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LAST UPDATE ON - JANUARY 2020
OBJECTIVES

Lazard Frères Gestion believes that companies should take long-term factors into account to ensure the sustainability of their economic performance. Among these factors, we place a priority on environmental, social and governance (ESG) criteria, as well as long-term issues that affect and apply to all "stakeholders" (shareholders, employees, suppliers and consumers) of these companies.

It is therefore important for Lazard Frères Gestion to encourage companies to include ESG issues in their development model. To that end, we exercise our voting rights in accordance with client interests and engage with the companies in which we invest.

APPROACH

As an asset management arm of a group that has been in operation for 170 years, Lazard Frères Gestion bases its investment strategies on fundamental analysis of the economic cycle. All portfolio managers incorporate short, medium and long-term factors into their models in order to measure each company’s value as accurately as possible. Our goal is not to condemn companies for their practices: excluding a given company from our investment universe is an exceptional step in that it is a less effective way to encourage businesses to change their practices.

We are seeing companies transform their environment in enduring ways and they are sometimes required to meet conflicting interests. As a result, they may find themselves facing controversies of varying severity. In this context, exclusion from the investment universe only applies to extreme cases. Furthermore, we believe that by ceasing to be a shareholder, we would have less influence on how companies respond to the challenges that arise.

Our goal is to first and foremost promote dialog with companies through an engagement process, which is part of the broader process of incorporating ESG criteria into Lazard Frères Gestion’s portfolio management.

The purpose of our engagement is twofold:

• To refine our analysis and further take into account of each company’s risks and opportunities from an ESG standpoint,
• Help companies continuously improve their sustainable development policies through conversations with Management teams.
At Lazard Frères Gestion, ESG analysis is part of the financial analysis conducted by the dedicated portfolio management teams. Each analyst-portfolio manager is responsible for the financial and ESG analysis of the sectors under their responsibility. This approach is based on our firm belief that financial and ESG analyses complement one other when it comes to reviewing corporate fundamentals. ESG criteria are considered to be not only accurate indicators of risks incurred, but also of opportunities among the sectors and names followed. ESG issues are factored into investment decisions pragmatically, depending on the type of asset and investment strategy.

Analysts-portfolio managers use the following tools and resources to perform financial and non-financial analyses:

- Financial statements, mandatory filings, press releases,
- Data platforms such as Bloomberg and Factset,
- Special conferences and events,
- Sell-side research,
- Reports by voting advisory firms such as including Institutional Shareholder Services, Inc. ("ISS"),
- Data provided by research agencies such as Vigeo and Trucost.

Lazard Frères Gestion believes that strong economic performance is one of the most important determining factors of value creation over the long term. Our analysis and investment processes aim to anticipate a company’s growth and financial performance. However, we are very aware that minority investors cannot control over their company’s strategy, allocation and capital structure. The biggest decisions are made by executive managers and, as a last resort, by the Board of Directors, periodically elected by the General Meeting, where Lazard Frères Gestion has only limited influence.

Our approach aims to understand Management’s strategy before even investing and to identify risks ahead of time. We look closely at changes liable to affect governance structures (Board composition, voting rights, preemptive rights) and incentive pay in order to determine whether or not Management interests are aligned with those of our clients.

Lazard Frères Gestion complies with regulations currently applicable in France. For example, we exclude any investment in companies involved in the manufacture or trade of anti-personnel mines and cluster bombs, in accordance with the Ottawa and Oslo conventions. We have partnered with ISS-Ethix for oversight purposes.

In addition to complying with regulations applicable in France (Act No. 2010-819 of July 20, 2010 on the elimination of cluster bombs and Act No. 2343-2 of July 8, 1998 on the elimination of anti-personnel mines), we can also apply bespoke sector exclusion policies (tobacco, weapons, alcohol, etc.) at the request of our clients.

For the Lazard Equity SRI fund, our portfolio management team applies rigorous ESG screening, excluding companies whose ESG score does not meet the conditions for six different pillars.
4 Shareholder corporate dialog

In our view, shareholder engagement is not synonymous with activism. It is defined constructively, via a purposeful approach aimed at encouraging certain companies to undertake to improve their ESG practices. It remains an individual endeavor.

