

# LOIM ESG and Sustainability Overview

## ESG and Sustainability Integration Process

Our approach to ESG and sustainability integration is embedded throughout the investment process. We believe that sustainability considerations are essential to long-term value creation and risk management. This process ensures that environmental, social, and governance factors are systematically assessed alongside financial metrics.

When it comes to ESG & sustainability integration within our funds, we make available several profiling tools & frameworks to our investment teams allowing us to integrate ESG considerations, manage potential sustainability risks as well as identify potential sustainable opportunities – what we refer to as our ESG & sustainability integration “toolbox”.

Our ESG & sustainability integration toolbox includes 4 main components, underlying elements of which will be used depending on the strategy and asset class:

- 1) Baseline exclusions & sector restrictions, applying LOIM Exclusion Policy (non-negotiable and applied across all LOIM-managed strategies)
- 2) ESG screening & scoring, using our proprietary ESG scoring frameworks (further detail provided below)
- 3) Transition and sustainability focus - going beyond basic ESG integration to identify sustainable opportunities via systems change investing, seeking to identify companies positively financial exposed to system changes, and sustainable investment alignment using our proprietary LO Sustainable Investment Framework
- 4) Active ownership – through engagement and proxy voting based on firm-wide stewardship framework

## Exclude Unsustainable Businesses – LOIM Exclusion Policy

Our Exclusion Policy includes:

- **Hard exclusions:** controversial weapons are excluded in line with major international treaties and protocols. We also exclude essential food commodities. These are prohibited investments with no possibility of override.
- **Value-based restrictions:** tobacco, thermal coal, unconventional oil & gas (override possible in exceptional cases). Companies that derive more than 10% of revenues from activities related to tobacco, coal mining, coal power generation & unconventional oil & gas are excluded. In addition - companies involved in very severe breaches (i.e., Level 5 for Sustainalytics rating) of the UN Global Compact principles are excluded.  
Overrides are only considered if the company has a credible transition plan or if engagement has shown potential for positive change. The override process involves Group Risk, the Sustainability Research Team, and a formal panel including the CIO and CRO.

## ESG Screening & Scoring

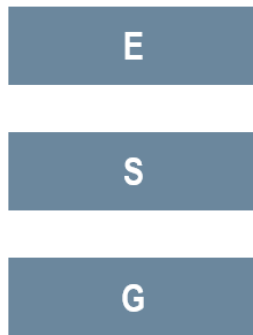
Beyond exclusions, we seek to improve the ESG profile of our portfolios through positive selectivity. With regards to our ESG screening and scoring, we have developed a range of in-house, proprietary tools that offer reliable and highly scalable ESG scoring frameworks. We use these frameworks to systematically screen in-scope investments.

- **LO ESG Materiality Rating Methodology:**

Environment, Social, Governance

Consciousness, Action, Result

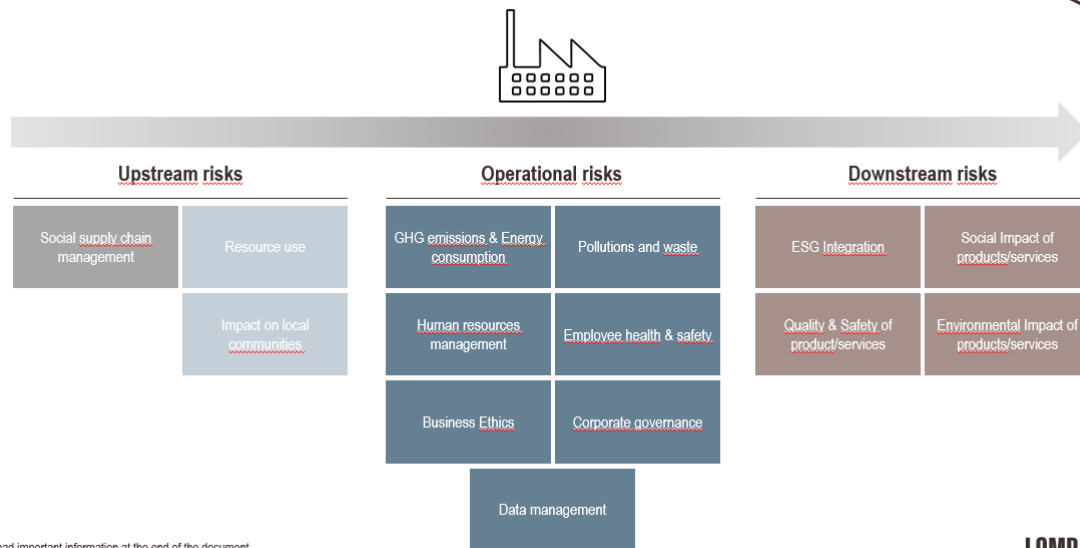
Materiality CAR framework



GICS name	Energy	Chemicals	Metals & mining	Transp & Infr
Business ethics				
Corporate governance				
Data management				
ESG integration				
Employee health and safety				
Environmental impact of products and services				
GHG emissions and energy consumption				
Human resources management				
Impact on local communities				

