



LOMBARD ODIER
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Lombard Odier (Europe) S.A.

Shareholder Engagement Statement

June 2019

This document summarizes Lombard Odier (Europe) S.A.'s (the "Bank") approach to shareholder engagement as per the European Shareholder Rights Directive II. It covers the Bank's headquarters in Luxembourg and its branches in Belgium, the Netherlands, Spain, United Kingdom, Italy and France; as well as its subsidiary in Spain, Lombard Odier Gestión (España) S.G.I.I.C., S.A.U.

Lombard Odier Funds (Europe) S.A. and Lombard Odier Asset Management (Europe) Limited – both asset management entities of the Lombard Odier Group – have a separate engagement policy¹.

1. Background

The European Commission proposed in 2014 the revision of Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies (known as the "Shareholder Rights Directive II" or "SRD"). The proposed changes are aimed at facilitating the alignment of interests between asset owners and asset managers, and increasing the level and quality of shareholder engagement — defined as the monitoring of companies on matters such as strategy, performance, risk, capital structure, and corporate governance, and having a dialogue with companies and voting at the general meeting of shareholders. Additionally, SRD intends to encourage greater long-term shareholder engagement with companies.

This document provides stakeholders with an overview of how the Bank ensures compliance with Article 3g SRD.

In addition to this document, stakeholders should refer to the Lombard Odier Group's statement on sustainability and stewardship, available at www.lombardodier.com/sustainability.

¹ Lombard Odier Investment Managers - SRI Policy June 2017

2. How we select investee companies and monitor them

The Lombard Odier Group entity Banque Lombard Odier & Cie SA (Lombard Odier) – based in Switzerland – centralises the process for the selection, review and monitoring of companies whose shares are deemed investable for the private banking entities of the Lombard Odier Group, of which the Bank forms part.

The selection and review process is carried out by the analysts conforming Lombard Odier's Equities Research department, and is composed of three different steps:

▪ Step 1 – Filtering the MSCI World Index and local indices

In addition to filtering the MSCI World Index, Lombard Odier filters the IBEX 35 (Spain), the MIB (Italy), the AEX (The Netherlands), the BEL20 (Belgium) and the SPI (Switzerland). The main filters applied are Free Float criteria, Ethical aspects (for instance, excluding tobacco, lottery games, or defense – revenues are more than 33%), and Regions (focus in Europe and North America). The result is a universe of approximately 1130 potential investable companies. Companies involved in the production or marketing of controversial weapons are excluded.

▪ Step 2 – Screening the investable companies

In this second step, Lombard Odier focuses on two main aspects: the companies' *business attributes*, such as strong competitive position, operating efficiency, innovation appetite, and financial strength; and their *people attributes* such as the reputation of management, whether the company has a clear strategy, risk control, and if the interests are aligned across shareholder structure. The screening criteria and parameters are proprietary to Lombard Odier.

From this second filter, Lombard Odier comes up with approximately 975 companies considered investable. These companies form part of the Groups' investable universe or "Research Pool".

▪ Step 3 – Detailed fundamental research

The analysts carry out detailed, fundamental research (including detailed financial modeling) on those companies for which they have the strongest convictions. Aspects that are closely looked at are the sector, industry and geographical diversification of the company, the economic cycle, business model, risks, competitive landscape and financial statements, in order to determine an optimal risk/return ratio target. On a regular basis, analysts convene in the Stock Selection Forum to discuss the results of their research and convictions, and select the companies that will conform Lombard Odier's lists of recommended stocks (Research List, Research List-Focus and Swiss Conviction List). On this occasion, companies' ESG profile and exposure to controversies is also reviewed..

Additionally, Lombard Odier produces extra-financial ratings for companies according to socially responsible investment criteria. The factors below that comprise the three "ESG" pillars are evaluated to determine the rating:

- Environmental: group-wide policy, international certifications, product innovation.
- Social: service quality, health & safety, training, ethics, community involvement.
- Governance: structure, independence, voting rights, compensation, controversy management.

Each pillar is given a score (A: best quartile; D: worst) following a proprietary methodology. These ratings are partly based on the Lombard Odier Group's main information provider, Sustainalytics.

Lombard Odier monitors the investable companies on a regular basis. This is mostly done through meetings with the companies' management and with external analysts. Performance itself is monitored on a daily basis by a fully independent team. The performance measurement methodology was last reviewed and amended on January 1, 2019.

3. How we exercise voting rights and communicate

The Bank and Lombard Odier do not generally actively offer the execution of voting rights services; as such, the Bank/Lombard Odier do not represent clients at ordinary or extraordinary general meetings and do not exercise the voting rights relating to the securities deposited with it. As an exception, in the case of undertakings for collective investment (UCIs) of the Lombard Odier Group structured in the form of companies and in which the Bank holds shares on the client's behalf, the Bank/Lombard Odier count with a specific proxy to represent the client at ordinary and extraordinary general meetings. In the absence of instructions to the contrary, the Bank/Lombard Odier vote in line with the proposals made by the board of directors of those companies.

4. How we manage conflicts of interest

Lombard Odier is aware that conflicts of interest may arise when assessing whether and how to engage with investable companies. To this end, it has policies in place to define limitations, disclosures and approval of activities that may cause potential conflicts of interest. A defined conflict

management process is in place to address potential and actual conflicts of interest. Lombard Odier maintains a register of conflicts of interest, which is regularly updated.

Lombard Odier may occasionally receive inside information (material non-public information). In such instance, the relevant internal control unit is immediately informed. The insider will be informed about his or her responsibilities, and details will be recorded in dedicated repositories. Lombard Odier has implemented a robust trade surveillance framework to reasonably ensure employees are not trading on material non-public or confidential information.

For more information, stakeholders should read the Lombard Odier Group's Conflicts of Interest policy and Order Execution policy, which is available at www.lombardodier.com