We also prefer to act independently on the issues that we have identified rather than participating in public initiatives led by lobbyist groups, because they tend to be practices that are not aligned with our corporate culture. We firmly believe that our engagement initiatives are more effective when they are shared directly with Management.

Lazard Frères Gestion seeks to engage with all companies in which its portfolios are invested. Discussions on ESG issues are carried out through various means, ranging from telephone contacts, face-to-face meetings, or by e-mail and on-site visits. Our equity analyst-portfolio managers regularly meet with Management teams and systematically report on these meetings.

The Minutes of each meeting are classified by name and date in a database (Anafi Minutes) available to all portfolio management teams. They include a special ESG section containing the non-financial information deemed relevant.

5 Non-shareholder corporate dialog

The Fixed Income team gradually engages with issuers, mainly by e-mail, about their ESG rating, obtained from our rating providers. Companies with relatively “lower” ESG scores in bond portfolios are prioritized in this communication.

Our approach is twofold:
- Communicate with companies to improve their ESG practices;
- Make sure issuers understand that their ESG rating is considered for the purposes of making investment decisions.

6 Dialog with regulators

Lazard Frères Gestion communicates with government authorities to share its investment approach and to better understand the normative and regulatory changes affecting the asset management industry.

It does so by participating in polls and surveys conducted for example by the AMF, or by holding meetings and talks with ministerial advisors on responsible investment and ESG issues.

7 Voting policy

Lazard Frères Gestion looks very closely at the financial performance of the companies in which it invests. For financial performance to be sustainable over the long term, it must be combined with exemplary governance and strong social and environmental responsibility. In conducting this analysis, Lazard Frères Gestion plays its role as shareholder by exercising its voting rights in addition to engaging in shareholder dialog.

We are committed to good governance, and we examine social and environmental issues in proposed resolutions.

Lazard Frères Gestion’s voting policy is available in the appendix to this document. An annual voting report is available at: http://www.lazardfreresgestion.fr/FR/ESG_ISR_112.html
COLLABORATIVE ENGAGEMENT

1. Shareholder coalition

Lazard Frères Gestion’s collaborative engagement is a form of joint commitment involving multiple investors, specifically groups of investors working together outside any formal network or other organization.

These collaborative initiatives are carried out only at the Investment Manager’s initiative. With this type of initiative, Lazard Frères Gestion has made the decision to act solely as leader and seeks to bring all other investors together for a common purpose.

One example involves a collective initiative at a General Meeting in Germany. Our analyst-portfolio manager attended in person and organized a coalition of minority shareholders to protect their interests against hostile takeover attempts.

This joint action with other shareholders opposed a resolution submitted by a shareholder who had recently bought a 15% stake in the company and called for new directors to be appointed to the Supervisory Board. Thanks to this collaboration, the resolution was successfully rejected.

2. Market engagement, surveys and working groups

Lazard Frères Gestion occasionally engages in dialog with various organizations, such as the AFG, either by taking part in working groups or sharing data on socially responsible investment or ESG issues.

3. Principles for Responsible Investment

Lazard Frères Gestion decided to sign the United Nations Principles for Responsible Investment (PRI) in 2014.

The PRI initiative, aimed at better incorporating environmental, social and governance (ESG) factors in investment decisions, has been signed by 1,800 investment managers responsible for managing assets totaling some $70 trillion in more than 50 countries.

4. CDP membership

Lazard Frères Gestion decided to become a CDP signatory in early 2020. CDP, formerly known as the Carbon Disclosure Project, encourages companies, investors and cities to develop a culture of transparency in order to build a more sustainable economy by measuring their impact on the climate, use of water resources and forests.

This international non-profit has built the largest global database on the environmental performance of companies and local authorities, and its questionnaire serves as a benchmark for carbon reporting.

5. Support for TCFD

Lazard Frères Gestion has been a TCFD Supporter since 2020. The TCFD (Taskforce on Climate-related Financial Disclosures) is a working group established in late 2015 by the G20’s Financial Stability Board (FSB).

