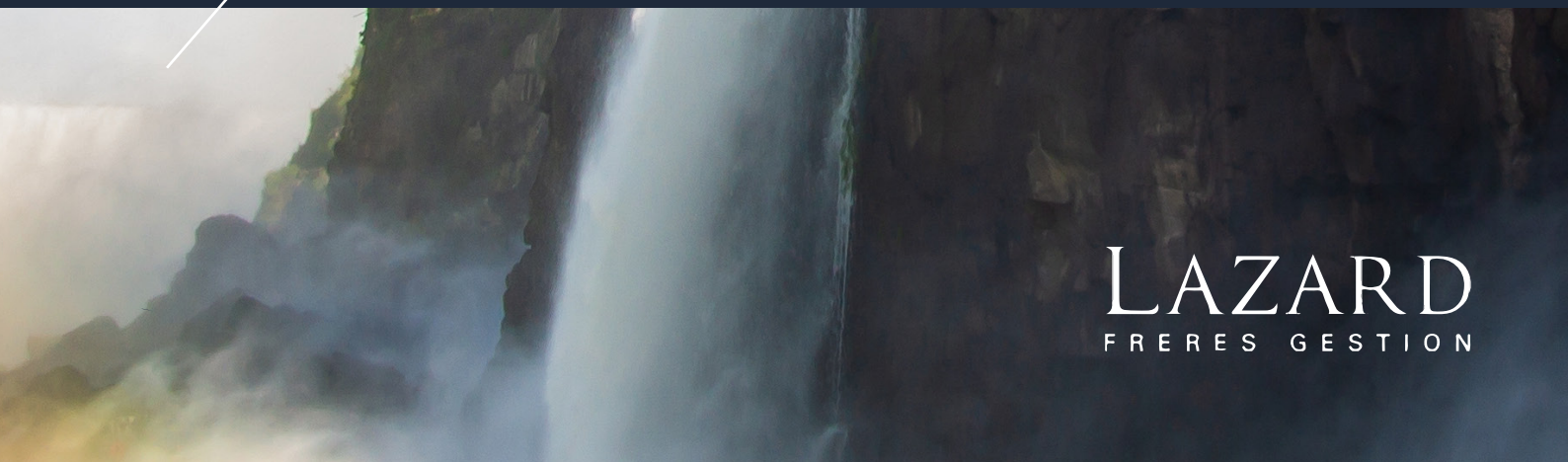




# SUSTAINABLE INVESTMENT METHODOLOGY (SFDR)



LAZARD  
FRÈRES GESTION

LAST UPDATE ON - NOVEMBER 2024



# CONTENTS



## **SUSTAINABLE INVESTMENT AS DEFINED BY SFDR REGULATION**

- p.4 -

## **OUR SUSTAINABLE INVESTMENT METHODOLOGY**

- p.5 -

## **DATA SELECTION**

- p.7 -

## **INDICATORS FOR SUBSTANTIAL CONTRIBUTIONS**

- p.8 -

## **INTEGRATION OF PRINCIPAL ADVERSE IMPACTS**

- p.10 -

## **APPENDIX**

- p.14 -

# SUSTAINABLE INVESTMENT AS DEFINED BY SFDR

## OBJECTIVES OF THE SFDR REGULATION (SUSTAINABLE FINANCE DISCLOSURE REGULATION)

EU Regulation n°2019/2088 on sustainability reporting in the financial services sector (SFDR) aims to provide a framework for financial institutions regarding their communications and commitments to support the financing of the ecological transition.

This regulation improves the transparency imposed on financial actors regarding the sustainable aspects of their investment decisions. It provides a framework for the reporting of financial products.

It defines sustainable investment as follow:

E

ENVIRONMENT

« Sustainable investment means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of wastes, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy,

S

SOCIAL

or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities,

DO NO  
SIGNIFICANT  
HARM

provided that these investments do not cause significant harm to any of these objectives,

G

GOVERNANCE

and that the companies in which investments are made apply good governance practices, particularly with regard to sound management structures, employee relations, remuneration of competent personnel and compliance with tax obligations.\* »

\* Article 2 of EU Regulation 2019/2088 on sustainability disclosure in the financial services sector (SFDR).



