by an independent provider. The list includes companies or institutions having a significant shareholding in the companies directly involved in such activities.



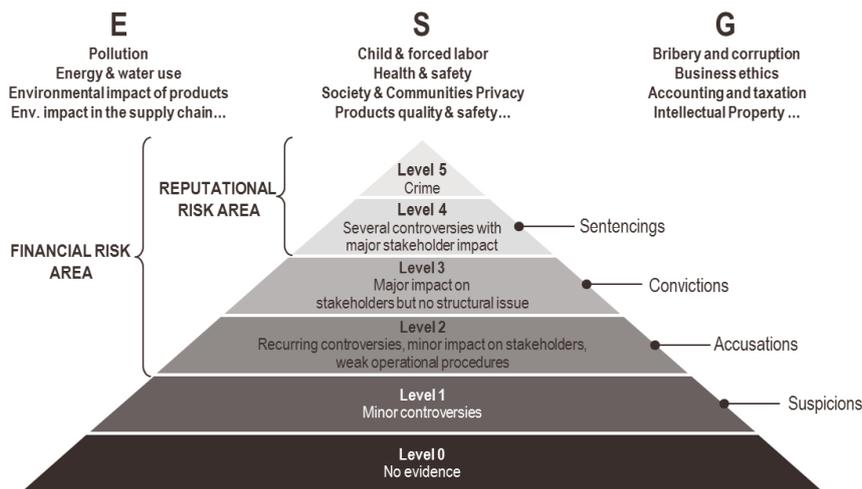
- b) Financial instruments (futures, options, swaps, indices, exchange-traded funds) directly linked to '**essential food commodities**' (wheat, rice, corn and soybeans). These four cereals form the basis of the human diet worldwide. Stable food prices are a crucial component of food security for many populations at risk. The increasing volatility of their prices directly impacts the most vulnerable populations who are sometimes forced to spend over 80% of their income on food just to survive. As we are concerned about the potential impact of commodities investments on the volatility of essential food prices, Lombard Odier has decided to permanently exclude all financial instruments that invest in essential foods. It is therefore essential for financial agents to avoid participating in speculation on these markets especially with derivative instruments.



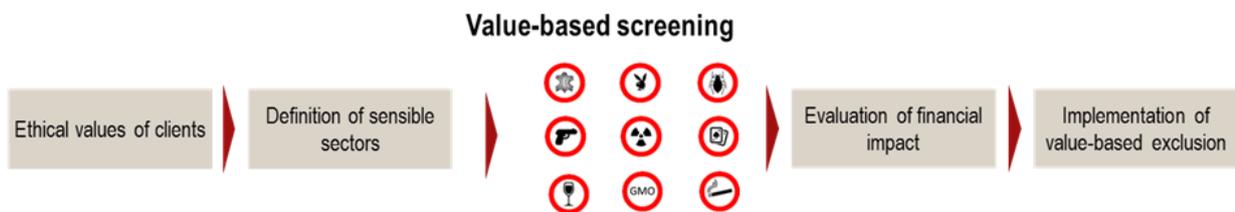
The **second pillar** is concerned with the issuers' sustainable analysis and investigates two main concerns:

a) Two short-term concerns:

Negative norm-based screening: Companies may have existing controversies, which occur when companies breach internationally accepted standards or norms in matter of Environment, Social or Governance. Examples of such breaches are child labour use and other complicit violations of human rights as defined by the United Nations Global Compact Principles. They could have a major impact on a company's reputation and can lead to lower market performance. Controversies are calibrated into five severity levels, where 1 is a minor concern and 5 is the worst case. Companies impacted by a controversy level of 4 or 5 are usually excluded from our responsible investment universe.



Value-based screening: The exclusion of sectors that may be considered as 'unethical', such as firearms, GMO, fur, adult entertainment, nuclear power, gambling, pesticides, alcohol or tobacco.



b) Long-term sustainability

We have developed our own proprietary tool to assess the long term sustainability of companies with an in-house scoring methodology allowing to implement positive **Best in class selection**: Our proprietary, innovative and dynamic ESG/CAR approach (Environment, Social, Governance / Consciousness, Action, Results) aims to differentiate companies simply claiming good intentions from those which demonstrate actual results from actions undertaken. This methodology has two comparative dimensions both applying 77 criteria. The first dimension assesses the classic ESG score by evaluating the single components Environment, Social and Governance. The second dimension, assesses our internal CAR components. When evaluating the mix of the ESG and CAR performance we put the most weight into the Result criterion, which also carries the most weight in the final sustainability score.

MEASURING PERFORMANCE (ESG)

E PRESERVE THE ENVIRONMENT

- Emission reduction
- Natural resource reduction
- Product innovation

S WORK FOR SOCIAL PROGRESS

- Respect of human rights
- Impact on communities
- Client/Product responsibility
- Diversity in workforce
- Health and safety
- Training and career development

G PRACTICE FAIR GOVERNANCE

- Board of directors functions and structure
- Directors compensation policy
- Shareholder rights
- Strategy integration

MEASURING PROGRESS (CAR)

C IS THE COMPANY CONSCIOUS?