The FSB identifies information that can be used by investors to estimate the risks and opportunities associated with climate change. Chaired by Michael Bloomberg, it is made up of asset management companies, pension funds, large corporates, accounting and advisory firms and rating agencies. It actively promotes the disclosure of information on financial risks related to climate and climate change so that investors, borrowers, insurers and shareholders can make decisions based on as much available data as possible, helps companies assess the risks arising from their activities and raises general public awareness of these issues.
Lazard Frères Gestion’s investment process features active portfolio management from a long-term investment perspective. Fundamental analysis of each issuer is central to this process.

Analyst-portfolio managers focus on the relevance and clarity of the issuer’s strategy, the quality of the financial information provided, and the expertise of executive managers and supervisory bodies.

Initiating a close, trust-based relationship with the Management team, developed over the course of meetings with Management and on-site inspections, has always been a key element.

Choosing to invest in a company means placing trust in the Management team and approving of its strategy. As a matter of principle, Lazard Frères Gestion generally votes for resolutions submitted by the Board of Directors of a portfolio company. However, each proposed resolution is analyzed on an individual basis.

Our voting policy highlights our goal of preventing potential conflicts of interest between companies and their Management that could hinder the strategy defined in the medium term. It also aims to protect the interests of minority shareholders such as ourselves.

In our view, long-term investment performance is not limited to financial strategy alone. It is also important to factor in the company’s interaction with its social, economic and financial environment.

As a signatory of the Principles for Responsible Investment since February 2015, Lazard Frères Gestion has undertaken to observe the 6 principles for responsible investment defined by the United Nations.

In particular, principle 2 states that “We will be active owners and incorporate ESG issues into our ownership policies and practices”.

By taking ESG criteria into account when exercising its voting rights, Lazard Frères Gestion is committed to promoting sustainable value creation.

Resolutions on ESG issues are analyzed from the standpoint of the ESG risks and issues specific to each company and its sector of operation.

Lazard Frères Gestion thus works to encourage the incorporation of all stakeholder interests and the dissemination of marketplace best practices.

In accordance with these guidelines, Lazard Frères Gestion has defined 6 voting principles reflecting its convictions:

1. **Approval of financial statements and management report**
   - **Principle:** Transparency and verification of information provided

2. **Structure and composition of the Board**
   - **Principle:** Separation of duties, independence and scope of authority of the Board

3. **Income appropriation, capital management and capital transactions**
   - **Principle:** Appropriate management of capital, transparency and strategic interest of financial operations

4. **Remuneration of executive managers and employee share ownership**
   - **Principle:** Transparent, consistent and fair pay

5. **Amendments to Articles of Association and Shareholder Rights**
   - **Principle:** Observation of minority shareholder rights

6. **Environmental and Social issues**
   - **Principle:** Consistency and motivation

   **Environment:** Limitation of the environmental footprint
   **Social:** Consideration of all stakeholder interests
VOTING SCOPE

Voting rights are exercised on shares of:

- All French companies in which funds managed by Lazard Frères Gestion hold more than 1% of the share capital
- All companies accounting for more than 0.2% of the total AuM in equity and diversified funds managed by Lazard Frères Gestion

Lazard Frères Gestion votes at all General Meetings where voting by correspondence is possible.

These thresholds have been set in the interest of exercising voting rights as broadly as possible while keeping the associated costs under control and efficiently using human resources.

Lazard Frères Gestion reserves the right to vote outside this voting scope, which tends to be the case when analyst-portfolio managers deem resolutions to be particularly important.

This voting scope applies to all funds managed by Lazard Frères Gestion, including dedicated funds (unless otherwise agreed-upon with the client), private banking funds and specialized professional funds.

Lastly, Lazard Frères Gestion does not carry out temporary sales of securities with attached voting rights.

APPLICABLE VOTING PRINCIPLES

APPROVAL OF FINANCIAL STATEMENTS AND MANAGEMENT REPORT

Approval of parent company and consolidated financial statements:

As a general rule, we vote for these resolutions, barring exceptional circumstances in which the statutory auditors have refused to certify the financial statements or have issued a qualified opinion.

A major dispute between the marketplace and an issuer’s Management is another potential reason for Lazard Frères Gestion to vote against the resolution.

Quitus:

If there are no legal disputes involving the issuer’s board of directors, executive managers or business management, we vote for the resolution.

