



**LOMBARD ODIER**  
INVESTMENT MANAGERS

## **LOIM GLOBAL EQUITIES**

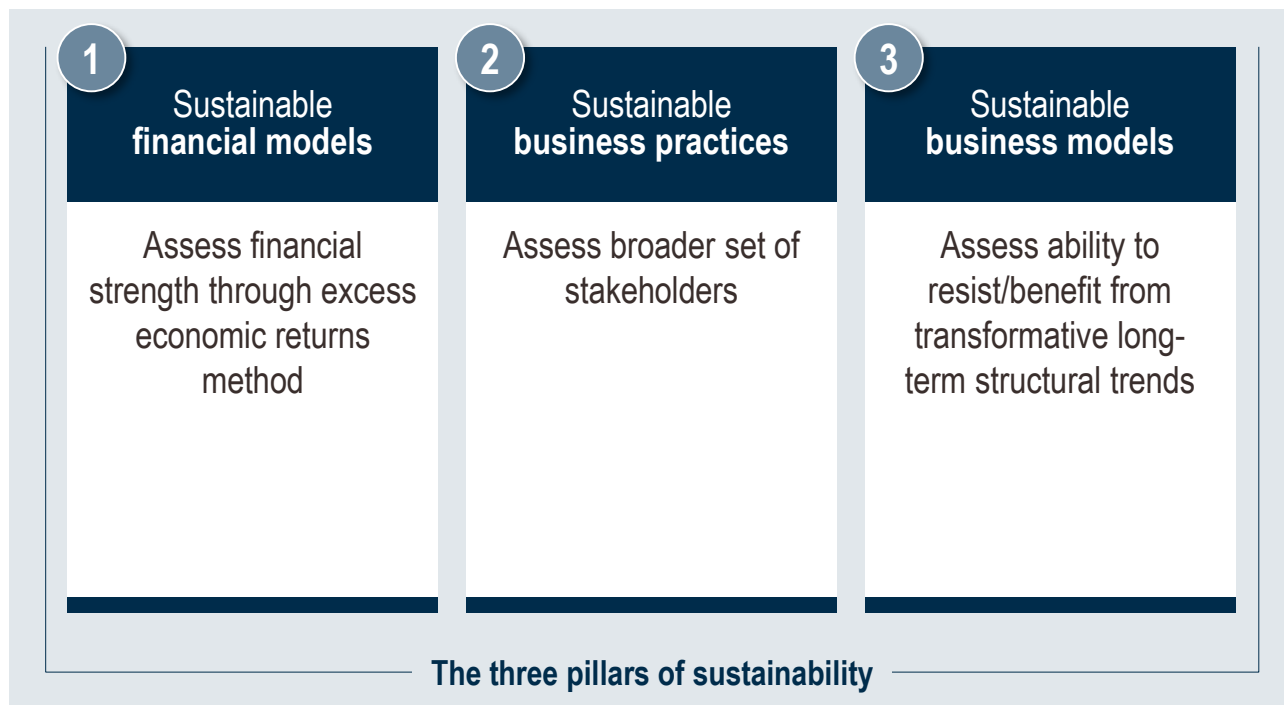
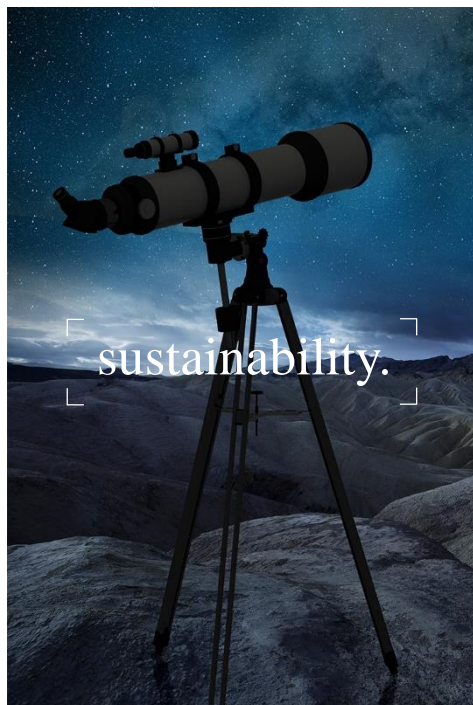
Seeking to help investors make an impact  
without compromising the potential to generate returns

Hong Kong, 24 September 2019

# Sustainability is at the heart of our investment philosophy

We embed it in portfolio management

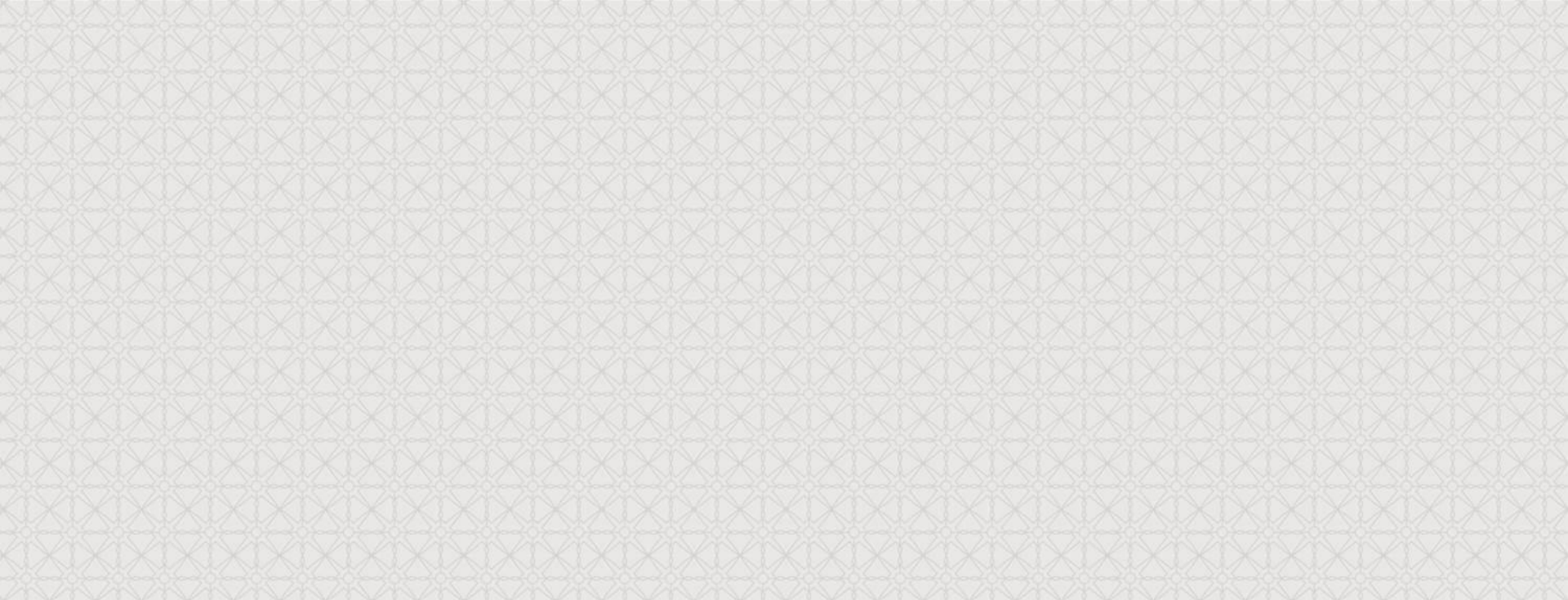
We believe long-term returns will be driven by companies with a combination of:



Source: LOIM. For illustrative purposes only.