Our core ESG profiling tool for corporates is designed to analyse their business practices, with a materiality heatmap that enables us to understand the most material factors for each sub-industry. Our materiality heatmap reflects the main dimensions of potential ESG opportunities and risks expositions across a company’s value chain. The proprietary framework of 14 categories reflects the main dimensions of potential ESG opportunities and risks expositions across a company’s value chain. This includes upstream risks predominantly related to supply chain or natural resource usage, 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.

**Our 14 ESG dimensions across the corporate value chain**



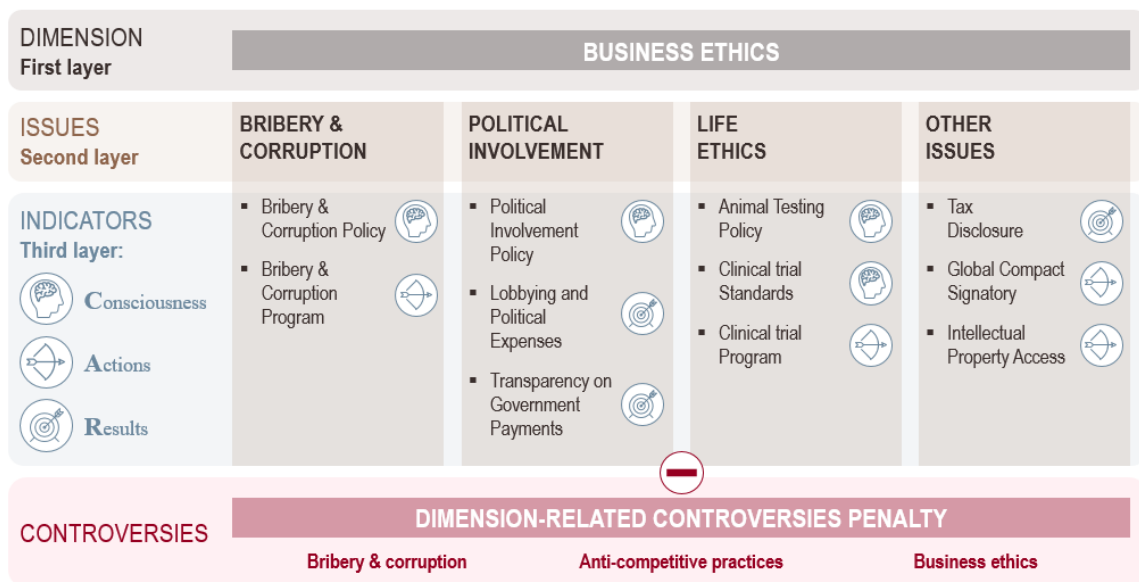
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We then identify and rank the most material ESG dimensions for 163 GICS Level 4 sub-industries, captured in our materiality heatmap. For each company, we calculate a score from 0 to 100 integrating materiality by overweighting the information that has greater significance based on their specific industry and underweighting general information that is less relevant. The methodology embeds Lombard Odier’s proprietary ‘Consciousness’, ‘Actions’ and

'Results' ('CAR') methodology which overweighs the 'R' component – ESG indicators linked to definitive results/outcomes. In each dimension, multiple indicators are selected and calibrated. The final ESG scores allow us to attribute to each company an ESG rating from A+ to D based on their percentile positioning in their respective sector.

Please find below an example of the ESG/CAR Materiality framework applied to one of the 14 dimensions previously described. In this case, for the dimension Business Ethics, the framework identifies 11 sustainable indicators. Each indicator is classified based on the CAR analysis and weighted accordingly. Lastly, controversies are considered assigning a penalty more or less severe depending on the controversy level. This analysis is replicated for each dimension. The dimensions are then weighted based on the materiality for the industry in which the company operate leading to the Lombard Odier ESG/CAR Materiality rating from A+ to D.



