



ESG policy

I. Philosophy

Financial assets are not simply a major source of financing for the economy, they also offer key investment opportunities for institutions and individuals. The multitude of financial assets and their growing complexity nonetheless calls for rigorous selection in order to create value over the long term.

At Lazard Frères Gestion it is our strong conviction that integrating environmental, social & governance (ESG) criteria within asset management provides further insurance of sustainable economic performance.

The long term performance of investments does not simply take financial strategy into account, as it must also respect the interaction between the company and its social, economic and financial environment.

We therefore actively take ESG criteria into account within our investment management process.

Our global approach can be resumed as follows:

- In-depth corporate financial analysis, covering the quality of assets, financial strength, cashflow forecasts and reinvestment by the company, economic profitability momentum and sustainability, and the quality of the management.
- This sustainability assessment is backed by an appraisal of extra-financial criteria:
 - Social criteria: through the valuation of human capital
 - Environmental criteria: prevention of environmental risks
 - Governance criteria: the respect of a balance between management and shareholder structures, in order to prevent potential conflicts of interest and ensure the respect of minority shareholders' interests.

ESG criteria awareness forms an integral part of our investment process. ESG criteria are integrated through a pragmatic and progressive approach.

II. Implementation within Lazard Frères Gestion investment management

Our equity investment process is based on quantitative and qualitative fundamental analysis which integrates financial and extra-financial criteria:

- **Corporate financial analysis**

Our investment process is characterised by dynamic asset management based on stock-picking. The corporate analysis process, which is an essential part of stock-picking, is based on the three mainstays of profitability, growth and valuation. Stock selection draws on stringent analysis of the economic profitability of companies, expressed as return on capital employed (ROCE) sustainably above the weighted average cost of capital (WACC). Our financial analysis is complemented by a strategic appraisal of the company and its management in order to gauge the sustainability of financial returns.

We take a long term investment view, selecting undervalued companies in order to deliver the best stock market performance possible, while ensuring strict risk management, particularly in terms of extra-financial risks.

- **Integration of ESG criteria**

Our extra-financial approach focuses on gauging ESG risks which may have a strong impact on the value of the company, due to stranded assets, major controversies or high reputational risk.

The integration of certain criteria results in the reduction of “shocks” which could potentially impact the profitability of companies.

- **Governance analysis**

Governance quality has always been a key criterion in our investment policy. Satisfactory governance is a guarantee of transparency and an adequate balance of powers, ensuring shareholder empowerment.

Lazard Frères Gestion considers that best practices in terms of corporate governance help control risks, while promoting value creation and contributing to aligning the interests of all parties concerned.

- Social criteria

Social criteria take into account the prevention of accidents, staff training, the respect of workers' rights, human rights and ethics in the supply chain, and labour relations.

As human capital is one of the two growth drivers within a company, alongside financial capital, its neglect could incur operational profitability loss risk or increase costs associated with workforce volatility.

- Environmental criteria

Environmental criteria, which concern the direct or indirect impact of the company's business on the environment, including waste management, energy consumption and pollution, are assessed taking the business sector into account. We seek to understand how environmental risks are managed by the company, as any negligence could rapidly generate heavy liabilities impacting its economic profitability.

Insufficient consideration of environmental risks (pollution, biodiversity, resources and local communities) can weigh on profitability or even cause reputation risk and incur financial risk.

Furthermore, Lazard Frères Gestion complies with the regulations currently in force in France. We therefore rule out any investments in companies involved in the manufacturing or sale of antipersonnel mines and cluster munitions, in compliance with the Ottawa and Oslo conventions.

As well as respecting the regulations in force in France (law no. 2010-819 dated 20 July 2010 to eradicate cluster munitions and law no. 2343-2 dated 8 July 1998 to eradicate antipersonnel mines), we also apply a tailor-made exclusion policy (tobacco, munitions, alcohol sectors, etc.), at our clients' request.

Equity assets under management (AUM) managed by Lazard Frères Gestion applying ESG policy total over EUR 7 billion, i.e. 43% of total AUM at Lazard Frères Gestion on 30/06/2016. These assets include several open-ended or dedicated portfolios integrating more restrictive ESG criteria, such as SRI or exclusion criteria, for a total AUM of EUR 660 million.

We also apply ESG analysis criteria in our other managed assets, including diversified fixed-income and convertible strategies.

This is applicable to portfolios managed on behalf of our institutional and private clients.

III. Our SRI management

Further to the integration of ESG criteria within our investment process, we also manage assets based on socially responsible investment (SRI) criteria, taking into account quantitative and coercive extra-financial criteria.

In the aim of associating our expertise in financial analysis and company valuation with the best available external SRI skills, we set up a partnership more than 15 years ago with a socially responsible independent ratings agency.

We were determined to participate in the ongoing progress in this field in terms of methodology, in partnership with one of the leading specialists, by offering our clients a product guaranteeing a pledge of expertise, credibility and transparency regarding its investment management rules.

For the past 15 years, our SRI investment management process has combined an extra-financial approach, in partnership with Vigéo, with our in-house financial analysis. The Vigéo group has extensive experience in the field of SRI analysis, and can rely on its technical skills and input from more than 70 sector analysts, which feed into an independent, transparent and real-time ratings process.