Related-party agreements:

We look closely at related-party agreements submitted to the General Meeting for approval, and particularly at their financial terms and conditions. The agreements are analyzed on a case-by-case basis by the portfolio managers and their approval depends on their clarity and justification of their economic terms and conditions.

Any agreements found to be poorly completed, unquantified, unjustified or preventing an informed decision on the resolution are rejected.

Statutory Auditors:

Lazard Frères Gestion votes for the appointment of statutory auditors presenting a guarantee of their objectivity and independence.

LFG votes against the appointment of statutory auditors where the term of office exceeds 12 years (24 years in the case of a joint auditor).

Similarly, statutory auditors fees for non-audit services may not account for more than 50% of the fees paid in respect of their audit assignment.

STRUCTURE AND COMPOSITION OF THE BOARD

Governance structure:

Lazard Frères Gestion does not issue a specific recommendation distinguishing between issuers with a single oversight body (Board of Directors) or with dual oversight (management and supervisory board) as long as shareholder interests are duly observed.

LFG is in favor of separating the duties of Chief Executive Officer and Chairman of the Board. If it is appropriate to combine the two offices for a given company, sufficient checks and balances must be established (highly independent board, independent senior director, deputy CEOs, etc.).
Composition and appointment:

Lazard Frères Gestion believes that the ideal number of board members is between 5 and 15.

The percentage of independent directors should be:

- 50% for non-controlled companies
- At least equal to the % of free float for controlled companies

Employee directors and employee shareholders are excluded from the calculation.

To qualify as independent, directors or members of the Supervisory Board should be free of any potential conflicts of interest. Based on AFEP-MEDEF recommendations, Lazard Frères Gestion considers that directors should:

- Not currently be or have in the last five years been:
  - Employees or executive corporate officers of the company
  - Employees, executive corporate officers or directors of an entity consolidated by the company
  - Employees, executive corporate officers or directors of the company’s parent or of an entity consolidated by the parent
- Not be executive corporate officers of an entity in which the company directly or indirectly holds a directorship, or in which an employee designated as such or an executive corporate officer of the company (currently or in the last five years) holds a directorship
- Not be major clients, suppliers, investment bankers, corporate bankers or advisors:
  - Of the company or its group
  - Or for which the company or its group represents a significant share of the business
- Not have close family ties with a corporate officer
- Not have been the company’s statutory auditor in the last five years
- Not have been a director of the company for more than twelve years

Independence alone is not the sole determining factor of the quality of a potential board member. Lazard Frères Gestion prioritizes the expertise of prospective new members. Their professional experience, areas of expertise and skills should be complementary and consistent with the company’s strategy. Diversity in terms of gender, age, nationality and seniority also contributes to the optimal performance of the board.

Lazard Frères Gestion also examines availability and attendance rates. The Board meeting attendance rate should be at least 75%. Any lower attendance rate should be justified.

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Lazard Frères Gestion also votes "no" when a director holds more than five offices. For non-executive chairmen and executive corporate officers, the maximum number of offices should be two.

Lazard Frères Gestion believes it important to be able to express its views regularly on directorships. The term of office should not exceed 4 years, with two possible reappointments. After serving for 12 years, directors are no longer considered to be free of conflicts of interest. Lazard Frères Gestion reserves the right to vote against reappointing such directors if the board is not found to be sufficiently independent.

Lastly, Lazard Frères Gestion is against over-representation of majority shareholders.

INCOME APPROPRIATION, CAPITAL MANAGEMENT AND CAPITAL TRANSACTIONS

Dividend distribution:

We vote against any dividend payouts deemed excessive in light of cash flow generation or an assessment of the group’s balance sheet strength in a given economic and financial environment.

In general, and subject to justified exceptions, Lazard Frères Gestion aims to ensure that dividend payouts for a given year are fully funded by the cash generated that same year.

Share issuance and buyback programs:

Lazard Frères Gestion is committed to the principle of Board neutrality during public share offerings. We systematically vote against any resolutions that do not comply with this principle.

Capital Increases:

Lazard Frères Gestion votes against:

- Capital increases with Pre-Emptive Subscription Rights potentially representing more than 50% of the share capital
- Capital increases without Pre-Emptive Subscription Rights (DPS), but with a guaranteed priority period, potentially representing more than 1/3 of the share capital
- Capital increases through private placement
- Capital increases in return for unspecified contributions in kind

Resolutions to authorize capital increases for the purpose of funding special projects (major acquisitions restructuring plans) are reviewed on a case-by-case basis.