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# **BUSINESS PRACTICES**

LOMBARD ODIER'S METHODOLOGY


# Introduction

**Long-term metric**




Proprietary ESG scores: rates company business practice on a scale of 0-100

**Short-term metric**



Level of controversies (0-5) as short-term measure of company's perception

**Impact metric**

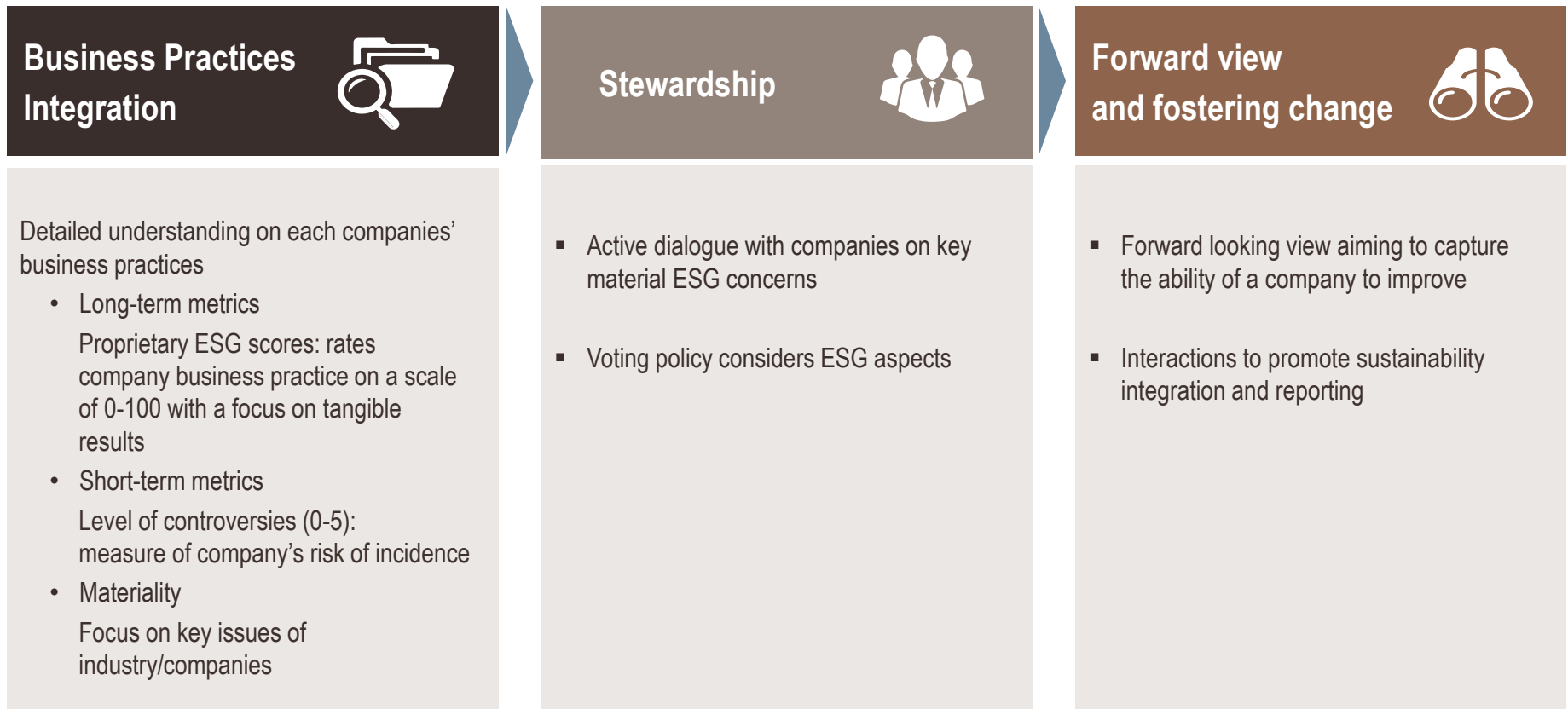


**Intensity of**  
Carbon emission  
Water consumption

Source: LOIM. For illustrative purposes only.

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# A framework to promote sustainable practices



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# LOIM uses external data and proprietary research to gather raw data, combined into a single platform for comprehensive analytics



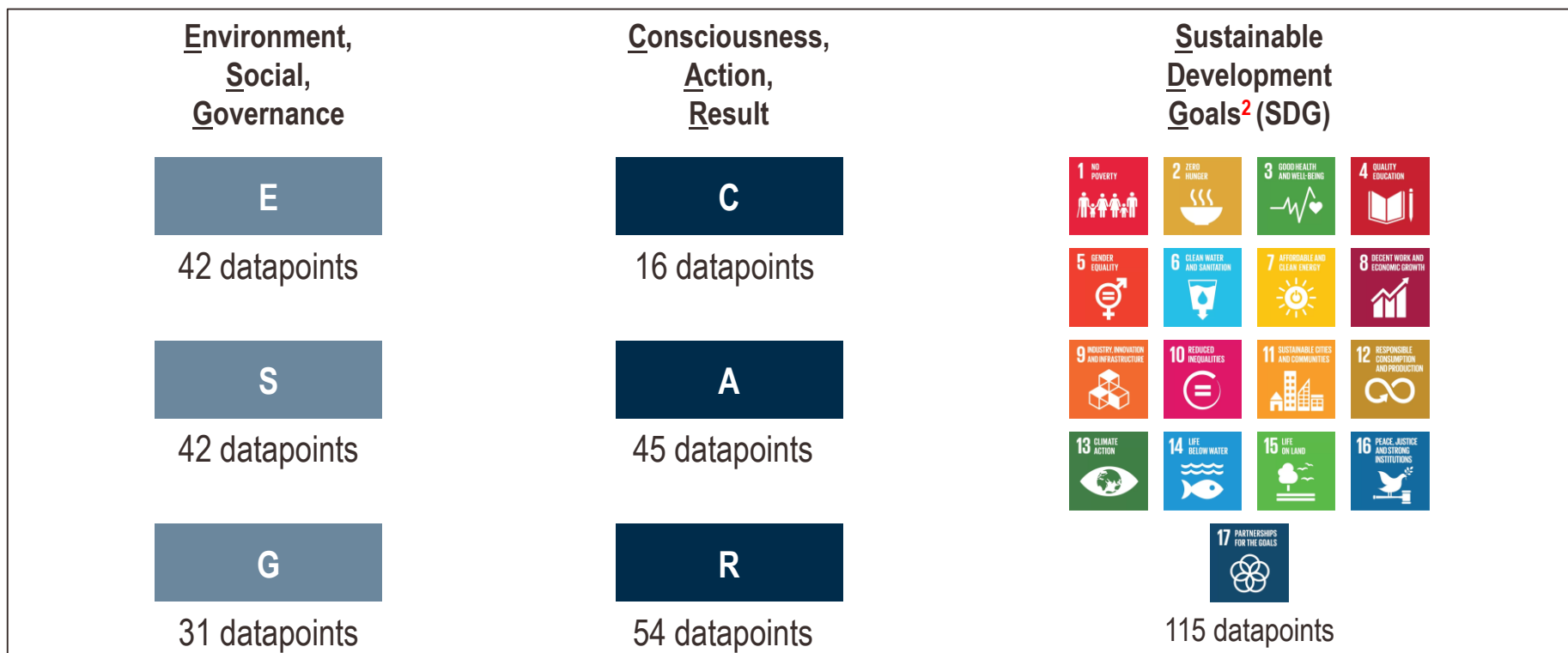
Source: LOIM. For illustrative purposes only.

