

# ENGAGEMENT REPORT



LAZARD  
FRERES GESTION





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# INTRODUCTION

As part of its active management philosophy, Lazard Frères Gestion encourages portfolio manager-analysts to engage in dialogue and engagement to promote the implementation of good ESG practices.

The objective of this dialogue is above all to encourage companies to improve continuously and constructively on all ESG practices: transparency, integration of sustainable development issues, Sustainable Development Goals (SDGs), good governance practices, etc.

One-on-one meetings with management are thus an essential part of the analysis and monitoring process. During these interviews, portfolio manager-analysts and ESG specialists discuss a wide range of ESG issues with management. They use their expertise to determine the key points to be discussed during these meetings.

The dialogue and engagement actions are monitored through databases containing all the reports of meetings held by the portfolio manager-analysts and ESG specialists of the equity and fixed income portfolios.

Since 2019, issuers in fixed income portfolios rated "Weak" by our partner

Moody's ESG Solutions (ESG rating <30/100) are systematically contacted by e-mail to ask them about their consideration of ESG criteria.

In line with our collaborative engagement with CDP1 and TCFD2 as well as our approach to supporting companies, we inform the issuers contacted of the importance of transparent communication on environmental, social and governance issues. Lazard Frères Gestion's experience shows that, all too often, the lack of information is detrimental to certain issuers that are virtuous in terms of ESG or that are ready to commit themselves.

Lazard Frères Gestion is also in favor of active shareholding, which allows shareholders to influence the ESG strategies and practices of companies. We apply our own voting policy when we vote at the General Meetings of issuers falling within the defined scope.

The number of and reasons for challenging votes are recorded in a tool and form part of the annual voting report.

<sup>1</sup> Carbon Disclosure Project.

<sup>2</sup> Task Force on Climate-Related Financial Disclosures.

# EQUITY MANAGEMENT

## A Presentation of our engagement activities ////////////////

### 1. ENGAGEMENT THROUGH DIALOGUE

Lazard Frères Gestion distinguishes itself by its conviction-based management approach, which relies on frequent meetings between its portfolio manager-analysts and ESG specialists and listed companies.

Our team, composed of 12 portfolio manager-analysts and 2 ESG specialists, held more than 775 meetings in 2021.

	"One-to-one" interviews	Other (one to few, full days...)	Total
Large Caps Equity Team	266	296	562
Small Caps Equity Team	103	110	213
Total	369	406	775

One-to-one meetings are a privileged opportunity to encourage companies to improve their practices or to obtain a targeted response on a particular ESG issue. Lazard Frères Gestion's impact is all the greater because the analysts deal directly with the companies' management. This makes it easier to implement changes and to address bottlenecks more quickly.

The portfolio manager-analysts write a report of these meetings, also called "Minutes", which lists all the ESG comments.

While environmental, social and governance issues are discussed during each meeting, it is only when they are an integral part of the meeting that we consider that a dialogue has been established with the company.

Lazard Frères Gestion engages in a dialogue with all the companies in its portfolio. During these meetings, the dialogue on ESG issues may be more or less intense and more or less regular depending on the latest developments.

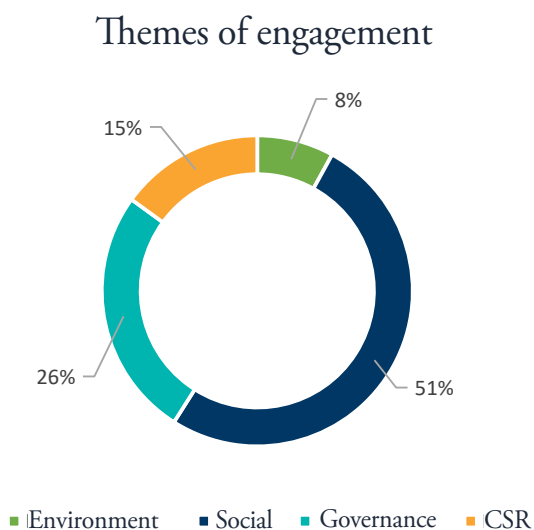
During these discussions, the dialogue on ESG issues may be more or less intense and more or less regular, depending on the latest developments. This is why we distinguish a certain number of commitments, defined as the most advanced form of dialogue, when a response is expected. Often, one or more areas for improvement are formulated by Lazard Frères Gestion's ESG analysts and specialists.