Share buybacks:

Authorizations for share buybacks are approved, barring those authorized during public share offerings or when not permitted by the company’s financial positions.
Remuneration of executive managers:
The remuneration granted to corporate officers depends on the duties fulfilled, results achieved and level of responsibility assumed. It should be consistent not only with the development of the company’s value creation, but also with standards and practices in the company’s country and sector of operation.

Information on remuneration principles and mechanisms, as well as the various components (fixed pay, short-term and long-term variable pay, severance pay, pension system, special benefits) should be transparently disclosed.

Finally, Lazard Frères Gestion stresses the importance of ensuring that the targets on which executive pay is based are consistent with the interests of minority shareholders, and votes against any exorbitant remuneration policy.

Remuneration of directors:
We believe it is necessary to have precise information on the methods and criteria applied to the distribution of attendance fees among directors (amount proportional to Board meeting attendance rate, equal distribution among directors, committee members, etc.).

Director pay should be:
- Consistent with the company’s geographic area, sector and size
- Fair to ensure the independence of directors
- In line with the duties fulfilled and the time spent on the office

Lazard Frères Gestion votes against any exceptional remuneration granted to directors for the additional work that may be involved in examining a public share offering because, in our view, this type of work is part of their general duties.

Employee share ownership:
Capital increases reserved for employees
Lazard Frères Gestion is in favor of developing employee share ownership and approves resolutions authorizing capital increases reserved for employees provided they are reasonable, i.e. capped at 5% of share capital.

We vote against any capital increases reserved for employees where employee share ownership is already predominant and where we do not believe that the employee shareholder representation scheme is democratically appropriate (not independent of Management).

Free share grants
Given their dilutive potential, authorizations to grant free shares are reviewed on a case-by-case basis and should be accompanied by economic and stock market performance conditions.

Remuneration of corporate officers and employee share ownership

Lazard Frères Gestion supports the “one share, one voice” principle. Any amendments to the Articles of Association that comply with this principle, as well as the standards of good governance and observation of shareholder information rights, are approved. Conversely, any resolution imposing double voting rights or limited voting rights is rejected.

Lazard Frères Gestion is against including an obligation to report threshold-crossings in the Articles of Association or strengthening any such obligation due to the associated potential to deprive shareholders of their voting rights.

Finally, Lazard Frères Gestion systematically opposes resolutions combining multiple decisions (“block vote”).

Environmental and social resolutions
As a signatory of the Principles for Responsible Investment (PRI), Lazard Frères Gestion looks closely at the incorporation of sustainable development issues by portfolio companies.

These resolutions, whether submitted by a shareholder or proposed by Management, are analyzed on a case-by-case basis:

- Environmental resolutions are analyzed from the standpoint of reducing environmental impacts and combating greenwashing.
- Social resolutions should aim to take all stakeholder interests into account, i.e. not favoring some over others.

Lazard Frères Gestion supports the resolutions it deems relevant and which it believes will help improve the company’s CSR approach.
ORGANIZATION OF THE VOTING PROCESS

ANALYSIS OF RESOLUTIONS

Our voting policy is aligned with our investment decisions resulting from our financial analysis and allows us to formalize dialog with issuers throughout the investment process.

The voting process aims to secure extensive knowledge of the companies in which we invest:

- Internal restatement of past financial statements to assess the reality of the company’s economic profitability;
- Frequent meetings with executive managers to measure the relevance and implementation of their strategy.

This service is used as a decision-making tool to more quickly identify resolutions liable to conflict with the principles set out in this policy.

The recommendations issued by proxy providers are not binding. Final voting responsibility lies with the analyst-portfolio manager specializing in the sector, in accordance with the principles set out in the voting policy.

Lazard Frères Gestion acknowledges that strict application of voting principles may, in some cases, prove inappropriate with regard to the interests of minority shareholders. Accordingly, on an exceptional basis, analyst-portfolio managers may go against these principles with due justification.

VOTING PROCEDURE

STEP 1
The ESG team uses a Front Office tool to identify new companies falling under the voting scope.

