

LAZARD
FRÈRES GESTION

ESG Policy

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Lazard Frères Gestion's philosophy

At Lazard Frères Gestion, we believe that actively addressing environmental, social and corporate governance (ESG) considerations is essential for the sustainability of any company's economic performance.

The long-term performance of investments does not depend on financial strategy alone: how companies interact with their social, economic, and financial environments can also have a material impact.

This is why ESG criteria are naturally embedded into our investment process.

Our well-rounded approach includes:

- A stringent financial analysis, covering asset quality, financial robustness, cash-flow predictability and reinvestment, economic profitability and sustainability, and management leadership quality.
- Extra-financial criteria, underpinning long-term performance:

| Social factors |

fostering human capital

| Environmental factors |

preventing environmental risks

| Governance factors |

maintaining management–shareholder balance to avoid potential conflicts of interest and ensure minority shareholder interests are respected.

How to effectively reflect ESG considerations is an ever-present part of our investment process, which seeks to be pragmatic and forward thinking.

Article 173 of the French Energy Transition for Green Growth Act has been a real catalyst within our organisation and in terms of our ESG approach, resulting in the creation of an ESG Committee and the resolve to include ESG criteria in all of our investment decisions. Lazard Frères Gestion's approach is geared towards driving ESG progress.

Integrating ESG into Lazard Frères Gestion investment strategies

A

In-house organisation

- **ESG Committee**

Lazard Frères Gestion is mindful of the issues involved in Article 173 of the Energy Transition for Green Growth Act, both for our company as well as for our institutional clients.

At the start of 2016, Lazard Frères Gestion established an ESG Committee tasked with addressing all ESG related topics and especially those pertaining to Article 173. The ESG Committee gathers together members of the Investment, Marketing, Reporting, Risk Control, Compliance, Sales and Consultant Relations teams.

The ESG Committee's purpose is to exchange and interact on ESG issues, monitor relevant regulatory changes and best practices, adapt and modify in-house procedures, respond to client queries, manage partnerships, and transmit information, both to the Board of Managing Partners as well as to the relevant Lazard Frères Gestion teams (Investment, Reporting, Sales and so on).

- **ESG research: sources and analytical tools**

Lazard Frères Gestion uses the following sources of information when assessing a company's ESG criteria:

- Public information: Corporate Social Responsibility (CSR) reports, NGOs, and press articles
- Direct contact with companies
- Service providers: extra-financial ratings agencies and brokers

These resources enable each investment professional to gain an in-depth understanding of the relevant ESG issues. This analysis is embedded into our investment process.

Our proprietary tools contain financial and extra-financial data for every company Lazard Frères Gestion follows.

Portfolio manager–analysts input relevant data directly.

- **Assets under management concerned**

As of 31 December 2018, the value of assets under management concerned by the Lazard Frères Gestion ESG policy amounted to over € 11.4 billion, which represents 53.4% of total assets under management. This figure includes several open-ended funds or mandates that apply even stricter ESG criteria (SRI strategies or exclusion policies) and account for € 922 million of AUM.

The extent of, and approaches to, ESG integration can vary depending on the asset class and investment process. Our goal is always to gain a greater understanding of ESG risks that could have a material effect on a company valuation or a sovereign asset.

ESG analysis

• Corporates :

The Lazard Frères Gestion investment process is based on fundamental quantitative and qualitative analysis that includes both financial and extra-financial criteria:

• Financial analysis: quantitative data

Active investment based on stock picking is at the heart of our investment process.

The fundamental analysis that determines our security selection is based on three pillars: profitability, growth and valuation.

Our proprietary financial analysis, together with an assessment of companies' strategies and management leadership, enables us to gauge the sustainability of company performance.

We take a long-term view and invest in companies that the market has undervalued in a bid to deliver the best possible stock market performance while managing risk, including extra-financial risk.

• ESG integration: qualitative and/or quantitative data according to the various investment types.

Governance

Quality of governance has always been a key factor in our investment analysis.

Satisfactory governance is a guarantee of transparency, balanced authority, and a shareholder counterweight.

Lazard Frères Gestion sees corporate governance best practice as an element of risk control that helps to create value and align all stakeholders' interests.

Social

Social criteria include accident prevention, staff training, workers' rights, social dialogue, human rights and ethics along supply chains.

The two driving forces of any company are financial and human capital. In the longer run, neglecting human capital can reduce operating profitability or lead to higher staff turnover costs.