- Setting ESG general policies
- Participation to international organisations and workshops
- Marketing

A WHAT ACTIONS ARE TAKEN?

- Developing reporting tools
- Implementation of ESG policies in the mainstream business
- Increasing transparency and reporting
- Fitting ESG into the corporate strategy

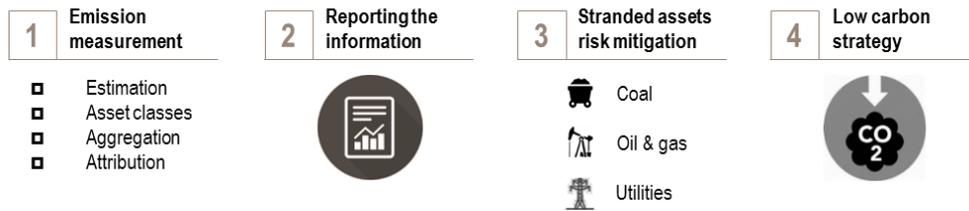
R WHAT RESULTS ARE ACHIEVED?

- Reducing environmental impact
- Improving social balances
- Improving governance structure

The **third pillar** assesses the carbon issues of our investments. Due to an international tightening of the regulatory framework regarding CO2 emissions, this is becoming a greater concern.

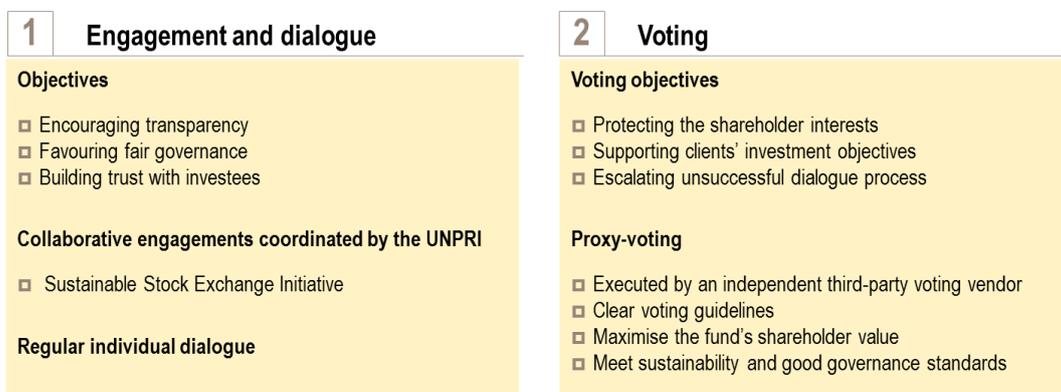
Our methodology:

LOMBARD ODIER CLIMATE GLOBAL SOLUTIONS



1. Ensures an accurate measurement of CO₂ emissions generated by portfolio investments in different asset classes (such as equities, corporate credits and sovereign bonds). It also provides proxies for non CO₂-disclosing companies, coherent portfolio aggregation methods and detailed attribution of emissions within portfolios at company and sector level.
2. Provides comprehensive reporting to clients on carbon emissions generated by their investments. Our methodology uses two metrics: (1) the investment ratio that gives the amount of greenhouse gas emitted (in Tonnes equivalent CO₂) per unit of amount invested in a company. This metric allows to measure what CO₂ emissions should our investor's be accounted for. (2) the intensity ratio that gives the amount of greenhouse gas emitted per unit of revenue generated by a company. This metric allows to compare the efficiency of which a company use CO₂ versus its peers.
3. Has set investment recommendations regarding the current state of fossil energy reserves and cost of extraction for specific companies and sectors. Strong political commitment to limit global emissions of greenhouse gas will create possible new regulatory constraints and higher carbon pricing. A large part of fossil energy reserves will have to be kept "in the ground" and never exploited, impacting stock valuations.
4. Offers global solutions for optimising portfolio carbon footprints and implementing low-carbon strategies through judicious stocks and sectors selection.

The **fourth pillar** looks at the engagement and voting policies. We believe that integrating ESG issues into both investment analysis and stewardship practices is part of our fiduciary duty towards our clients and beneficiaries. Our proxy voting approach has clear decision-making guidelines that favour proposals which, in our opinion, are likely to maximize shareholder value, while mitigating the risk of potential conflict of interest and which take into account any costs to investors. These principles reflect our belief that sound corporate governance creates a framework for managing a company in the best interests of its shareholders.



In 2014, Lombard Odier joined an engagement pool coordinated by the United Nations PRI Clearinghouse as a supporting investor. This pool, known as "Sustainable Stock Exchange Initiative (SSE)", 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 exchanges and their regulators enhancing listing rules or regulatory initiatives on how to disclose sustainability strategies among listed companies.