# OUR SUSTAINABLE INVESTMENT METHODOLOGY

## A. APPLICATION OF THE SFDR PRINCIPLES

### CONTRIBUTION

The investment in an economic activity that makes a substantial contribution to an **environmental** or **social** objective.

To make a substantial contribution to a quantitative indicator, the company **must be in the top 20% of its sector**.

Example :

Substantial contribution n°6, training hours per employee, is validated if the company is in the top 20% of its sector.

To make a substantial contribution to a qualitative indicator, the company **must meet the threshold set by Lazard Frères Gestion**.

Example :

Substantial contribution n°1, Implied Temperature Rise (ITR), must be lower than 2°C.

### DNSH

The investment does not significantly harm any of the indicators of negative impact, known as PAIs - *Principal Adverse Impacts*.

In order not to significantly harm a quantitative PAI, the company **must not be in the bottom 10% of its sector**.

Example :

PAI 2, carbon footprint, the company is not considered a sustainable investment if it is in the bottom 10% of its sector.

In order not to significantly harm a qualitative PAI, the company **must follow the criteria set by Lazard Frères Gestion**.

Example :

PAI 14, exposure to controversial weapons, the company is eliminated if it is exposed.

### GOVERNANCE

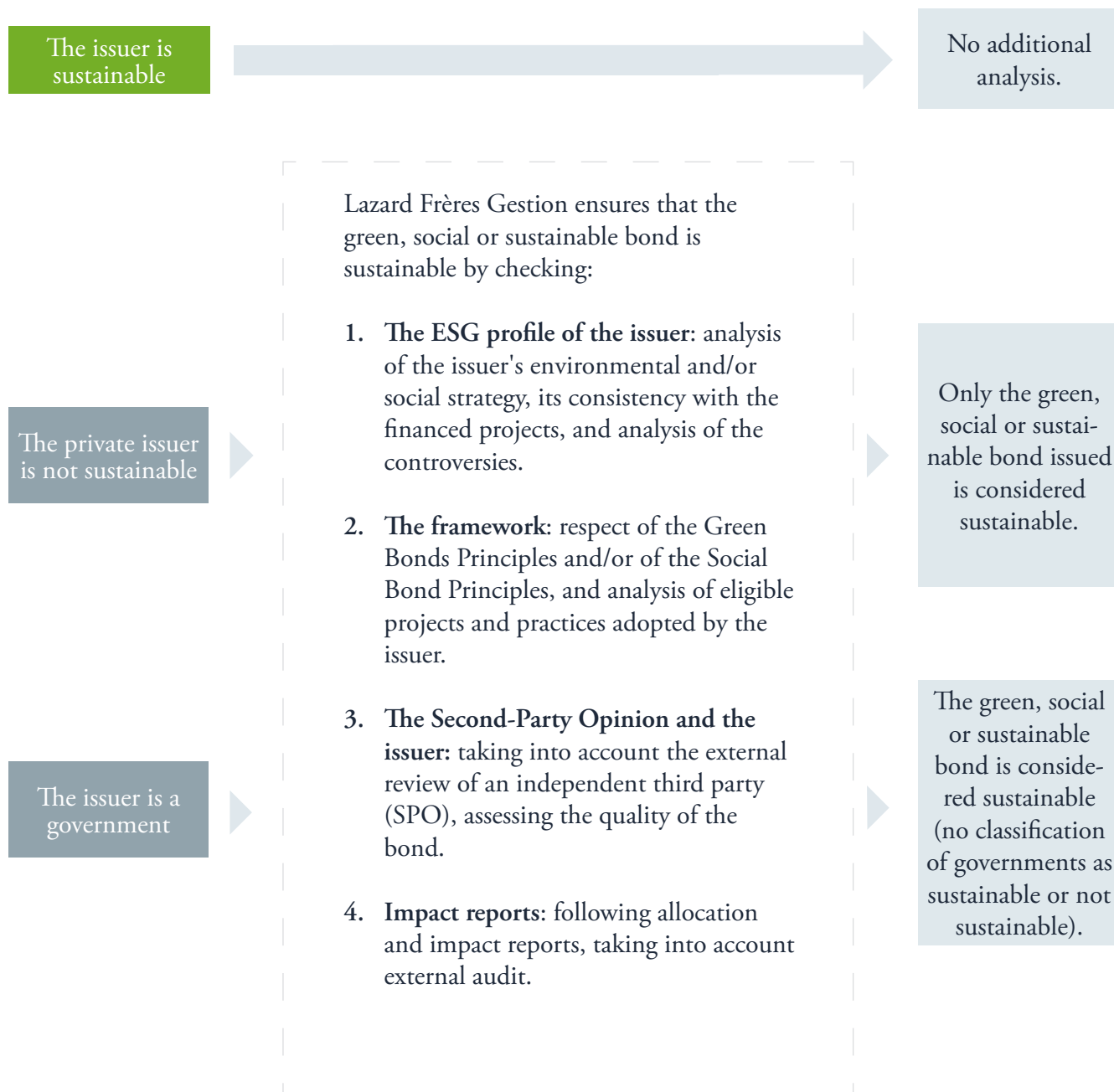
Asset managers must make sure that the companies they invest in respect the principles of good **governance**.