Environment

Environmental criteria address the direct and indirect impacts of corporate activity on the environment (waste treatment, energy consumption, and pollution) and vary depending on the sector.

We seek to understand how companies evaluate environmental risks. Any absence of effective environmental awareness could result in situations that can materially affect economic profitability.

Inadequately addressing environmental issues (pollution, biodiversity, resource scarcity, local communities) can lead to profit losses, potentially harm a company's business reputation, and increase financial risks.

• Sovereign issuers :

Lazard Frères Gestion has drawn up a country exclusion list (FATF banned countries) and a country watch list (countries under international sanctions or embargoes) for which permission must be obtained from the Chief Compliance Officer before any investments.

These lists include countries likely to be a major risk in terms of money laundering and reputation.

Sovereign issues normally considered by Lazard Frères Gestion as safe investments remain exposed to ESG risk factors that could alter the sustainability of their long-term economic growth paths.

Lazard Frères Gestion works in partnership with Vigeo Eiris, an ESG provider, to:

- Enrich its in-house analysis by including sustainability indicators in its security selection process.
- Identify the strengths and weaknesses of States in terms of ESG risk factors.
- Obtain qualitative analysis on the most significant risk factors for the OECD countries.
- Keep abreast of all regulatory standards.

Sovereign States are assessed according to ESG criteria based on three pillars that focus on their commitments in terms of environmental protection, social protection and solidarity, as well as institutional responsibility, or how the welfare state creates value for its citizens and contributes to their well-being.

Tailoring ESG integration to each investment strategy

→ Equities :

In October 2017, the equity investment team, comprising 12 professionals each with dual investment and analyst responsibilities, decided to include quantitative ESG factors in its fundamental analysis.

Whereas ESG considerations were previously evaluated on a qualitative basis, financial analysts now integrate ESG criteria into their valuation models, and in particular via the beta calculation within the cost of capital. ESG criteria thus have a direct impact on a company's target fair value.

Beta depends on various factors including sector cyclicality, product mix, geographical mix, operating and financial leverage, predictability of management, and ESG considerations.

Beta, as a company-specific risk measure, ranges from 0.5 (least risky) to 1.5 (most risky).

During our regular meetings with company management (approximately 900 per year), we monitor ESG criteria. Portfolio manager–analysts write up meeting minutes that include both financial and extra-financial data that is made available to all of our investment desks.

→ Convertible bonds :

Portfolio manager–analysts carry out extra-financial analysis that is included in investment scenarios.

Six criteria are examined: human resources, corporate governance, human rights, the environment, supply chains, and the community, and each one is critically reviewed.

To carry out their reviews, the portfolio manager–analysts use several information sources including Vigeo Eiris research, company CSR reports, direct interaction with companies or brokers, and public information.

→ Fixed income :

Credit analysts use the available extra-financial research to ensure that valuations are in line with extra-financial ratings, i.e. that spread levels remain attractive from a credit risk standpoint.

Issuers carrying the weakest extra-financial ratings, according to Vigeo Eiris, are reviewed every quarter.

C

Exclusions

Lazard Frères Gestion complies with regulations currently in force in France.

We do not invest in any companies involved in the production or distribution of landmines or cluster munitions, in accordance with the Ottawa and Oslo conventions. To ensure adequate monitoring in this area, we work in partnership with ISS-Ethix.

In addition to complying with regulations currently in force in France (Law No. 2010-819 of 20 July 2010 to eliminate cluster munitions, and Law No. 2342-2 of 8 July 1998 to eliminate landmines), we can also add customised exclusion policies at our clients' request (e.g. tobacco, weapons, alcohol).

D

Engagement

We consider corporate engagement, as opposed to shareholder activism, to be constructive when it proactively encourages organisations to improve their ESG practices. This engagement takes the form of:

- A strict proxy voting policy with the analysis of each resolution.
- Regular dialogue with company representatives from senior management, finance departments, investor relations, and such like.
- Discussing draft resolutions with companies if necessary prior to shareholder meetings.

Constant dialogue with company management along with our proxy voting policy enable us to influence corporate conduct in terms of governance as well as on social and environmental issues.

Our proxy voting policy highlights our endeavour to safeguard the interests of minority shareholders in the long term and avoid conflicts of interest that favour majority shareholders, senior managers or any stakeholder to the detriment of minority shareholders.