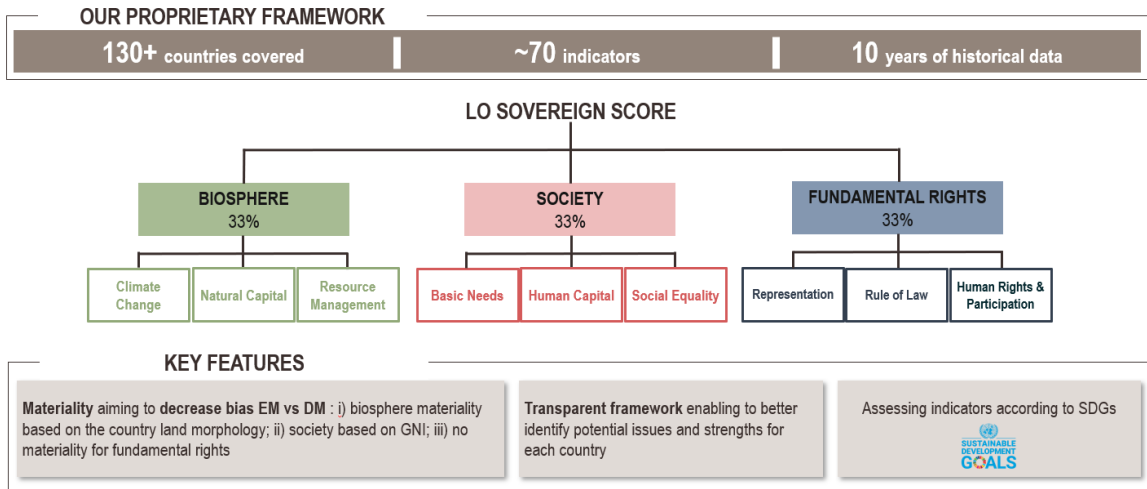
The investment team will use this tool as part of their fundamental analysis and company assessment, selecting companies not only with sound fundamentals, but where possible, also with better ESG scores, essentially considering how companies manage the identified ESG risks within their business practices. At portfolio level, for strategies which use the LO ESG Materiality Rating Methodology within their investment process, a positive selectivity approach is applied.

- **LO ESG Sovereign Scoring Methodology:** our in-house model for independently assessing sovereign issuers' alignment with a broad spectrum of environmental, social, and governance issues. The LO ESG Sovereign Score evaluates a broad spectrum of environmental, social, and governance issues, including climate change, natural resource management, basic needs, social equality, regulatory effectiveness, institutional strength, and political stability embedding a materiality assessment allowing us to focus on the environmental and social issues that matter most to each issuer. The model is structured around three equally weighted dimensions: Biosphere, Society, and Fundamental Rights. Each dimension is an aggregate score derived from sub-thematic pillars assessed using quantitative indicators. The data collected is normalized into indicators ranging from 0 to 1 point (with 1 being the highest). The model

embeds a materiality assessment that is applied at indicator level for the Biosphere and Society dimensions aiming to inform based on information that has greater significance related to the country specificities, while no materiality is applied to the Fundamental Rights dimension to maintain a consistent evaluation of fundamental rights. The investment teams will complement their traditional sovereign credit framework using the LO ESG Sovereign Scoring Methodology. At portfolio level, for strategies which use the LO ESG Sovereign Scoring Methodology within their investment process, a positive selectivity approach is applied.

**Lombard Odier Sovereign Score 2.0**

Assessing governments' behavior on 3 dimensions and selected topics using materiality



**Transition and Sustainability Focus**

Our sustainability profiling tools go beyond basic ESG integration to identify sustainable opportunities via systems change investing, seeking to identify companies positively financial exposed to system changes, and sustainable investment alignment using our proprietary LO Sustainable Investment Framework

For strategies with a sustainable objective, we actively seek to identify sustainable investment opportunities through systems change investing. This approach focuses on companies that are positively financially exposed to structural shifts in the global economy, such as the transition to a low-carbon future, circular economy models, and social inclusion. To support this, we leverage our proprietary LO Sustainable Investment Framework, which provides a transparent and documentable methodology for defining what constitutes a sustainable investment. This framework incorporates forward-looking metrics, including climate alignment assessments such as our Implied Temperature Rise (ITR) tool, which evaluates how well companies align with the goals of the Paris Agreement. By combining these insights with fundamental analysis, we aim to allocate capital to businesses that are positioned to benefit from and contribute to systemic sustainability transitions.

**Sustainable Investment Framework:** we use a pass/fail approach to define whether a given investment, defined at the company level, is considered as a “sustainable investment” or not.

We classify companies into three categories, referred to as sustainable, grey and red companies, with only sustainable companies considered sustainable investments.