The governance score taking into account the principles of the UN Global Compact and the OECD guidelines **must be above the threshold set by Lazard Frères Gestion**.



## B. THE SPECIFIC CASE OF GREEN, SOCIAL AND SUSTAINABLE BONDS

Green, social and sustainable bonds are a sustainable investment lever, used by Lazard Frères Gestion.



# III. DATA SELECTION

## A. DATA SOURCES

Lazard Frères Gestion has historically worked with several providers of extra-financial data known for their reliability and good coverage.

Four external data sources are used in the definition of sustainable investment.

We mainly use MSCI and Gaïa Ratings.



Data provided by Gaïa Ratings is used for companies that have a less than €5 billion market capitalization. It tends to be more qualitative, and our analysts use it when first available.

For certain indicators, we also add data from ISS ESG and ISS-Ethix.



## B. DATA LIMITATIONS

Some companies do not disclose all the PAIs required by the European Regulation.

Lazard Frères Gestion has decided to use additional indicators when the PAI coverage percentage is below 80%.

Consequently, when the coverage of a PAI indicator is less than 80% :

- the PAI indicator is used when the data is available,
- an additional indicator is used when the PAI indicator is not covered.

When the data quality of a PAI is deemed insufficient for use by the ESG Risks committee, Lazard Frères Gestion reserves the right to suspend the use of this PAI and resort to the complementary indicator. The quality is reassessed quarterly.

# IV. INDICATORS FOR SUBSTANTIAL CONTRIBUTIONS

## A. COMPANIES COVERED BY MSCI

Indicator	Criteria fixed by Lazard Frères Gestion
<b>Temperature (Implied Temperature Rise)</b>	Substantial contribution validated if the temperature is less than or equal to 2°C.
<b>Carbon footprint Scope 1, 2 &amp; 3</b>	Substantial contribution validated if the company is among the 20% of companies in its sector with the lowest carbon footprint.
<b>GHG intensity Scope 1, 2 &amp; 3</b>	Substantial contribution validated if the company is among the 20% of companies in its sector with the lowest GHG intensity.
<b>Number of green patents</b>	Substantial contribution validated if the company is in the top 20% of companies in the MSCI MSCI universe with the largest number of green patents.
<b>Alignment with the European Taxonomy</b>	Substantial Contribution validated if the company has an alignment with the European taxonomy greater than or equal to 10%.
<b>Approval of the trajectory by SBTi</b>	Substantial Contribution validated if the company has its trajectory and climate targets approved by the Science Based Targets initiative.
<b>Diversity</b>	Substantial contribution validated if the company meets the most demanding MSCI qualitative criterion in this category: "Employee training on diversity policy, supported by senior executive or higher level of oversight on diversity performance".
<b>Percentage of women in executive management</b>	Substantial contribution validated if the company is among the 20% of companies in its sector with the highest percentage of women in executive management.
<b>Training hours per employee</b>	Substantial contribution validated if the company is among the 20% of companies with the highest number of training hours per employee in its sector.
<b>Social benefits</b>	Substantial Contribution validated if the company meets MSCI qualitative criterion in this category: "Benefits cover all employees".