In July 2016, Lazard Frères Gestion completely revised its proxy voting policy. Changes included:

- Modifying and extending proxy voting to European Large Caps, with no minimum holding threshold
- Developing and implementing guiding principles
- Integrating ESG criteria:
 - **Environment:** by dealing with resolutions in such a way as to reduce negative impacts on the environment.
 - **Social:** by taking all stakeholders' interests into account.
 - **Governance:** by promoting best practices and avoiding the risk of conflicts of interest. Analysing a company's corporate governance has always been a core element of our investment process.

Resolutions are analysed as part of Lazard Frères Gestion's fundamental financial analysis by the sector specific portfolio manager–analyst. This analysis draws on information from proxy providers, namely Proxinvest for French companies and ECGS (European Corporate Government Service) for European companies. Proxy provider services are used as decision-making tools to help identify potentially problematic resolutions.

Nonetheless, the final voting decision is made by the sector specific portfolio manager–analyst.

Information on the proxy voting policy and voting decisions reports can be accessed on the Lazard Frères Gestion website www.lazardfreresgestion.fr under 'Mentions légales'

Our SRI investment strategy

In addition to embedding ESG criteria into our investment process, we also have an SRI investment strategy that systematically and quantitatively takes extra-financial metrics into account.

Over 15 years ago, to combine our financial analysis and company valuation expertise with the best SRI competence available, we decided to enter into a partnership with an independent SRI ratings agency.

Our goal was to take part in the latest developments alongside experts in the extra-financial field to offer our clients a trustworthy, high-calibre product with transparent investment rules.

Our SRI strategy combines an extra-financial approach defined with Vigeo Eiris and our fundamental in-house financial analysis. Vigeo Eiris has long-standing experience and significant technical and human expertise in the field of SRI analysis (over 120 sector-based analysts), and consistently produces an independent and transparent rating process.

The Lazard Equity SRI fund, which was launched in June 2001, fully utilises this expertise. Lazard Frères Gestion is a signatory to the AFG-FIR (French Asset Management Association – French Sustainable Investment Forum) transparency code for the fund.

As of 31 December 2018, Lazard Equity SRI AUM stood at € 174 million.

The extra-financial analysis that we carry out with Vigeo Eiris advocates a ‘Best in Class’ approach, which looks at the environmental, social, and governance themes at a company level and favours the best-rated issuers within their business sector. Each theme for any given company is rated according to a scale that ranges from - - for unconcerned entities to + + for pioneers. The scale used is relative and adapted to each sector (for instance, the environment theme is not treated in the same way when analysing a petrochemicals company as it is for a bank).

Lazard Frères Gestion has selected ESG investment criteria and attributed each one with a specific weighting. Human resources and the environment carry the highest weightings as shown below:

1. **Human resources (40%)**
2. **Environment (30%)**
3. **Business behaviour (10%)**
4. **Human rights (10%)**
5. **Community involvement (10%)**

Governance is a criterion that is already embedded into our fundamental financial analysis and, as discussed previously, is part of our stock-picking process. Our requirements must be met for a stock to be eligible for the portfolio.

Our Human Resources criteria carry a substantial weighting (40%) which reflects their importance in our investment process, since failing to foster human capital can have a significant material impact on a company's financial performance. The criteria are:

- **The quality of working conditions**
- **Consistently improving industrial relations**
- **Career and skills management**

The second most important theme after Human Resources is the Environment (30%), which highlights the importance of being aware of environmental situations that could have a material effect on economic profitability. Environment is examined from two angles:

- Companies' environmental strategies, including pollution risks, 'green' products and services, and preventing harm to biodiversity.
- Product manufacturing and distribution, including managing impacts on water, saving energy, reducing harmful emissions, improving waste treatment, managing distribution-linked impacts, rehabilitating degraded sites, etc.

Business behaviour (10%) take the following aspects into account:

- Consumer rights and protection (product information and safety)
- Long-term cooperation with suppliers based on the inclusion of social and environmental factors in supply chains
- Compliance with competition rules
- Effectively preventing corruption

Respecting human rights (10%) is essential for companies to function effectively. Human rights are examined within two contexts:

- Society: respect for fundamental human rights and preventing violations of these rights (respect for the individual's right to fundamental freedoms).
- Workplace: respect for fundamental human rights by eliminating all forms of prohibited work, respecting trade-union freedom and the right to collective bargaining, eliminating discrimination in employment, and promoting equality.

Community involvement (10%) is considered from three standpoints:

- The impact of a company's business activity in the region where it operates (commitment to promoting economic and social development).
- The company's societal behaviour (respect for social counterparts, social added value of the products and services developed).
- The company's contribution to the common good.