ESG dialogue	
Number of ESG dialogues	471
	61% of the meetings concerned
Number of ESG engagements	72
	+18% compared to 2020

The chronology of meeting minutes, gathered in one place, makes it possible to trace the evolution of the company's actions.

## 2. TARGETED ACTIONS

As mentioned above, 72 companies have made a specific commitment on the theme of the environment, social or governance practices, and non-financial transparency.



\*CSR: Corporate communication with non-financial data providers

### Extra-financial communication by companies

9 companies have been made aware by the Lazard Frères Gestion equity team of the need to communicate with external extra-financial data providers.

The primary goal of these commitments is to obtain external ESG ratings that are more representative of the real practices of the companies. Very often, these ratings are penalized by a lack of information from the providers, who, by default, assign poor ratings to companies.

## Environment

During our 2021 engagement campaign, we engaged with seven companies on topics related to their environmental practices.

We addressed the topics of coal exposure, water and electricity consumption, the impact of the value chain on the environment, carbon offsets, scope 3 calculations and deforestation financing.

## Social

**41 companies** were approached about social issues. For the vast majority of them, the issue was missing social data (employee turnover, training, gender parity, etc.) as part of an analysis conducted around an impact strategy.

In addition, issues such as health and safety, inclusion in hiring, abnormally high staff turnover, and a worrying strike were at the heart of these dialogues.

## Governance

The Lazard Frères Gestion equity team conducted an in-depth engagement with **22 companies** on the topic of governance.

We discussed with the companies their external growth strategies, the separation of the roles of CEO/Chairman, the level of independence of the Board of Directors and executive compensation.

# 3. ENGAGEMENT RESULTS

The engagement process is of significant importance at Lazard Frères Gestion.

Indeed, as part of the escalation procedure, the portfolio manager-analysts, whose extra-financial analysis is completed by ESG specialists, reserve the right to improve or downgrade the company's internal rating.

If a commitment proves successful, the improvement in the rating may result in the purchase of a stock in an SRI fund, for example. Conversely, it is possible that a stock could be sold after a commitment that proves disappointing.

In 2021, **18 engagements** resulted in the **upgrade/downgrade** of an internal **rating and/or the purchase/sale** of a security:

Internal ESG rating improvements	13
Downgrades of internal ESG ratings	3
Purchase of stock following a commitment that resulted in the improvement	1
Disposal of stock following a commitment that gave rise to the improvement	1



# B

## Examples of our engagement actions

### Engagement on Pillars E, S and G

<b>Sector</b>	Food and beverages
<b>Geographical zone</b>	Europe
<b>Market capitalization</b>	Small Caps
<b>Theme</b>	E: Impact of the activity on the environment and biodiversity S: Employee health and safety G: Representation of the Board of Directors

In December 2021, we met with this company whose activity poses a potential risk to the environment, as well as to the workforce.

We asked the company to present us - if defined - objectives to reduce its environmental impact. The company shared with us its quantified environmental objectives (reduction of water and electricity consumption, recycling, etc.), with a time horizon defined through 18 performance indicators for the period 2020-2025, the progress of which we noted on the company's ESG presentation.

Among its notable actions, the salaried farmers are 100% self-sufficient in electricity with a highly developed wind farm and a large photovoltaic network. 44.5% of its packaging is already recyclable, with a 2025 objective of reaching 100%, and the desire to produce "sustainable" chicken (i.e. produced locally, in the open air, fed with local grain) is at the heart of its strategic development plans for the coming years.

We also wanted to know the operational details of the company's Health & Safety policy. The modernization of work tools is the key element in the reduction of work-related accidents, particularly those linked to chicken cutting. These have been drastically reduced (-6%).