## B. COMPANIES COVERED BY GAÏA RATINGS

Indicator	Criteria fixed by Lazard Frères Gestion
<b>Carbon footprint Scope 1 &amp; 2</b>	Substantial contribution validated if the company is among the 20% of companies with the lowest Scope 1 & 2 carbon footprint.
<b>Carbon intensity Scope 1 &amp; 2</b>	Substantial contribution validated if the company is among the 20% of companies with the lowest Scope 1 & 2 carbon intensity.
<b>Percentage of renewable energy consumption</b>	Substantial Contribution validated if the company is among the 20% of companies with the highest percentage of renewable energy consumption.
<b>Energy intensity</b>	Substantial Contribution validated if the company is among the 20% of companies with the lowest energy intensity (KWh/mCA).
<b>Percentage of waste reused, reemployed, recycled or recovered</b>	Substantial contribution validated if the company is among the 20% of companies with the biggest percentage of waste reused, reemployed, recycled or recovered.
<b>Alignment with the European Taxonomy</b>	Substantial Contribution validated if the company has an alignment with the European taxonomy greater than or equal to 10%.
<b>Approval of the trajectory by SBTi</b>	Substantial Contribution validated if the company has its trajectory and climate targets approved by the Science Based Targets initiative.
<b>Share of activities with quality certification</b>	Substantial contribution validated if part of the company's activities are certified as being of high quality (e.g. ISO 14001).
<b>Percentage of women on the board</b>	Substantial contribution validated if the company is among the 20% of companies with the highest rate of women on the board.
<b>Training hours</b>	Substantial contribution validated if the company is among the 20% of companies with the highest number of training hours per employee.
<b>Rate of absenteeism due to illness and accidents</b>	Substantial contribution validated if the company is among the 20% of companies with the lowest rate of absenteeism due to illness and accidents.
<b>Gender pay gap</b>	Substantial contribution validated if the company is among the 20% of companies with the lowest gender pay gap.
<b>Engagement in the promotion of social dialogue</b>	Substantial contribution validated if the company is considered by Gaïa Ratings as "engaged to promoting social dialogue".
<b>Level of involvement in the UN Global Compact</b>	Substantial contribution validated if the company's level of involvement in the United Nations Global Compact is Global Compact is considered "Advanced" or "Active".

# V. INTEGRATION OF PRINCIPAL ADVERSE IMPACTS

## 1. DNSH - 14 PAI

Companies for which data is not available from MSCI or Gaia Ratings are not considered sustainable investments.

### A. COMPANIES COVERED BY MSCI

PAI	Indicator	Criteria fixed by Lazard Frères Gestion	Additional indicator	Criteria fixed by Lazard Frères Gestion
PAI 1	- GHG emissions Scope 1, 2 & 3 <sup>1</sup> - Additional indicator	Exclusion if the company is among the 10% companies with the highest GHG emissions in the universe and if its ITR > 6°C.	Implied Temperature Rise.	The ITR is used as a complement to avoid sectoral and revenue-related biases.
PAI 2	Carbon footprint Scope 1, 2 & 3 <sup>2</sup>	Exclusion if the company is among the 10% of companies with the highest carbon footprints in its sector.	No additional indicator.	
PAI 3	GHG intensity Scope 1, 2 & 3 <sup>3</sup>	Exclusion if the company is among the 10% of companies with the highest carbon intensities in its sector.	No additional indicator.	
PAI 4	Exposure to companies active in the fossil fuel sector	Exclusion if the company is exposed to fossil fuels unless the company has: -a Taxonomy Alignment > 40% and a validated SBTi target or revenues from fossil fuel activities < 5%, -Renewable CapEx > 40% and a validated SBTi target or a turnover from fossil fuel activities < 5%.	No additional indicator.	
PAI 5	Share of non-renewable energy consumption and production	Exclusion if the company is among the 10% companies with the highest consumption and production of non-renewable energy in its sector.	Percentage of revenues in energy-intensive activities.	Exclusion if the company is among the 10% companies with the highest percentage of revenues in energy intensive activities in its sector.
PAI 6	Energy consumption intensity	Exclusion if the company is among the 10% of companies with the highest energy consumption intensities in its sector.		
PAI 7	Activities negatively affecting biodiversity sensitive areas and existence of severe environmental controversies	Exclusion if the company has activities that negatively affect biodiversity sensitive areas.	No additional indicator.	
PAI 8	Tons of water discharges per million euros invested	Exclusion if the company is among the 10% of companies that generate the most water pollution in its sector.	Active controversy over wastewater treatment (ISS ESG).	Exclusion if the company is involved in controversies.
PAI 9	Tons of hazardous and radioactive waste per million euros invested	Exclusion if the company is among the top 10% of companies generating tons of hazardous waste in its sector.	Active controversies on elimination of substances of concern (ISS ESG).	Exclusion if the company is involved in controversies.