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# Our proprietary ESG scoring methodology enables different perspectives

Different perspectives built on **115** raw datapoints



Main data providers (Sustainalytics, Trucost) provide raw data (instead of final scores), enabling higher TRANSPARENCY, adjustments of BIASES, adjustments for different DYNAMICS/TIMESCALES and monitoring of BESPOKE ASPECTS

1- Our proprietary Consciousness, Action and Results ('CAR') tagging system sorts 115 data points to better differentiate between the talkers, do-ers and real achievers to give a deeper understanding of genuine corporate sustainability and transition. 2- SDG: United Nations Sustainable Development Goals approved by the 193 member states of the United Nations during the UN Sustainable Development Summit in New York in September 2015.

Please see important information at the end of the document.

# How our proprietary CAR approach looks deeper into ESG scoring



## Example data points

	E	S	G
<p><b>‘C’</b> Consciousness</p>	<ul style="list-style-type: none"> <li>Environmental policy</li> <li>Green procurement policy</li> <li>Policy statement on GMO*</li> </ul>	<ul style="list-style-type: none"> <li>Discrimination policy</li> <li>Responsible marketing policy</li> <li>Human right policy</li> </ul>	<ul style="list-style-type: none"> <li>Bribery &amp; corruption policy</li> <li>Political involvement policy</li> <li>Money laundering policy</li> </ul>
<p><b>‘A’</b> Action</p>	<ul style="list-style-type: none"> <li>Greenhouse gas reduction, air protection or water management programmes</li> <li>Environmental management system</li> <li>Biodiversity programmes</li> </ul>	<ul style="list-style-type: none"> <li>Community involvement programme</li> <li>Supply chain monitoring system</li> <li>Diversity programme</li> </ul>	<ul style="list-style-type: none"> <li>Whistleblower programme</li> <li>Signatory to the UN Global Compact</li> <li>Independence of board and key committee members</li> </ul>
<p><b>‘R’</b> Results</p>	<ul style="list-style-type: none"> <li>Carbon emissions / water consumption intensity</li> <li>Environmental fines or non-monetary sanctions</li> <li>Share of renewable energy used</li> </ul>	<ul style="list-style-type: none"> <li>Share of facilities with external health and safety certification</li> <li>Social supply chain standards</li> <li>Share of employees covered by collective bargaining agreement</li> </ul>	<ul style="list-style-type: none"> <li>ESG committee with executives members</li> <li>Gender diversity on the board</li> <li>Independence of auditors</li> </ul>

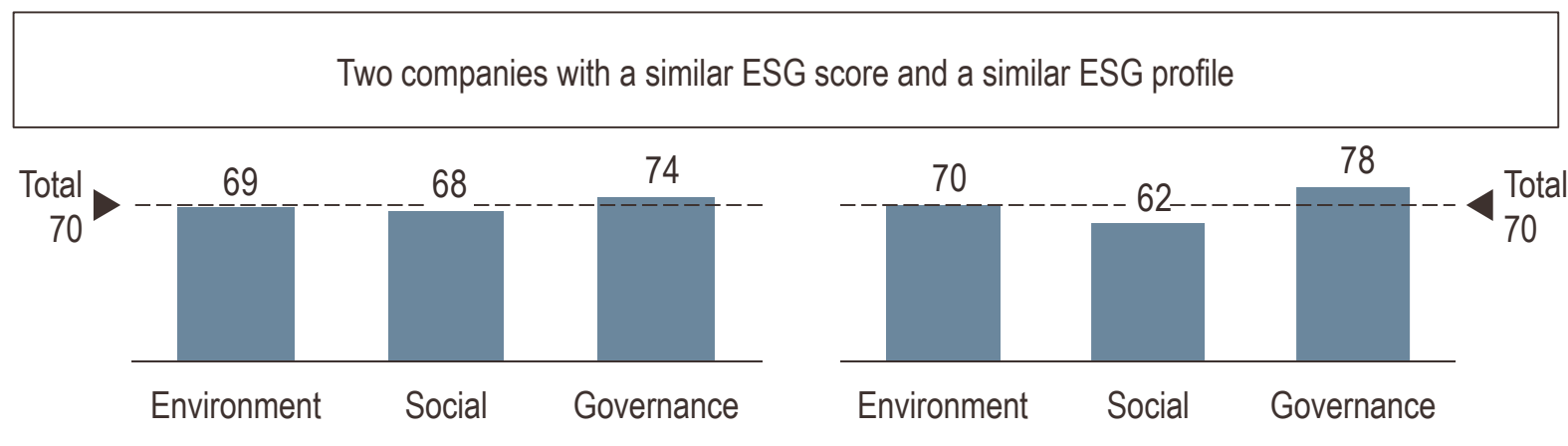
**= 115 data points**

\* Genetically Modified Organisms Source: LOIM. For illustrative purposes only.