Extra-financial reporting

A. Carbon Footprint

Funds that measure carbon footprints

- As part of Article 173 of the Act of 17 August 2015 on Energy Transition for Green Growth, Lazard Frères Gestion took the decision to measure carbon footprints for its funds with assets exceeding € 500 million. The carbon footprint of the SRI fund is measured with no minimum threshold.

The funds concerned are:

- Lazard Alpha Euro
- Norden
- Lazard Small Caps Euro
- Lazard Equity SRI
- Lazard Convertible Global
- Lazard Credit Fi.

- In addition, we have expanded the list of funds concerned to take into account:
 - institutional investor demands
 - the quality of available information on the various portfolios.

Methodology

- In 2016, we decided to enter into a partnership with Trucost to obtain the data necessary for calculating carbon footprints.
- Lazard Frères Gestion has chosen as its reference indicator: tonnes of carbon dioxide equivalent (tCO₂e) per million euro of revenues.
- Carbon footprint assessments take into account Scopes 1 and 2 of Greenhouse Gas (GHG) emissions, where:
 - Scope 1 includes direct emissions from owned or controlled sources, and
 - Scope 2 includes indirect emissions from the consumption of purchased energy.
- Carbon footprints are only calculated for directly held securities.

The method used to calculate a portfolio's carbon intensity is a weighted average of GHG Scopes 1 and 2 emissions divided by company revenues. The formula used is:

$$\text{Portfolio carbon intensity} = \sum [((\text{Emissions (scopes 1+2)}) / \text{Revenue}) \text{ of each security} \times \text{security weight}]$$

B. Energy transition

Funds that report on energy transition efforts

All funds for which the carbon footprint is calculated are included, except for Lazard Small Caps Euro as the data available for this fund and its index are insufficient to deliver a relevant energy transition report.

Methodology

- Energy transition efforts are evaluated by Vigeo Eiris in line with its methodology and evaluation framework. Vigeo Eiris formulates a list of criteria for evaluating and comparing companies' energy transition efforts.
- Depending on the sector, Vigeo Eiris determines criteria weightings from 0 to 3.
- Companies are then assessed according to their governance policy, measures taken, and results achieved. Scores for each criterion range between 0 and 100, with performance rising as the score increases. The company's overall score is the weighted average of these criteria.
- Lazard Frères Gestion considers the weighted average of individual scores to establish an overall portfolio score.

C. ESG reporting

Our high standard of communication is essential for maintaining the confidence that we have built with our clients. We produce tailored reports that can be adapted to clients' particular constraints and highlight ESG information (Article 173 of the Energy Transition for Green Growth Act).

Monthly reports are produced for Lazard Equity SRI, which detail all ESG characteristics.

Our commitment

I

PRI signatory

Lazard Frères Gestion has been a signatory to the PRI (Principles for Responsible Investment) since 9 February 2015 and commits to upholding the six United Nations Principles for Responsible Investment. Lazard Frères Gestion reaffirms the desire to take environmental, social, and governance issues into account when conducting analysis and making investment decisions. We seek to contribute, along with the other PRI signatories, to the development of a more sustainable global financial system.

The six principles are:

| Principle n°1 |

we will incorporate ESG issues into investment analysis and decision-making processes.

| Principle n°2 |

we will be active owners and incorporate ESG issues into our ownership policies and practices.

| Principle n°3 |

we will seek appropriate disclosure on ESG issues by the entities in which we invest.

| Principle n°4 |

we will promote acceptance and implementation of the Principles within the investment industry.

| Principle n°5 |

we will work together to enhance our effectiveness in implementing the Principles.

| Principle n°6 |

we will each report on our activities and progress towards implementing the Principles.

II

Member of the AFG Technical Committee for Responsible Investment

Lazard Frères Gestion actively participates in various industry committees and was notably a member of the AFG working group on Article 173, contributing to the drafting of a professional guide to Article 173.

www.lazardfreresgestion.fr
www.lazardfreresgestion-tribune.fr



PARIS LYON BORDEAUX NANTES BRUSSELS

Document written on March 10, 2018.
The information available in this document is subject to change over time.

Lazard Frères Gestion: SAS with a capital of € 14,487,500, registered at the Paris RCS under the number SIRET 352 213 599.
Portfolio Management Company approved by the Autorité des Marchés Financiers under number GP 04 000068.
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