<sup>1</sup> Company's most recent global greenhouse gas emissions based on reported or estimated Scope 1 and 2 emissions and estimated Scope 3 emissions (MSCI Method).

<sup>2</sup> Company's most recent global greenhouse gas emissions, based on reported Scope 1 and 2 emissions and estimated Scope 3 emissions on the company's value (MSCI Method).

<sup>3</sup> Company's most recent global greenhouse gas emissions, based on reported Scope 1 and 2 emissions and estimated Scope 3 emissions on the company's sales (MSCI Method).

PAI	Indicator	Criteria fixed by Lazard Frères Gestion	Additional indicator	Criteria fixed by Lazard Frères Gestion
PAI 10	Violations of the UN Global Compact	Exclusion if the company violates the principles of the UN Global Compact (internal list)	No additional indicator	
PAI 11	Lack of processes and compliance mechanisms to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises	Exclusion if the company does not have a due diligence on the principles of the Global Compact or OECD Guidelines.	No additional indicator	
PAI 12	Unadjusted Gender pay gap	Exclusion if the company is in the top 10% companies with the largest unadjusted gender pay gap in the universe.	Consideration given by management to diversity	Exclusion if the company does not have a diversity policy.
PAI 13	Percentage of women in executive management	Exclusion if the company is among the 10% companies with the fewest women on the board in its sector.	No additional indicator.	
PAI 14	Exposure to controversial weapons	Exclusion if the company is exposed to controversial weapons.	No additional indicator.	
G	Governance	Exclusion if the governance score is strictly below 2/10.	No additional indicator.	

## B. COMPANIES COVERED BY GAÏA RATINGS

PAI	Indicator	Criteria fixed by Lazard Frères Gestion	Additional indicator	Criteria fixed by Lazard Frères Gestion
PAI 1	Absolute carbon emissions Scope 1 & 2	Exclusion if the company is among the 10% companies with the highest absolute carbon emissions in the universe.	No additional indicator.	
PAI 2	Carbon footprint Scope 1 & 2	Exclusion if the company is among the 10% of companies with the highest carbon footprints in its sector.	No additional indicator.	
PAI 3	Carbon intensity Scope 1 & 2	Exclusion if the company is among the 10% of companies with the highest carbon intensities in its sector.	No additional indicator.	
PAI 4	Exposure to companies active in the fossil fuel sector	Exclusion if the company is exposed to fossil fuels unless the company has: -a Taxonomy Alignment > 40% and a validated SBTi target or revenue from fossil fuel activities < 5%, -Renewable CapEx > 40% and a validated SBTi target or a turnover from fossil fuel activities < 5%.	Qualitative analysis by the analyst-manager in charge of the stock.	
PAI 5	Share of non-renewable energy consumption and production	Exclusion if the company is among the 10% companies with the highest share of non-renewable energy consumption and production in its sector.	- Environmental policy (issues and objectives). - Energy and GHG score.	Exclusion if no initiative or score of 0/100.
PAI 6	Energy consumption intensity	Exclusion if the company is among the 10% companies with the highest energy consumption intensities in its sector.		
PAI 7	Activities negatively affecting biodiversity sensitive areas	Exclusion if the company has activities that negatively affect biodiversity sensitive areas.	Environmental policy.	Exclusion if no initiative or score of 0/100.
PAI 8	Tons of water discharges	Exclusion if the company is among the 10% of companies that generate the most water pollution in its sector relatively to their market capitalization.	- Environmental policy (issues and objectives). - Water, Air, Soil and Waste score.	Exclusion if no initiative or score of 0/100.
PAI 9	Tons of hazardous and radioactive waste per million euros invested	Exclusion if the company is among the top 10% of companies generating the most important quantity of hazardous waste in its sector.	- Initiatives to reduce the quantity of non-energy inputs/consumables (paper, water, raw materials, etc.) and/or waste. - Water, Air, Soil and Waste score.	Exclusion if no initiative or score of 0/100.