The composition of the Supervisory Board was also one of our concerns and proved to be representative of the employees, since one of the company's farmers is on it.

### Pillar E Engagement

<b>Sector</b>	Bank
<b>Geographical zone</b>	Europe
<b>Market capitalization</b>	Large Caps
<b>Theme</b>	E: Deforestation and biodiversity



During the month of October, we engaged in a discussion with a European bank following the publication of an article in the Financial Times that ranked it among the ten global banks that finance companies whose main activity is agribusiness and have direct and measurable consequences on deforestation.

When asked by Lazard Frères Gestion, the bank provided a detailed response regarding its involvement in the issues of biodiversity and deforestation, for which the group has very clear internal policies.

The attention of the manager and the ESG Equity specialists was drawn to the fact that the NGO behind this ranking relies on the database of the Forests & Finance platform. The site does not list actual deforestation practices, but rather ranks all companies whose activities can be considered potentially "at risk" for forests due to their activities in certain agricultural commodities, or simply the financing of projects related to them.

#### Pillar S engagement

<b>Sector</b>	Health
<b>Geographical zone</b>	United States
<b>Market capitalization</b>	Large Caps
<b>Theme</b>	S: Employee turnover and training

Lazard Frères Gestion initiated a discussion with this company to enrich our analysis of its human capital management.

Indeed, we did not have data concerning the company's turnover rate in 2020, which we consider important to judge the well-being of employees. The number of training hours per employee per year was not available either, but this indicator allows us to estimate the extent to which employees have prospects for development and will be prepared for the jobs of tomorrow.

The pharmaceutical company responded positively to our requests, providing us with a voluntary and involuntary turnover rate and a number of training hours for all employees that we adjusted to make it comparable with other companies.

#### Engagement to improve non-financial communication

<b>Sector</b>	Banks
<b>Geographical zone</b>	Nordic countries
<b>Market capitalization</b>	Small Caps
<b>Theme</b>	Improvement of external ESG rating

This bank was very close to being excluded from our investment universe due to its ESG rating by our extra-financial data provider. Due to the company's lack of transparency, its ability to manage human resources issues was perceived to be insufficient, and the company also failed to disclose its environmental policies and lobbying practices.

After recognizing that improvements were needed, the bank undertook significant changes. Its overall ESG rating was increased from 35 to 51/100. The company remains in our investment universe.

## 1. REMINDER ABOUT OUR VOTING POLICY

Lazard Frères Gestion is above all attentive to the financial performance of the companies in which it invests. This performance can only be sustainable if it is based on a long-term vision, combined with exemplary corporate governance and strong social and environmental responsibility. It is within this analytical framework that Lazard Frères Gestion fully plays its role as a shareholder, particularly through the exercise of its voting rights and shareholder dialogue.