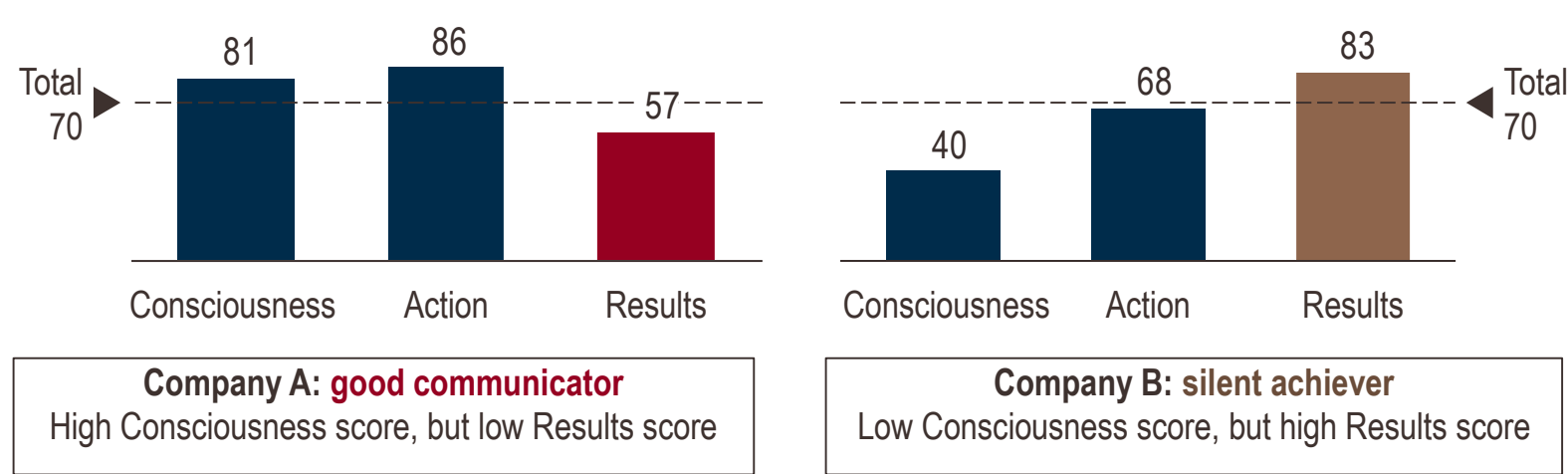


# Our proprietary CAR approach allows us to distinguish between the talkers, the doers and the achievers

ESG view



CAR view



For illustrative purposes only. These examples are for illustrative purposes only and are not actual results. If any assumptions used do not prove to be true, results may vary substantially. Source: LOIM.

# Our approach analyses business practices through the lens of SDG principles

Two examples from same industry

(June 2019)

## Company "A" (France)

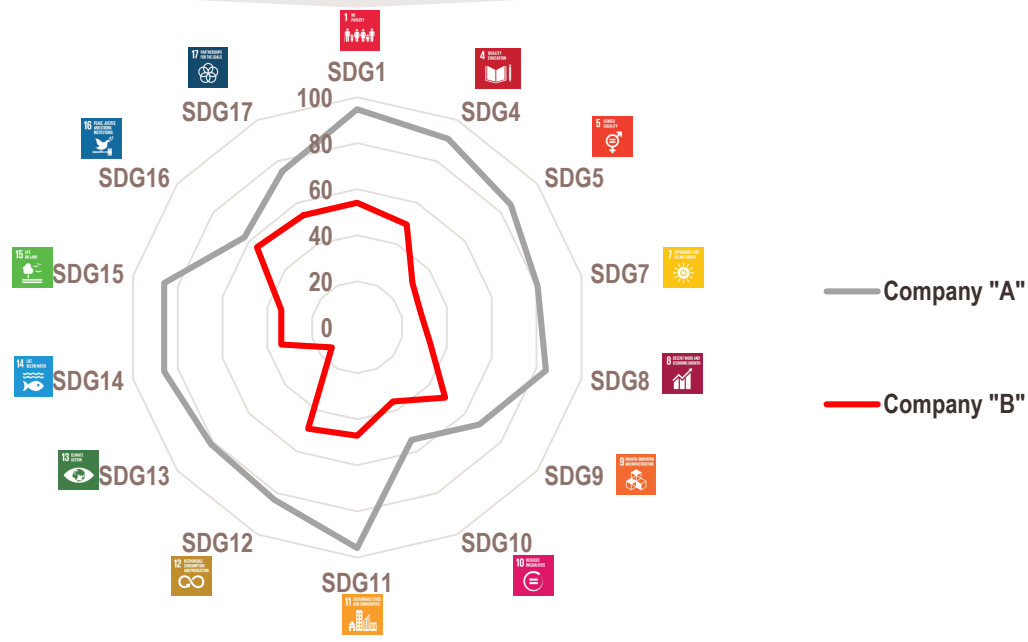
Historical car manufacturer....

- High scores on **most SDGs for the sector**
- QMS and EMS certifications for all production sites - **SDG 12 to 15**
- The company's carbon intensity is well below the industry median and declining - **SDG 13**
- Signatory of the UN Global Compact and convincing social performance - **SDG 1, 5, 8**

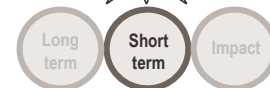
## Company "B" (United States)

... Electric vehicles only

- Low scores on **most SDGs** (and lack of ESG transparency)
- Poor social and governance practices - **SDG 1, 5, 8, 10**
- Opacity about carbon emissions - **SDG 13**
- Lack of a credible environmental policy (extraction of raw materials, recycling)– **SDG 12 to 15**

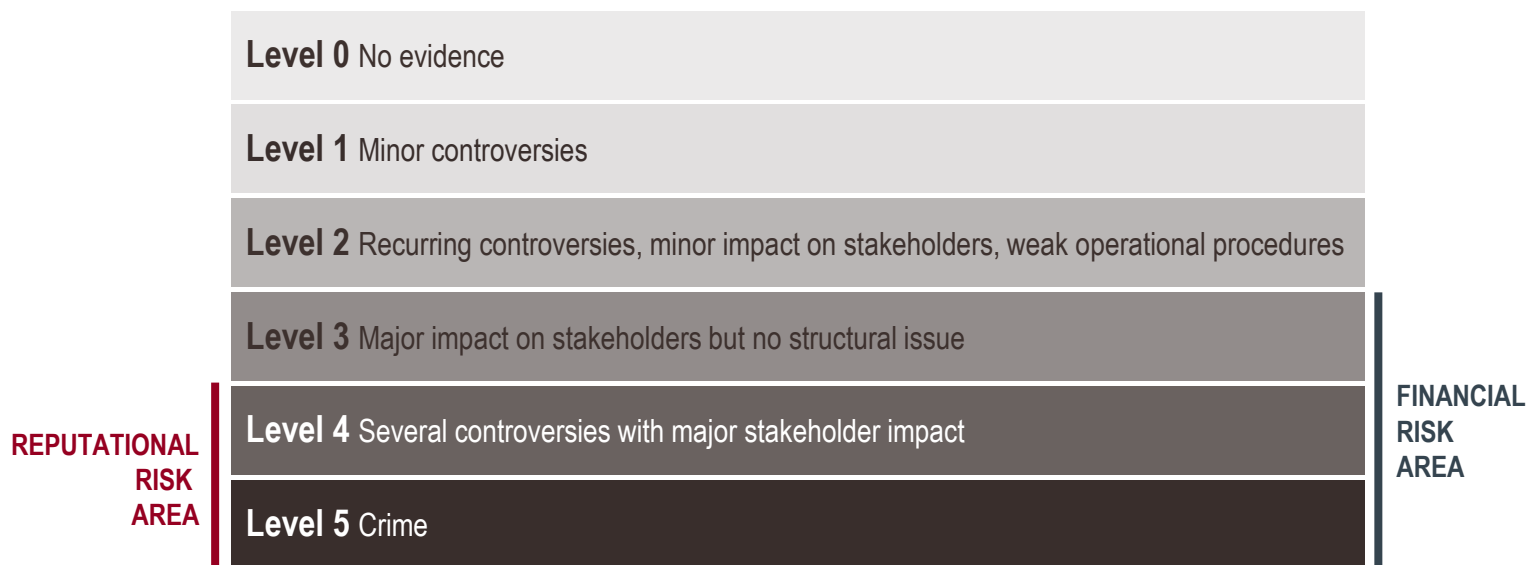


Source: LOIM. These examples are for illustrative purposes only and are not actual results. If any assumptions used do not prove to be true, results may vary substantially.