The **fifth pillar** is concerned about our internal reporting capacities requested by our clients who desire full transparency on ESG levels and carbon footprint of their investments. We pride ourselves on producing clear and compelling information about the impact our clients' money is having around the world. Our reporting tool allows us to closely monitor and measure the impact performance of different strategies. The content consists of the following default sections:

- General information about the portfolio
- ESG/CAR marking of the portfolio with an index comparison and a timeline
- ESG grade of portfolio compared to the index
- Analysis of the portfolio by sectors
- Establishment of a ranking of the 5 best/worst performing companies in the portfolio

- Application of ethical filters and listing of companies that are involved in controversial activities
- Follow-up on companies involved in major controversies
- Detailed performance analysis of every single company in the portfolio
- Details on the carbon footprint and carbon intensity of the portfolio compared to its benchmark
- Comments and analyses by our specialists

5. Impact investing and SRI strategies by asset class

We are constantly developing impact investment and SRI solutions for our clients by integrating our innovative ESG and low carbon approaches into our five areas of financial expertise: fixed income, equities, convertibles, multi-asset and alternatives. The flexibility and scalability of our ESG approach, thanks to our organisation and its in-house tools, enables us to customise ESG solutions and implementation through dedicated mandates or public products to fit our clients' values, such as the below examples:

FIXED INCOME

Our innovative fixed income approach aims to focus on quality using underlying fundamentals to mitigate credit default risk exposure. To achieve this, we consider a set of fundamental factors, to assess issuers' creditworthiness. These factors include revenues, level of indebtedness, cash generation and in the case of the financial sector we include asset quality. By investing in issuers based on these factors, we aim to construct portfolios that invest in better quality issuers more likely to repay their debt. This is in contrast to the typical market-capitalisation approach to fixed income which tends to invest higher weights in those issuers with the greatest level of outstanding debt.

In addition to these factors, we have the capability to incorporate ESG and low carbon factors to construct fixed income portfolios based on an issuers' creditworthiness and impact score. These adjustments can be tailored to meet the specific needs of our clients. Such an approach has been implemented in fixed income portfolios that invest in corporate bonds since 2011, combining fundamental fixed income factors, ESG factors and socially responsible screening.

EQUITIES

To meet investors' requirements our range of investment solutions spans integration of ESG information in our stock selection processes through to incorporation of ESG and carbon factors in our factor-based systematic approaches. Looking closely at our factor-based responsible equity strategy which applies a two-step process to select the highest quality of issuers in terms of impact and financial returns:

In step one, the following companies are excluded:

- All companies involved in the production or the marketing of controversial weapons
- Highly controversial businesses (such as alcohol, tobacco, firearms and pornography)
- Companies severely breaching the UN global compact rules relative to human rights, labour, environment and anti-corruption
- Companies with the worst 50% ESG scores within each sector
- Companies with low liquidity.

In step two, stocks are scored within each sector to ensure that our selection is biased towards companies that are not only financially attractive, but present good ESG ratings and low carbon intensities. We limit ourselves to companies with combined score in the top quintile against the following seven factors: five financials (value, quality, momentum, low risk, small size) and two extra financials (ESG-result score and carbon intensity). The target of the strategy is to outperform the Global Equity Index, with low carbon and responsibly performing investments and a small tracking error.

CONVERTIBLES

Our convertible bond team runs various portfolios integrating specific ESG guidelines for institutional clients. For instance, we have developed a customised ESG scoring model emphasising specific social issues with the objective to meet priorities and values specific to large pension funds. This illustrates the flexibility of our expertise and its implementation. Our impact specialists work closely with the investment teams and can rely on our quantitative data platform, opening considerable adaptability and scalability in transposing clients' philosophy into investment strategies and processes.

DEVELOPMENT FINANCE

We have developed the first Swiss strategy, offering qualified investors access to a selection of impact funds, mainly focusing on fair trade and microfinance. It invests in the inclusive economy, where the aim is for prosperity and wealth to be shared as widely as possible. The strategy provides private debt to companies delivering essential goods and services within low-income communities. These deliver access to basic financial services such as microfinance, but also to services these communities too often go without: energy, education, health, sanitation and water. The strategy offers clients the opportunity to not only receive a financial return but also a social one by positively impacting disadvantaged communities.

CLIMATE BONDS

Global warming has become one of the most prominent ESG issues to be integrated in the construction of an economic model that may help create long-term sustainable development. In partnership with a dedicated green and impact bond fund management company, we have set up this investment strategy which invests in green bonds as well as in issuers specialised in the energy transition and climate change risk mitigation. In addition to green bonds, the Fund also invests in bonds that are carefully selected from the broader non-labelled climate-aligned bond market. These bonds are issued by sovereigns, municipalities, multilateral organisations, financial institutions and corporations to raise finance that is earmarked for specific projects that either mitigate or help the world adapt to the effects of climate change.

Our climate bond investment solutions enable our clients to benefit from our recognised bond investment expertise and to contribute to financing the transition to a lower carbon economy and to limit the impact of global warming.

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