To be classified as sustainable, a company must meet the following criteria according to the LO Sustainable Investment Framework:

1. Contribution

- a. The company has at least 30% revenues exposure to sustainable activities understood to include
  - i. Activities that are eligible to at least one of the six environmental objectives recognised by Taxonomy Regulation and that meet the contribution screening criteria as defined by LOIM with objectively applied quantitative thresholds and/or indicators selected based on the Taxonomy Regulation technical screening criteria and considerations of the underlying sector, the nature of their business, data availability, and complemented by a qualitative review; or
  - ii. Transitioning or enabling activities not included in the Taxonomy Regulation but that have been mapped by LOIM to at least one of the six environmental objectives recognized by the Taxonomy Regulation or socially sustainable activities identified by LOIM, that meet the screening criteria that we defined above.

or

- b. The company demonstrates significant capital expenditures (or equivalent investment metric relevant for the industry) alignment with the above activities in a.i and a.ii and support a clearly articulated and ambitious transition strategy to sustainable activities.

A company's exposure to relevant activities can be established using either:

- The company's self-disclosed alignment to the Taxonomy Regulation; or
- our documented assessment of the company and its activities which can be systematically quantitatively performed or fundamentally research based.

2. Do No Significant Harm (DNSH)

We test if a company, aside or despite any positive contributions, is harming, or significantly harming the sustainable transition across any parts of its business. To assess the "do no significant harm", we have developed for each environmental objective of the Taxonomy Regulation and social targets in-house quantitative and qualitative tests, including but not limited to i) proprietary sustainability indicators, such as the company's implied temperature rise, ii) Principal Adverse Indicators (PAIs) including climate change, water and waste related PAIs; and iii) controversy assessment and exposure to harmful activities.

To be considered a sustainable company:

- a. a company must do no significant harm any social and environmental objectives assessed at the company level against a sub-set of indicators depending on the activity exposure of the company;
- b. a company must have at most 5% revenue exposure to harmful activities that are classified as inherently harmful in nature, including to activities related to the mining of thermal coal, the generation of power using coal, the extraction or refining of oil along with selected other activities.

3. Governance

According to LO Sustainable Investment Framework, we classify sustainable investments only companies that meet good governance standards. We have developed an in-house points-based scoring system that reviews several important factors, including ownership & control, board structure, remuneration and controversies, amongst others.

While the above criteria constitute the minimum criteria applicable to a sustainable company, we may apply additional criteria to its assessment of companies involved in specific activities to act as additional safeguards, particularly in its assessment of Do No Significant Harm criteria. While such additional criteria cannot be used to “pass” companies if they do not meet the criteria above, they may lead companies to “fail” as a sustainable investment even if they meet the criteria above.

Grey and red companies: Only companies classified as sustainable companies are considered to be sustainable investments. For all other companies, we apply additional criteria to distinguish between grey and red companies. Companies that do not contribute to the sustainable transition and/or where we identify material concerns may be classified as grey, where those concerns are material but of a limited nature or with relevant mitigating factors, or red, where concerns are more acute, elevated and avoidable nature. Where we identify material concerns, we may decide to start an engagement with the company.

**Climate awareness:** We have developed a proprietary Implied Temperature Rise (ITR) tool to measure how well aligned a company or portfolio is with the goals of the Paris Agreement. Our Implied Temperature Rise is a forward looking metrics for climate alignment and it incorporates Scope 1, 2, and 3 up and downstream emissions as well as an assessment of the credibility of net-zero commitments and decarbonisation targets. The ITR framework incorporates a climate-related scenario analysis built on customised publicly available transition scenario to understand the impact of climate-related issues on individual companies and portfolios. Our customised transition scenarios are based on IPCC scenarios, amended for additional granularity based on models from other leading organisations and further adapted using internal research, which allows us to assess the extent of alignment or misaligned of investments with 1.5°C, 2°C, 3°C and 5°C outcomes. More recently, we have also integrated the Network for Greening the Financial System (NGFS) latest science-based climate scenarios from November 2024.

Our ITR metric enables us, in addition to evaluating the carbon footprint of a company today, to calculate the temperature trajectory of the company. This allows us to distinguish between companies that are on the right path to decarbonization and those that are lagging:

Within carbon-intensive sectors:

- we refer to those companies that are climate leaders as “ice cubes” – i.e., those companies facing significant exposure to transition risks in relation to climate but understand the urgency of the transition and are decarbonizing towards net-zero alignment.
- we refer to those that are climate laggards as “burning logs” – i.e., companies that generate huge emissions today AND are not committed to net zero alignment & may be exposed to significant stranded assets etc. – we call these “burning logs”.

Our philosophy is not to divest completely from carbon-intensive sectors, such as the energy sectors, but rather be able to identify using our ITR metric the climate leaders vs laggards complementing our analysis with targeted engagement for example with burning logs whether we can help these companies to transition / set net zero commitments.