STEP 2
Notification of General Meetings received through information transmitted directly by issuers, custodians, information systems or the AFG.

STEP 3
Voting powers received by portfolio management from custodian Lazard Frères Banque (along with the notices of meeting and resolutions submitted by the General Meeting in question).

STEP 4
Analysis of resolutions and screening against the alerts systems maintained by the AFG, Proxinvest or ECGS. Check to determine that resolutions comply with the principles defined in Lazard Frères Gestion’s voting policy.

STEP 5
Powers granted by the portfolio manager in one of four ways: (1) by correspondence (resolution by resolution), (2) General Meeting admission, (3) proxy granted to the chairman to exercise the vote, (4) appointment of a proxy.

STEP 6
Transmission of expanded powers or delivery of voting instructions by e-mail to custodian Lazard Frères Banque. Traceability of voting decisions via an internal software tool available to the Head of Compliance and Internal Control (RCCI).

STEP 7
Transmission of powers by the custodian, accompanied by the share lock-in certificate, to the company or its agent, or transmission of a SWIFT message to local sub-custodians.

STEP 8
Update by the portfolio managers of a table summarizing the voting rights exercised for each company, including the nationality of the company, the date and type of General Meeting, the funds investing in the company, the voting method and the resolutions on which they voted.

For funds held by external custodians, voting rights are exercised via an online voting platform. In the event securities are locked in by the custodians between the registration date and the voting date, Lazard Frères Gestion votes by exercising at least 50% of the voting rights, based on the analyst-portfolio manager’s decision and prevailing market conditions.
Lazard Frères Gestion has implemented a Conflict of Interest Prevention and Management Policy aimed at conducting its business in the exclusive interest of its clients.

To ensure that the measures taken to detect and prevent conflicts of interest are suitable, the Compliance Department maps out and regularly reviews potential conflicts of interest.

Lazard Frères Gestion exercises the voting rights held by mutual funds in the exclusive interests of said funds, and acts impartially regardless of any external interests and independent of its group.

In order to avoid any conflict of interest with Group entities that have business relationships with a company affected by voting, a strict Chinese wall is in place between the Investment Manager and other Lazard Group entities, aimed at ensuring that Lazard Frères Gestion’s employees remain independent in carrying out their duties.

The primary guarantee of voting independence also lies in the fact that the exercise of voting rights is determined as decided by the analyst-portfolio managers, based on their professional judgment. Analyst-portfolio managers are subject to strict ethical obligations, which are subject to periodic controls. For example, analyst-portfolio managers are required to report any potential conflicts of interest to the Compliance Division. In particular, they must not only disclose the list of offices and/or functions held within companies affected by voting, but also report any gifts and perks received.

Lastly, as referred to above in this Policy, Lazard Frères Gestion is particularly attentive to the fact that its votes defend minority shareholders in the event a company’s Management pursues interests conflicting with their own.

In accordance with legal provisions, Lazard Frères Gestion reports on the exercise of the voting policy as follows:

**ON-TIME COMMUNICATION**

In accordance with AMF Position-Recommendation DOC 2005-19, LFG notifies investors at their request of:

- Votes against resolutions submitted by the Management Board or the Board of Directors of the issuing company;
- Votes that do not comply with the principles set out in this document;
- Cases in which it abstained or did not take part in the vote.

If LFG has voted for a resolution in accordance with the principles set out in this document and with the proposals of the Management Board or the Board of Directors, it is not required to respond to an investor’s request for information on how it voted.

When LFG does not respond to such requests for information, its silence should be interpreted, after a period of one month, as indicating that it voted in accordance with the principles set out in the Voting Policy and the proposals of the Management Board or the Board of Directors.

Requests for information should be submitted to your usual Lazard Frères Gestion sales representative, or by post to the Corporate Secretary’s Office of Lazard Frères Gestion at 25 rue de Courcelles, Paris VIII.

**ANNUAL VOTING REPORT**

Lazard Frères Gestion provides its clients, on request submitted to their usual Lazard Frères Gestion sales representative, or by post to the Corporate Secretary’s Office of Lazard Frères Gestion at 25 rue de Courcelles, Paris VIII, with the annual voting report on the exercise of voting rights pursuant to this Policy.