# Controversies: a short term assessment of companies

## Classification of incidents following standards by United Nations Global Compact Principles



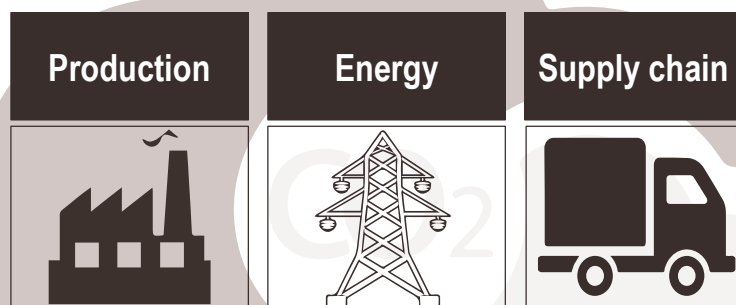
Companies with low ESG score have higher probability of severe controversies

For illustrative purposes only.

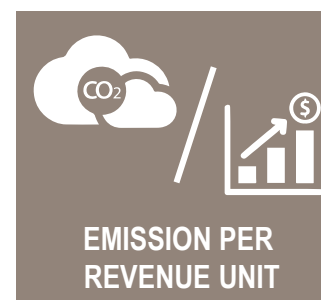
Please see important information at the end of the document.

# Impact measures – carbon emissions

## Total production & emissions scope

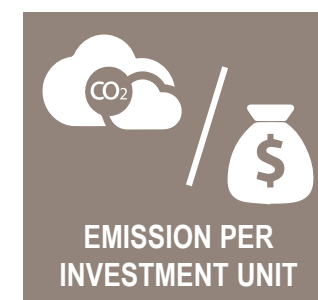


How do the firm's carbon emissions compare to peers?



**INTENSITY RATIO**  
(Tons eq. CO<sub>2</sub> per MUSD generated)

What is the investor accountable for?



**INVESTMENT RATIO**  
(Tons eq. CO<sub>2</sub> per MUSD invested)

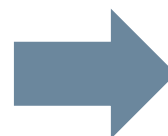
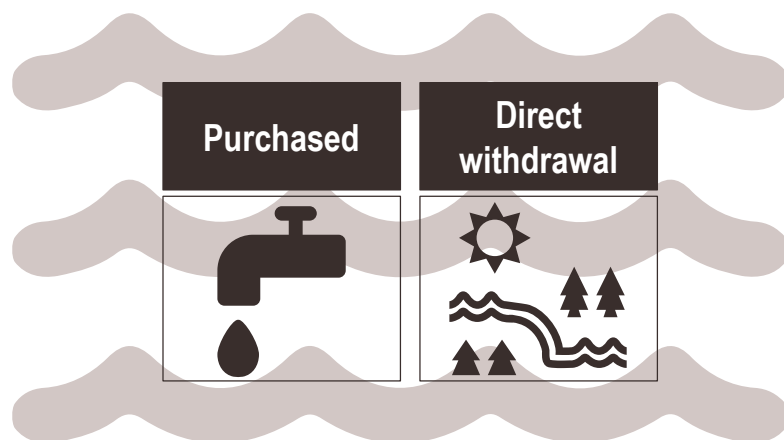
Analysis is performed for:

- All types of corporate-linked securities: equities, convertible bonds and credit
- Government bonds (using country level emissions) enabling a Carbon Footprint on a multi-asset portfolio

Source: LOIM analysis.  
For illustrative purposes only.

## Impact measure – water consumption

### Total water consumption



How does water consumption compare to peers?



**INTENSITY RATIO**  
(Cubic meters per MUSD generated)

What is the investor accountable for?



**INVESTMENT RATIO**  
(Cubic meters per MUSD invested)

Analysis is performed for:

- All types of corporate linked securities: equities, convertible bonds and credit
- Government bonds (using country level emissions) enabling a Water Footprint on a multi asset portfolio

Source: LOIM analysis.  
For illustrative purposes only.

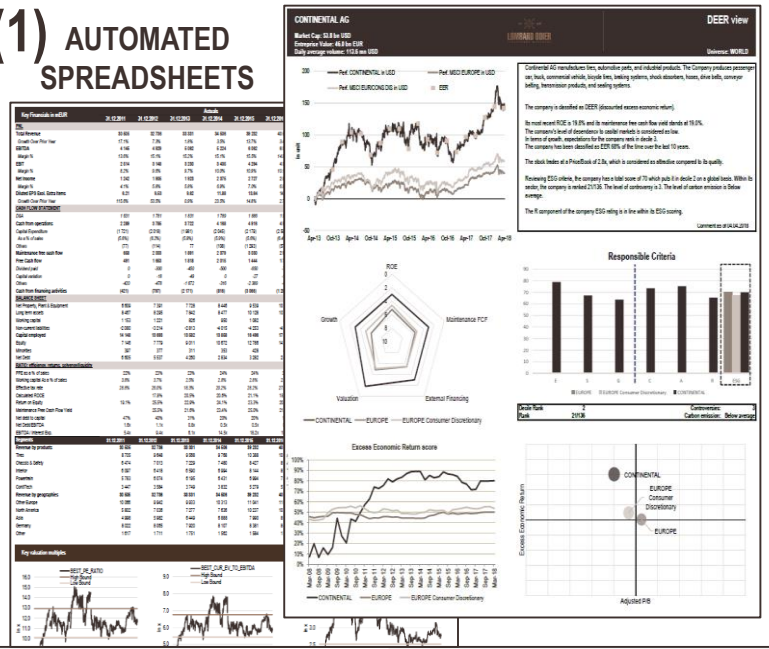


## **BUSINESS PRACTICES**

LOMBARD ODIER'S TOOLS

# Common platform across equities at a glance (1) **AUTOMATED SPREADSHEETS**

A powerful tool for investment teams combining DEER<sup>1</sup> and ESG<sup>2</sup> information



**CONTINENTAL AG**  
Market Cap: 53.8 bn USD  
Enterprise Value: 48.8 bn USD  
Daily average volume: 11.5 m USD

**DEER view**  
Lombard Odier  
Sector: EUROPE DISC

Line chart showing DEER (Discounted Excess Economic Returns) for Continental AG compared to peers: Continental US, Continental Europe, and Continental Asia. The chart shows a general upward trend from 2013 to 2018.