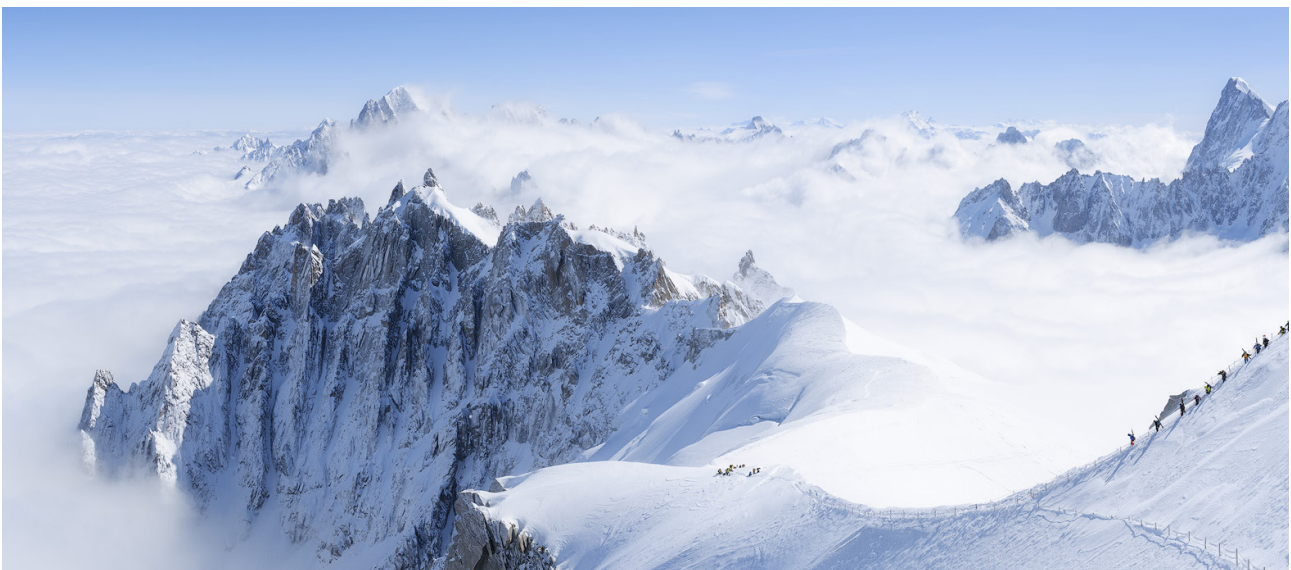
In 2021, we voted at 100 General Meetings (GMs) out of a voting scope of 94 GMs, i.e. a participation rate of 89.3%. In line with our voting policy, we are committed to good governance and pay attention to social and environmental issues in proposed resolutions.

The voting perimeter applies to the shares of :

- All French companies in which the funds managed by Lazard Frères Gestion hold more than 1% of the capital
- All companies representing more than 0.2% of the total assets of equity and multi-asset funds managed by Lazard Frères Gestion

A report dedicated to the exercise of voting rights is available via the link :

[http://www.lazardfreresgestion.fr/FR/Notre-approche-ESG-ISR-Actionnariat\\_116.html](http://www.lazardfreresgestion.fr/FR/Notre-approche-ESG-ISR-Actionnariat_116.html)



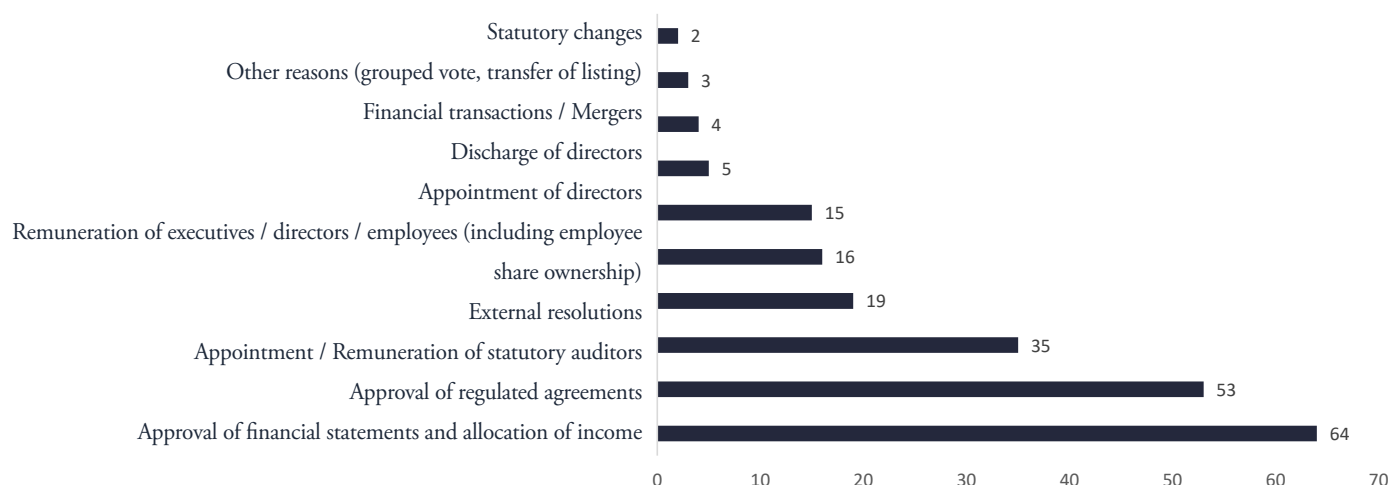
## 2. KEY FIGURES ON THE EXERCISE OF VOTING RIGHTS 2021