PAI	Indicator	Criteria fixed by Lazard Frères Gestion	Additional indicator	Criteria fixed by Lazard Frères Gestion
<b>PAI 10</b>	Risk of violating the United Nations Global Compact or the OECD Guidelines for Multinational Enterprises	Exclusion if the risk is "mild" or "high".	Active controversy on human capital.	Exclusion if there is more than one severe controversy.
<b>PAI 11</b>	Violation of the principles of the UN Global Compact.	Exclusion if the company is in breach of the UNGC (Lazard Frères Gestion internal list).	No additional indicator.	
<b>PAI 12</b>	Gender pay gap	Exclusion if the company is in the top 10% of companies with the largest unadjusted gender pay gap in the universe.	Equal Opportunity Score.	Exclusion if the score is equal to 0/100.
<b>PAI 13</b>	Percentage of women on the board	Exclusion if the company is among the 10% of companies with the fewest women on the board in its sector.	No additional indicator.	
<b>PAI 14</b>	Exposure to controversial weapons	Exclusion if the company is exposed to controversial weapons.	No additional indicator.	
<b>G</b>	Governance	Exclusion if the governance score is strictly below 20/100.	No additional indicator.	

## 2. Additional indicators

////////////////

### A. COMPANIES COVERED BY MSCI

When the coverage of a PAI indicator is less than 80% :

- the PAI indicator is used when the data is present,
- the complementary indicator is used when the PAI indicator is not covered.

PAI	PAI coverage rate*	Additional indicator	Coverage rate of the additional indicator*	Criteria fixed by Lazard Frères Gestion	Qualitative explanation of the choice of indicator
<b>PAI 1</b>	92.98%	ITR	91.99%	Exclusion if the company is among the 10% of companies with the highest absolute carbon emissions in the universe and if its ITR > 6°C.	The ITR is always used in addition to the PAI 1 in order to avoid sectoral and revenue-related biases.
<b>PAI 5</b>	39.33%	Percentage of revenues in energy-intensive activities energy-intensive businesses	95.1%	Exclusion if the company is among the 10% companies with the highest percentage of revenues in energy-intensive activities in its sector.	
<b>PAI 6</b>	46.05%				
<b>PAI 8</b>	5.05%	Active controversy over wastewater treatment (ISS ESG).	100%	Exclusion if the company is involved in controversies.	Additional indicator for data not covered: water pollution controversies provide a qualitative assessment of poor management in this area.
<b>PAI 9</b>	15.5%	Active controversies on elimination of substances of concern (ISS ESG).	100%	Exclusion if the company is involved in controversies.	Additional indicator for data not covered: waste controversies provide a qualitative assessment of mismanagement in the field.
<b>PAI 10</b>	68.85%	Number of critical controversies affecting human work	83.97%	Exclusion if there is a controversy.	Additional indicator: human capital controversies provide a qualitative assessment of poor human capital management.

\* As of 27/02/2023.

PAI	PAI coverage rate*	Additional indicator	Coverage rate of the additional indicator*	Criteria fixed by Lazard Frères Gestion	Qualitative explanation of the choice of indicator
PAI 11	15.15%	Internal list at Lazard Frères Gestion UNGC	100%	Exclusion if the company is on the list of Global Compact violations.	The list of Global Compact violations corresponds to the application of the UNDHR in this area.
PAI 12	4.96%	Attention to diversity through management	83.84%	Exclusion if the company does not have a diversity policy.	Lack of efforts towards the promotion of diversity, it also indicates a lack of gender-equality agenda.