Textual information: "The company is classified as DEER (discounted excess economic return) to meet score DEER > 18.75% and its maintenance for each five-year period at 18.75%." "The company's total of operations is made up of 100% of the total of operations for the company with 100%." "The company has been classified as DEER (DEER) for the first time for 10 years." "The stock index of a P/E ratio of 23, which is considered to be attractive compared to its peers." "Following ESG criteria, the company has a total score of 75 which puts it in a global tier 1 on a global basis. 80% to 90% of the company is ranked 2/3. The level of carbon emission is 2. The level of carbon emission is 2.5 times average."

**Key Financials (USD m)**

Item	2018	2017	2016	2015	2014
Revenue	1,100	1,100	1,100	1,100	1,100
Operating Profit	200	200	200	200	200
Net Income	150	150	150	150	150
Free Cash Flow	100	100	100	100	100
Capital Expenditure	(50)	(50)	(50)	(50)	(50)
Dividend	20	20	20	20	20

**ESG Scores**

Category	Score
Environmental	75
Social	75
Governance	75
Overall	75

**Valuation Metrics**

Metric	Value
P/E Ratio	23
EV/EBITDA	15
EV/FCF	18
EV/Operating Profit	20

**Responsible Criteria**

Bar chart showing scores for various ESG criteria: Carbon Footprint, Greenhouse Gas Emissions, Water Consumption, etc.

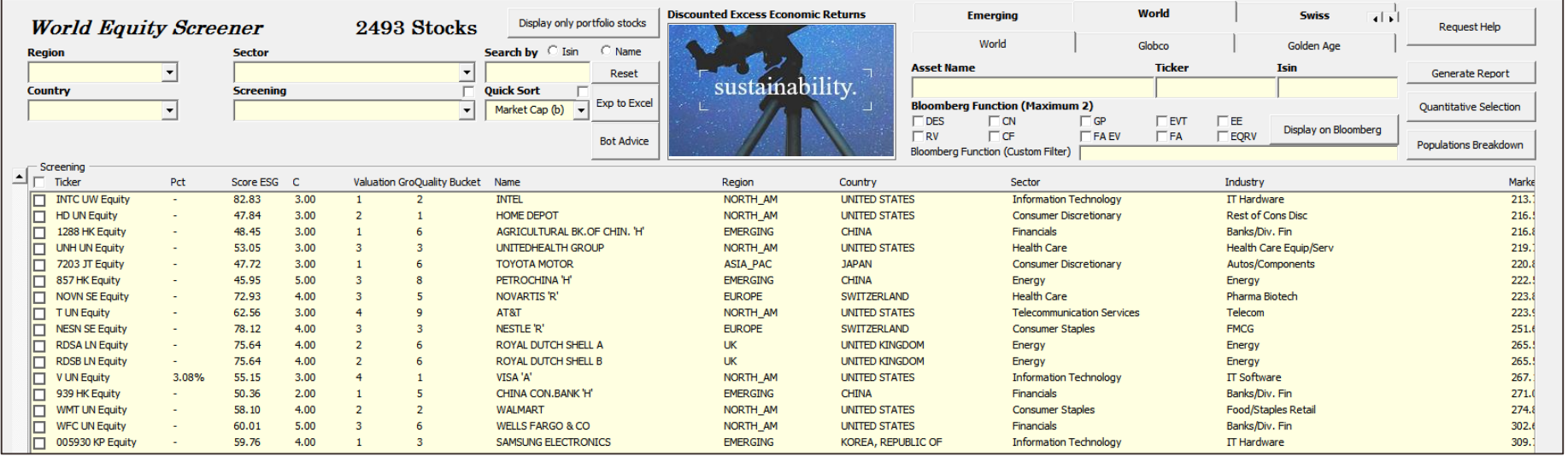
**Excess Economic Returns score**

Line chart showing the company's performance relative to its peers over time.

**Key valuation multiples**

Line chart showing various valuation multiples like P/E, EV/EBITDA, etc.

## CENTRALISED COCKPIT



**World Equity Screener** 2493 Stocks

Region: [Dropdown] Sector: [Dropdown] Search by: [Isin] [Name] [Reset]

Country: [Dropdown] Screening: [Dropdown] Quick Sort: [Dropdown] Market Cap (b): [Dropdown] Exp to Excel [Bot Advice]

**Discounted Excess Economic Returns**

Asset Name: [Dropdown] Ticker: [Dropdown] Isin: [Dropdown]

Bloomberg Function (Maximum 2): [DES] [CN] [GP] [EVT] [EE] [RV] [CF] [FA EV] [FA] [EQRV] [Display on Bloomberg]

Bloomberg Function (Custom Filter)