### Geographical breakdowns

Countries	Number of GA 2021	Voted GAs	Percentage
Germany	10	10	100%
Austria	2	2	100%
Belgium	2	2	100%
Spain	1	1	100%
United States	8	4	50%
Finland	3	3	100%
France	69	64	92%
Ireland	1	1	100%
Netherlands	10	10	100%
United Kingdom	2	2	100%
Switzerland	4	1	25%
Total	112	100	89,29%

### Breakdown of "Against" votes

#### Number of resolutions voted "Against" (Perimeter + outside voting perimeter)



### 3. DIALOGUE IN ADVANCE WITH GENERAL ASSEMBLIES

Shareholder engagement is essential to our approach as a responsible investor. It is based on a clearly detailed voting policy that provides a framework for our discussions with companies prior to General Meetings.

Companies are increasingly interested in engaging in a dialogue with their minority shareholders on the resolutions they intend to submit to the General Meeting.

These meetings are an opportunity to better understand the motivations and nature of the draft resolutions for the General Meeting and to explain our voting policy.

Shareholder dialogue is at the heart of our assessment of corporate governance and takes on specific importance in the run-up to Annual General Meetings. It is also part of our overall commitment to influencing corporate behavior. By raising awareness of good practices, we want to support them and help them make continuous progress.

#### Example of shareholder engagement

<b>Sector</b>	Technology
<b>Geographical zone</b>	Europe
<b>Market capitalization</b>	Small Caps
<b>Theme</b>	G : Sale of a share following a pre-GA commitment

At the same time, the group announced a project (submitted to the General Assembly held on December 1) to "implement the CEO's ability to invest in the group's subsidiaries", which would allow him to become the owner of 10% of each of the group's three assets by 2026 for an unknown amount, based on the valuation established by an independent expert.

As the group is not monitored, we could not comment on the outcome of the vote on this resolution at the December 1 AGM, but this proposal seemed to us to be indefensible at the time. It was added to a set of elements demonstrating the divergence of interests between the management and the minority shareholders of the group.

We informed the CEO and the CFO of our disagreement and communicated the problems raised by this proposal. After a response that we did not consider satisfactory, we gave up the entire position.



# FIXED INCOME MANAGEMENT

## A Presentation of our engagement activities ////////////////

### 1. ENGAGEMENT THROUGH DIALOGUE

- **A systematic annual engagement campaign for all issuers that are "weak" or below 2 out of 5 in our internal analysis grids:**

We contact all portfolio companies rated "Weak" (below 30/100) by our extra-financial partner Moody's ESG Solutions and certain issuers in the entire investment universe whose internal ESG rating is below 2 out of 5, with the objective of encouraging them to improve their ESG practices, their transparency and their communication

A more complete description of our internal ESG analysis grid is presented in our ESG Approach. (<http://www.lazardfreresgestion.fr/download.aspx?Doc=W20&Ref=APPROCHEESG&Lang=FRA&Extension=pdf>)



#### The overall message is as follows:

- We currently hold bonds
- Poor ESG ratings may force us to restrict our investments
- Your main weaknesses and areas for improvement are ...
- Could you comment on this data and tell us your ESG objectives?

- **Acts of engagement in the event of market events (occurrence of a controversy, issue of an issuer with a low rating, significant deterioration of practices):**

We aim to be very responsive to market events. If a controversy arises regarding a major issuer in our investment universe, we place it on a watch list, contact it as soon as possible and, depending on the responses, possibly exclude it.