We apply this expertise to equity investment through our Objectif Investissement Responsable fund created in June 2001. Lazard Frères Gestion is also a signatory of the AFG-FIR transparency code for this fund, which has also been awarded the Novethic SRI label over the past five years, since 2011.

On 31 March 2016, AUM in the Objectif Investissement Responsable fund stood at EUR 144 million.

Extra-financial analysis carried out in partnership with Vigéo focuses on a best-in-class approach, i.e. an ESG approach selecting the best-rated issuers within each business sector. Ratings in each criteria for a company rank on a scale ranging from “--” for non-concerned companies to “++” for pioneer companies. Ratings are relative and adapted to each sector. For example, the environment theme will not be integrated in the same way for a petrochemicals company as for a bank.

Lazard Frères Gestion has selected ESG investment criteria and determined weightings with a preponderance on human resources and environmental criteria as follows:

1. Human resources (40%)
2. Environment (30%)
3. Client-suppliers relations (10%)
4. Human rights (10%)
5. Societal engagement (10%)
6. Corporate governance (0%)

It should be noted that the corporate governance criterion in the Vigéo valuation presents a 0% weighting as it is included as an integral part of the fundamental financial analysis carried out by Lazard Frères Gestion and is therefore already taken into account in our stock-picking process, as outlined above.

We ascribe a heavy weighting to the human resources criterion (40%) which constitutes a major theme within our investment process, as the financial performance of a company can be impacted by the negligence of human capital. This theme is taken into account under the following perspective:

- The quality of general working conditions
- Constant improvement in labour relations
- Career and skills management.

The second major theme after human resources, the environmental criterion, represents 30% of our weighting, which highlights the importance of potentially incurring liabilities which could impact the profitability of the company over the long term. The environmental theme is incorporated at two levels:

- Regarding the company's environmental strategy: taking into account pollution risks, "green" products and services offered, prevention of negative biodiversity impact risks,
- Regarding the manufacture and distribution of products: managing the impact on water, energy consumption, reduction of pollutant emissions, enhanced waste management, managing the impact of distribution, site refurbishment, etc.

The clients-suppliers relations theme which represents 10% of our weighting takes into account:

- Clients' rights and interests (product information and security)
- Sustainable cooperation with suppliers, based on the integration of social and environmental factors in the supply chain
- The respect of competitive rules
- Effective prevention of corruption.

Taking human rights into account is vital to the smooth running of companies.

This theme is integrated:

- In the company, through the respect of fundamental human rights and the prevention of infringement on these rights (respecting the right to fundamental liberties)
- In the workplace, through the respect of fundamental human rights: eradication of forbidden working practices, respect of trade union freedom and the right to collective bargaining, non-discrimination at work and promoting equality.

The theme of societal engagement is integrated by measuring:

- The impact of the company's business on the area in which it operates (its commitments towards the economic and social development of the area in which it operates),
- The societal conduct of the company (respect of other parties in labour relations, commitments associated with products and services developed by the company),
- The company's contribution to causes serving the public interest.

IV. Our commitments

- At the level of the Lazard Frères Gestion investment management company

Lazard Frères Gestion complies with regulations in force in France. We rule out any investments in companies involved in the manufacture or sale of antipersonnel mines and cluster munitions (Ottawa and Oslo conventions).

Lazard Frères Gestion is a signatory to the United Nations Principles for Responsible Investment (PRI). The company thus applies the principles for responsible investment stipulated by the UN.

Lazard Frères Gestion is also a member of the Responsible Investment Committee within the AFG and participates actively in the other committees involving investment industry professionals.

We have also set up an ESG Committee designed to cover all of these topics and monitor regulatory changes and best practices in the field of ESG, and impart this information to the members of the Lazard Frères Gestion Associate managers and all of the teams concerned, including investment management, reporting and sales.

- At the equity investment level

We believe that shareholder engagement is not necessarily synonymous with shareholder activism. It should be considered as a constructive approach, based

on proactive dialogue with companies in order to encourage them to improve their ESG practices, by drawing on three major themes:

- Stringent voting policy after analysing resolutions
- Ongoing direct dialogue with the company management, at the general management level and with financial managers and investor relations.
- Lazard Frères Gestion may discuss draft resolutions with companies ahead of shareholder assemblies.

As such, through ongoing dialogue with company managements and through our voting policy:

- We may, as part of a shareholders action group for example, influence the company regarding its conduct, in terms of governance, and on societal and environmental issues.
 - Our voting policy also serves to preserve long term minority shareholder interests and therefore prevent conflicts of interest benefitting a primary or majority shareholder, or managers or any other concerned parties, to the detriment of minority shareholders.
- Information for clients

Communication is a vital factor in establishing a confidence-based relationship with our clients. We produce tailor-made reports for our clients, adapted to their constraints and highlighting ESG information (Article 173 of the energy transition law).

The Objectif Investissement Responsable fund publishes a monthly report detailing all of its ESG characteristics.

Furthermore, in compliance with the energy transition law and also in response to our clients' needs, we have launched a tender procedure for the selection of a partner to assess the carbon footprint of our funds.

Lazard Frères Gestion has decided to publish the carbon footprint for certain funds.

Initially, Lazard Frères Gestion shall publish the carbon footprint for funds with AUM of over EUR 500 million and for other funds or portfolios in response to our clients' needs.