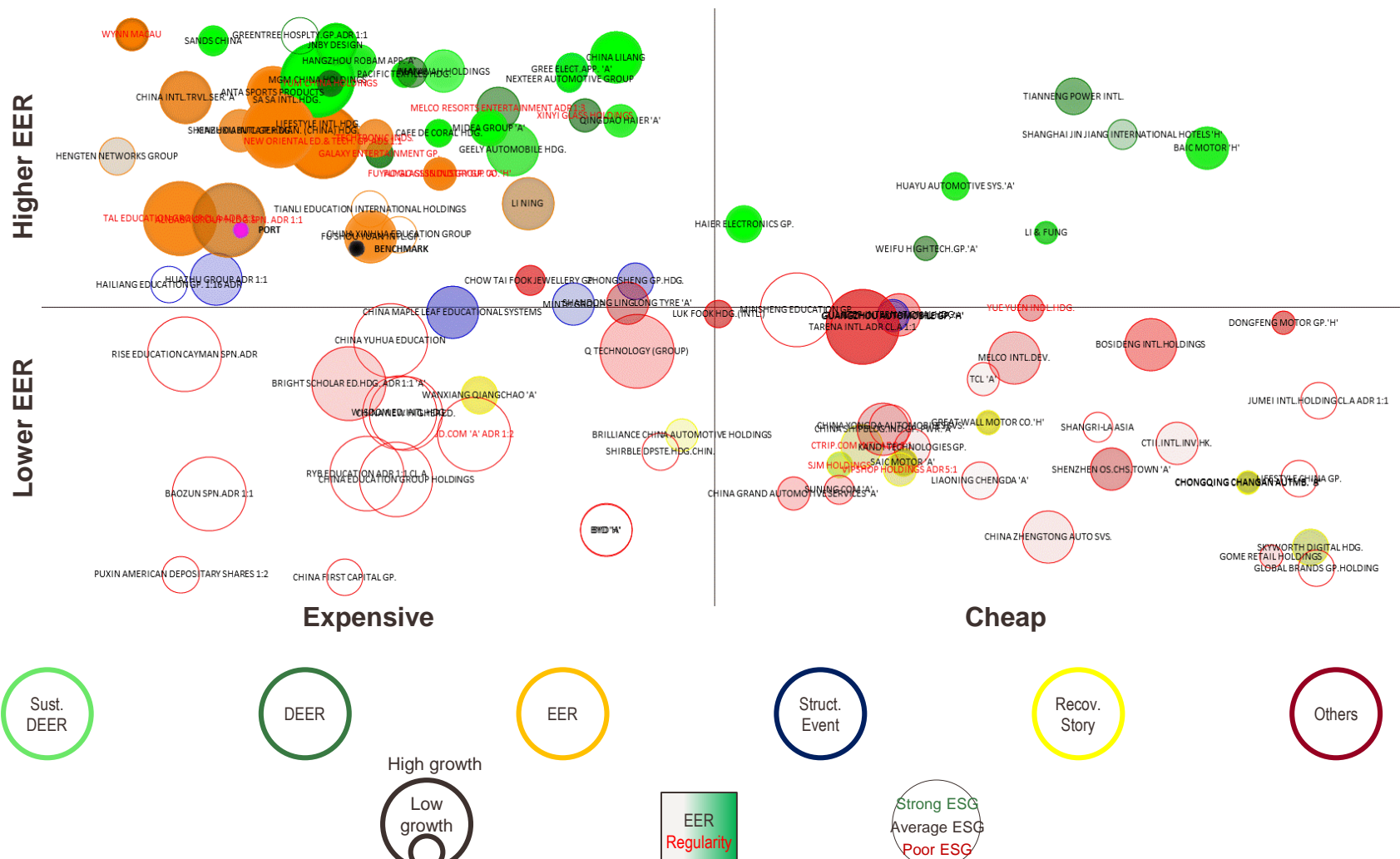
Screening	Ticker	Pct	Score ESG	C	Valuation	GroQuality	Bucket	Name	Region	Country	Sector	Industry	Market
<input type="checkbox"/>	INTC UW Equity	-	82.83	3.00	1	2		INTEL	NORTH_AM	UNITED STATES	Information Technology	IT Hardware	213.1
<input type="checkbox"/>	HD UN Equity	-	47.84	3.00	2	1		HOME DEPOT	NORTH_AM	UNITED STATES	Consumer Discretionary	Rest of Cons Disc	216.1
<input type="checkbox"/>	1288 HK Equity	-	48.45	3.00	1	6		AGRICULTURAL BK.OF CHIN. 'H'	EMERGING	CHINA	Financials	Banks/Div. Fin	216.1
<input type="checkbox"/>	UNH UN Equity	-	53.05	3.00	3	3		UNITEDHEALTH GROUP	NORTH_AM	UNITED STATES	Health Care	Health Care Equip/Serv	219.1
<input type="checkbox"/>	7203 JT Equity	-	47.72	3.00	1	6		TOYOTA MOTOR	ASIA_PAC	JAPAN	Consumer Discretionary	Autos/Components	220.1
<input type="checkbox"/>	857 HK Equity	-	45.95	5.00	3	8		PETROCHINA 'H'	EMERGING	CHINA	Energy	Energy	222.1
<input type="checkbox"/>	NOVN SE Equity	-	72.93	4.00	3	5		NOVARTIS 'R'	EUROPE	SWITZERLAND	Health Care	Pharma Biotech	223.1
<input type="checkbox"/>	T UN Equity	-	62.56	3.00	4	9		AT&T	NORTH_AM	UNITED STATES	Telecommunication Services	Telecom	223.1
<input type="checkbox"/>	NESN SE Equity	-	78.12	4.00	3	3		NESTLE 'R'	EUROPE	SWITZERLAND	Consumer Staples	FMCG	251.1
<input type="checkbox"/>	RDSA LN Equity	-	75.64	4.00	2	6		ROYAL DUTCH SHELL A	UK	UNITED KINGDOM	Energy	Energy	265.1
<input type="checkbox"/>	RDSB LN Equity	-	75.64	4.00	2	6		ROYAL DUTCH SHELL B	UK	UNITED KINGDOM	Energy	Energy	265.1
<input type="checkbox"/>	V UN Equity	3.08%	55.15	3.00	4	1		VISA 'A'	NORTH_AM	UNITED STATES	Information Technology	IT Software	267.1
<input type="checkbox"/>	939 HK Equity	-	50.36	2.00	1	5		CHINA CON.BANK 'H'	EMERGING	CHINA	Financials	Banks/Div. Fin	271.1
<input type="checkbox"/>	WMT UN Equity	-	58.10	4.00	2	2		WALMART	NORTH_AM	UNITED STATES	Consumer Staples	Food/Staples Retail	274.1
<input type="checkbox"/>	WFC UN Equity	-	60.01	5.00	3	6		WELLS FARGO & CO	NORTH_AM	UNITED STATES	Financials	Banks/Div. Fin	302.1
<input type="checkbox"/>	005930 KP Equity	-	59.76	4.00	1	3		SAMSUNG ELECTRONICS	EMERGING	KOREA, REPUBLIC OF	Information Technology	IT Hardware	309.1

For illustrative purposes only.  
<sup>1</sup> DEER = Discounted Excess Economic Returns. <sup>2</sup> ESG = Environmental, Social, Governance.  
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# Common platform across equities (2)

A powerful tool to review investment ideas



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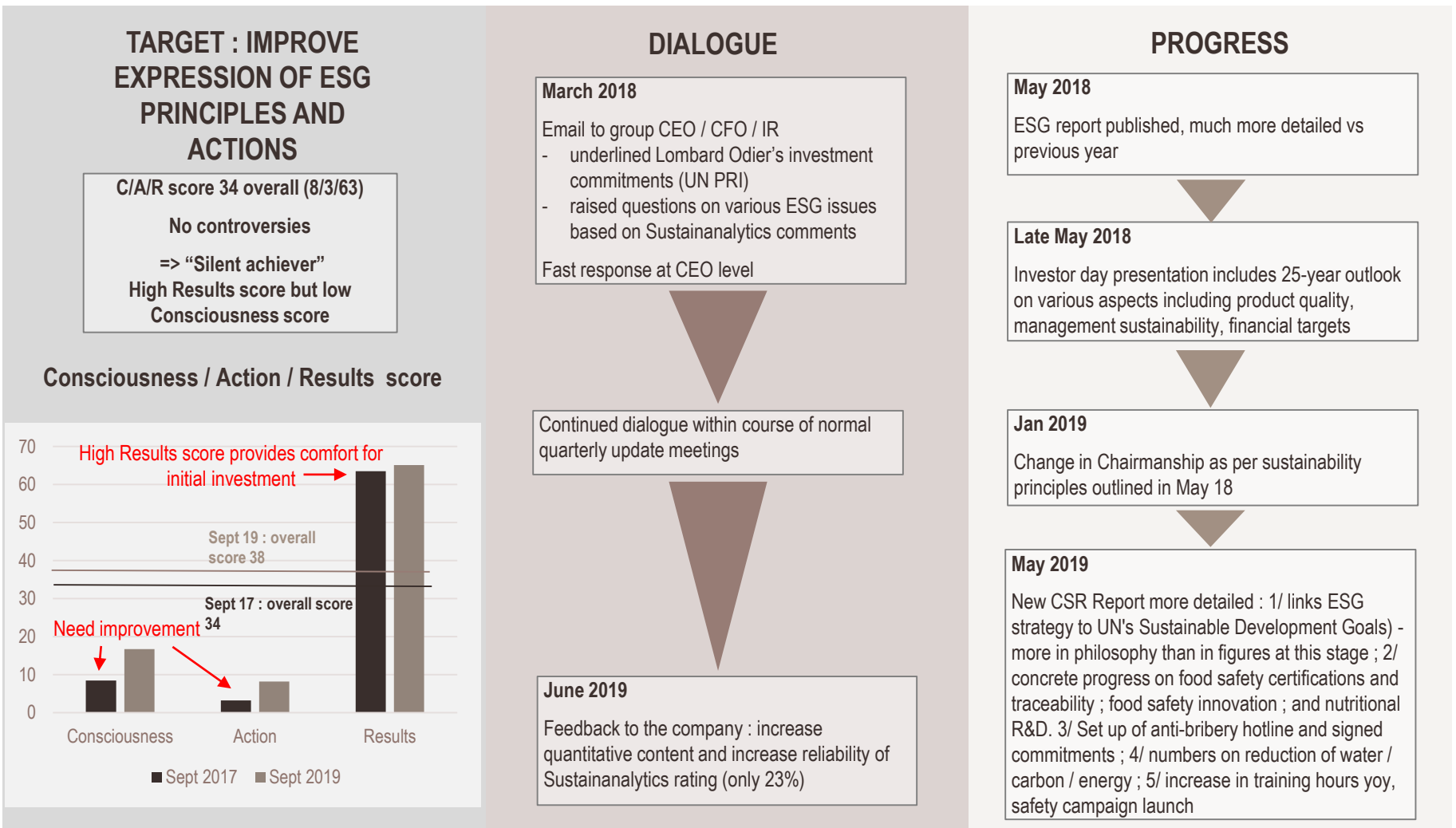