**Systems change investing:** we use a Systems Change Approach to Transition Investing. The approach described below is not based on one single metric to measure an individual companies’ path to transition. The approach described below combines both quantitative and qualitative analysis to

measure a company's overall exposure to the transition and is designed to be adaptive to changing developments in relation to sustainability.

The approach aims to provide, first and foremost, a clear and documented assessment of the transition's implications for a company's economic position, in line with our fiduciary duty to our clients.

Our investment philosophy is rooted in the worldview describing a necessary transition to a net-zero, nature-positive, socially-constructive and digitally-enabled economy. We believe this transition will require a transformation across the global economic systems related to energy, consumer, materials, health, technology, and financial services. The transformation of these economic systems may lead to the reorganisation of value chains, redistribution of profit pools, emergence of new business models or disappearance of old ones. Our Systems Change Approach to Transition Investing aims to identify companies that are materially exposed to, and well-positioned for, the transition to a net-zero, nature-positive, socially-constructive and digitally-enabled economy.

To do so, we define an matrix of forward-looking structuring assumptions on the one hand, and their relevance to different areas of economic activity, on the other. Our structuring assumptions provide an outline of key shifts in economic models that it believes will be associated with the transition and that we believe have significant impact across investment universes. Examples of such structuring assumptions may include:

- **Related to the net-zero economy:** the % of the economy that will be electrified in a net-zero energy system, the expected level of carbon prices, **etc.**
- **Related to the nature-positive economy:** Expected escalation of physical risks, higher adoption of regenerative agriculture, and circular and product-as-a-service models, **etc.**
- **Related to the socially-constructive economy:** Increased scrutiny of foods high in fat, salt and sugar, shift in health models to prevention, a more digital customer journey, **etc.**
- **Related to the digitally-enabled economy:** Increase in data from physical farms, cities, bodies, the assumed end of Moore's law, and increased role of digital moats, **etc.**

We assess the impact of such structuring assumptions across individual areas of the economy, organising the economy into major economic systems, and comprising specific areas of economic activity.

Examples of areas of economic activity, that we may assess the impact of its structuring assumptions on, may include:

- **In the energy system:** Production of fossil fuels (believed to be negatively impacted by the transition), power generation, production of biofuels, production of renewable equipment, infrastructure development, production of energy materials, **etc.**
- **In the industrial system:** Waste and water management, production of chemicals, production of vehicles, design and engineering services, intermodal transport, contract manufacturing, delivery of automation and robotics solutions, **etc.**
- **In the consumer system:** Production of packaged food, production of agricultural inputs and equipment, food distribution and delivery, manufacturing of cosmetics, apparel, and household and personal care goods, leisure, specialised nutrition, **etc.**
- **In the health system:** General and specialised pharmaceutical activities, production of transformative drugs (incl. GLP-1), supply of diagnostic equipment, of monitoring and robotics solutions, of animal health solutions, contract research and development, **etc.**

- **In the financial system:** Financial technology (fintech), insurance and reinsurance, asset management, banking, financial software, information services, etc.
- **In enabling technology:** Cloud, cybersecurity and other IT services, consumer electronics, other hardware, semiconductors and equipment, enterprise software, vertical software, etc.

We use our matrix as primary tool, supplemented with additional expert analysis, to identify those areas of economic activity and those companies related to such activities that are positively impacted by these specific assumptions to create specific investment universes.

Once the investment universe has been defined, we will, as part of its stock selection process and amongst other things, assess the transition's implications for the company's economic position.

### **Active Ownership**

Active ownership is a cornerstone of our ESG and sustainability approach. We engage with companies on material ESG issues, including climate strategy, governance practices, and human rights. Our dedicated stewardship team works closely with investment professionals to ensure that engagement outcomes are tracked and integrated into investment decisions. Proxy voting is another critical component, reflecting our commitment to accountability and transparency. Through these activities, we seek not only to mitigate risks but also to drive positive change, reinforcing the long-term sustainability of the companies in which we invest.

### **Our Sustainability Reporting Tool**

The sustainability research team supports the investment teams in the ESG and sustainability integration process by providing sustainability related data and analysis. We have developed a dedicated platform that aggregates sustainability data to ensure it is updated & readily available at all times. In one click, the team are available to access all the relevant sustainability data in relation to a company, including ESG Materiality rating, the screening based on our exclusion policy, the controversy assessment which embeds the detailed analysis in relation to the controversial issue as well as carbon-related metrics and the sustainable investments analysis.

We also provide a monthly sustainability report at fund level which is publicly available on LOIM website.

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