## B. COMPANIES COVERED BY GAÏA RATINGS

PAI	PAI coverage rate*	Additional indicator	Coverage rate of the additional indicator*	Criteria fixed by Lazard Frères Gestion	Qualitative explanation of the choice of indicator
PAI 5	38.79%	- Environmental policy (issues and objectives) - Energy and GHG score	100%	Exclusion if no policy or score of 0/100.	We couple a score and a qualitative qualitative indicator to accurately assess the company's performance on the two targeted PAIs.
PAI 6	50.26%				
PAI 7	54.07%	Environmental policy score	100%	Exclusion if score is 0/100.	The environmental policy score has the best relevance/realism ratio on the topic of biodiversity.
PAI 8	3%	- Environmental policy (issues and objectives) - Water, Air, Soil and Waste score	100%	Exclusion if no policy or score of 0/100.	We couple a specific water management score with a qualitative indicator to accurately assess the company's performance on the targeted PAI.
PAI 9	58%	- Initiatives to reduce the quantity of non-energy inputs/consumables (paper, water, raw materials, etc.) and/or waste - Water, Air, Soil and Waste score	100%	Exclusion if no policy or score of 0/100.	We couple a specific waste management score with a qualitative indicator to accurately assess the company's performance on the targeted PAI.
PAI 12	22%	Equal opportunity score	100%	Exclusion if score is 0/100.	We choose to assess the respect of gender equality within companies through the Equal opportunity score. It includes indicators such as the share of female managers which helps to assess the importance given to women by management.

\* As of 27/02/2023.



# APPENDIX

## SPECIFIC CASE – GAÏA RATINGS / MSCI BREAKDOWN

Companies whose inclusion in the universe has been forced (in relation to the €5 billion market capitalization threshold retained by the AMF). For the forcing, we retained the following criteria: the number of employees must be greater than 10,000 or the turnover must be greater than €5 billion for the company to belong to the MSCI universe. We also studied the availability of Gaïa Ratings/MSCI data (updated annually).

ISIN	Company	Gaïa Ratings/MSCI
FR0000031122	Air France - KLM, S.A.	MSCI
SE0013110186	Akelius Residential Property, A.B. (publ)	Gaïa Ratings
LU0569974404	Aperam, S.A.	MSCI
FR0000051732	Atos, S.E.	MSCI
IT0005218752	Banca Monte Dei Paschi Di Siena, S.P.A.	MSCI
IT0005218380	Banco BPM Societa Per Azioni	MSCI
PTBCP0AM0015	Banco Comercial Portugues, S.A.	MSCI
ES0113860A34	Banco de Sabadell, S.A.	MSCI
IT0000066123	Bper Banca, S.P.A.	MSCI
BE0974268972	Bpost, S.A.	MSCI
FR0000125585	Casino, Guichard-Perrachon, S.A.	MSCI
DE0007257503	Ceconomy, A.G.	MSCI
BE0974256852	Etablissements Franz Colruyt, N.V.	MSCI
NL00150006R6	CTP N.V.	Gaïa Ratings
BE0974259880	D'Ieteren Group, N.V.	Gaïa Ratings
DE0008232125	Deutsche Lufthansa Aktiengesellschaft	MSCI
IT0003492391	Diasorin, S.P.A.	Gaïa Ratings
ES0126775032	Distribuidora Internacional De Alimentacion, S.A.	MSCI
FR0011950732	Elior Group, S.A.	MSCI
FR0000121147	Faurecia, S.E.	MSCI
IT0000072170	Finecobank Banca Fineco, S.P.A.	Gaïa Ratings
ES0122060314	Fomento de Construcciones y Contratas, S.A.	MSCI
DE0006070006	Hochtief Aktiengesellschaft	MSCI
FR0000120859	Imerys	MSCI
DE000BFB0019	Metro, A.G.	MSCI
AT0000APOST4	Oesterreichische Post Aktiengesellschaft	MSCI
NL0009739416	PostNL N.V.	MSCI
AT0000606306	Raiffeisen Bank International, A.G.	MSCI
DE0007010803	Rational Aktiengesellschaft	Gaïa Ratings
FR0010451203	Rexel, S.A.	MSCI
ES0182870214	Sacyr, S.A.	MSCI
FR0010411983	Scor, S.E.	MSCI
FR0013227113	Soitec, S.A.	Gaïa Ratings
GB00BDSFG982	Technipfmc PLC	MSCI
AT0000720008	Telekom Austria Aktiengesellschaft	MSCI
DE0007500001	Thyssenkrupp, A.G.	MSCI
FR0013176526	Valeo, S.E.	MSCI
AT0000937503	Voestalpine, A.G.	MSCI

SUSTAINABLE INVESTMENT METHODOLOGY (SFDR) - LAZARD FRÈRES GESTION

LAZARD  
FRÈRES GESTION