# **BUSINESS PRACTICES**

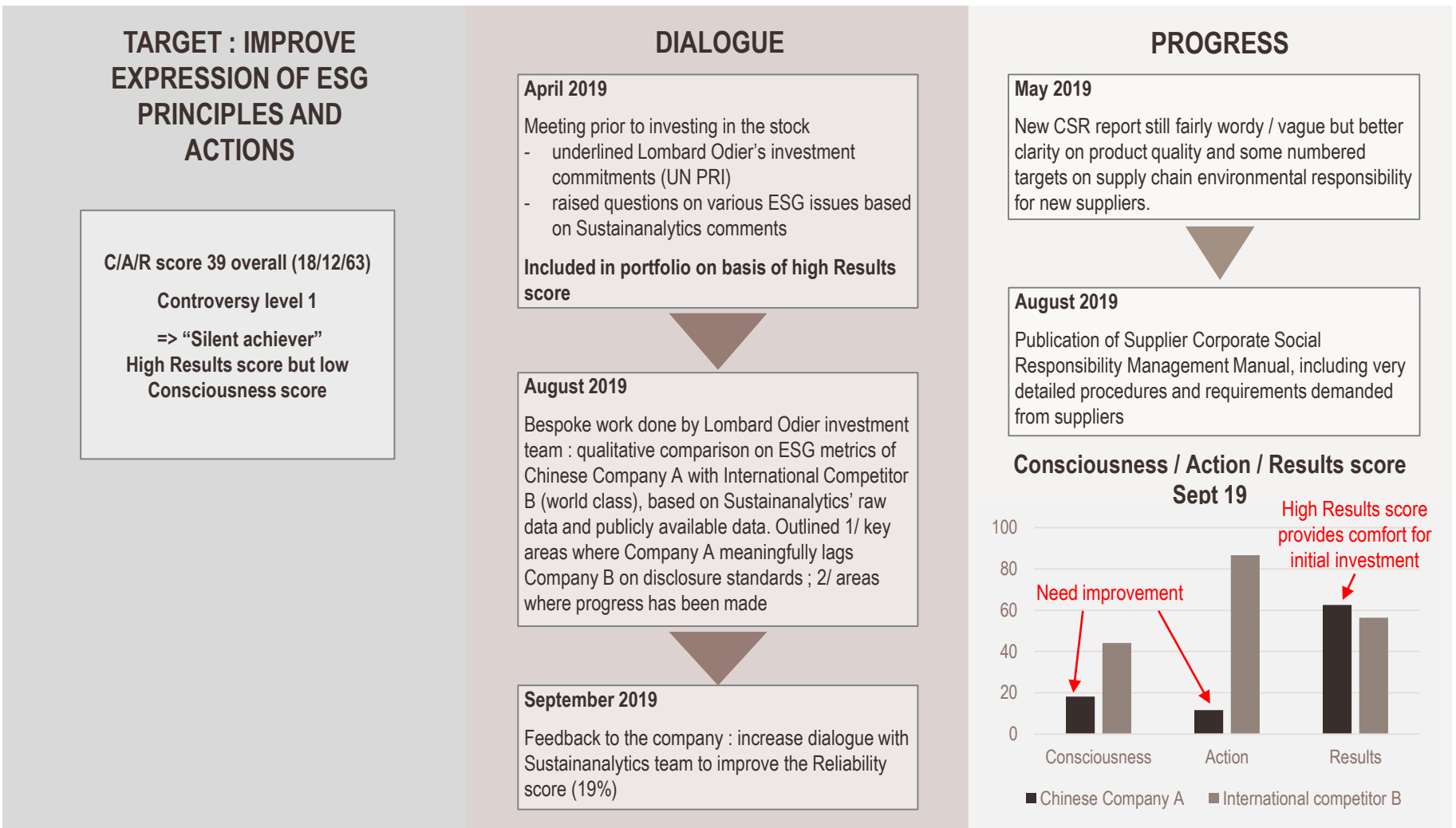
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# Stewardship example 1 : China FMCG player



# Stewardship example 2 : China FMCG player




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# Our global sustainability approach in context: AIA

AIA is an example of a security that ranks highly in our three-pillar approach:

		Pillar 1	Pillar 2	Pillar 3
COMPANY	DETAILS	EXCESS ECONOMIC RETURN	ESG	BUSINESS MODEL
<p><b>AIA is the leading life insurance company in many Asian markets. They are growing the value of new business by &gt;25% most quarters.</b></p> 	<ul style="list-style-type: none"> <li>▪ Significant amounts of free cash flow (US\$2+ billion annually)</li> <li>▪ Very low net debt</li> <li>▪ Trades a reasonable multiple compared to its quality</li> </ul>	✓		
	<ul style="list-style-type: none"> <li>▪ Scores well on its overall ESG score (60.1)</li> <li>▪ Good performance in corporate governance and environmental impact.</li> <li>▪ Improving corporate governance</li> </ul>		✓	
	<ul style="list-style-type: none"> <li>▪ Aging population will increase the need of insurance protection</li> <li>▪ In the top 3 players in Hong Kong, Singapore and Thailand</li> <li>▪ 100% ownership of its stake in its Chinese business</li> </ul>			✓

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