Similarly, when a company with a low rating is issued on the markets, we take advantage of this opportunity to stress the importance of raising its level of ESG practices and communication.

On several occasions in 2021, we decided against bond issuances in accordance with our internal ESG constraints because the issuer was too low-rated.

- **An ongoing engagement campaign to enrich our information on issuer practices:**

There is now a moment dedicated to ESG questions during meetings with company management. We discuss their weaknesses, areas for improvement and our expectations.

We also specifically engage issuers for which we have too little information or which lag behind their sector peers. This allows us to feed our internal analysis grids and to have a more precise vision of the issuer's real practices.

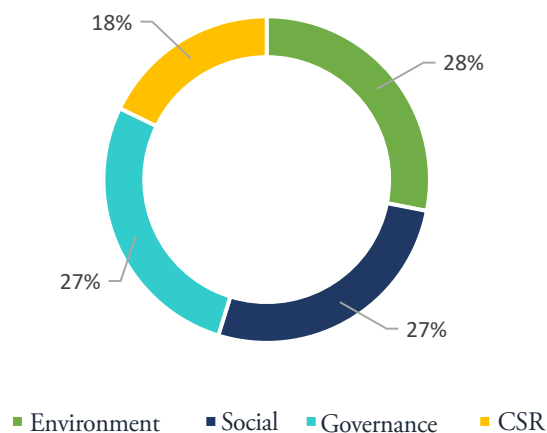
## 2. TARGETED ACTIONS

When meeting with companies, fixed income analysts discuss ESG issues in their entirety. The three ESG pillars are discussed almost systematically in order to improve the issuer.

In 2021, the team engaged 48 companies in discussions on improving ESG practices.

Lack of disclosure by issuers can partially explain a low ESG score. The Lazard Frères Gestion bond team has engaged with 26 issuers to ask them to disclose more ESG data.

Themes of engagement



\*CSR: Corporate communication with non-financial data providers

## 3. ENGAGEMENT RESULTS

As part of our engagement efforts, Lazard Frères Gestion's fixed income management teams contacted 74 issuers in 2021. The detailed answers we received from issuers concern their practices, the objectives they have set and the means they invest in them. We can thus present our engagement actions as follows:

Companies contacted	74
Detailed responses received	54
Telephone interviews	14

In 2021, the result of our engagement resulted in the improvement/maintenance/downgrade of an internal rating and/or the purchase/non-participation in certain issues:

Improvement of internal ESG ratings	16
Internal ESG ratings maintained	34
Downgrading of internal ESG ratings	4
Participation in a primary issue of the "Sustainability-Linked Bond" type of an excluded issuer but whose sustainability approach we support	1
Non-participation in an issue due to low ESG rating	3

The overall impression from this campaign is as follows:

- We see a continuous improvement in practices and an improvement in communication from issuers of all sizes.
- Many issuers informed us that certain practices are already in place but suffer from poor communication often perceived as a lack of transparency.
- Issuers are setting more and more precise extra-financial objectives and are increasing their participation in initiatives.

## B Examples of our engagement action

### Commitment to improving non-financial reporting

Sector	Financial Services
Geographical zone	Europe
Market capitalization	Investment Grade
Theme	Improvement of external ESG rating

The company was rated 28/100 by Moody's ESG Solutions in 2020.

Lazard Frères Gestion contacted the company in the usual way, explaining its strengths, weaknesses and areas for improvement. The bond team then had regular exchanges over the following months to ensure that their commitments were being met. In May 2021, we observed a doubling of our extra-financial partner's score to 52/100.

### Engagement on Pillars E, S and G and downgrading of the internal rating

Sector	Real estate
Geographical zone	Germany
Market capitalization	High Yield
Theme	E: Environmental management of buildings S: Communication on Human Resources Management G: Management and accounting integrity

During the month of June, the fixed income team identified material issues for the company resulting from a lack of financial and non-financial transparency. During a telephone interview, we noted poor communication on human resources issues, little engagement with ESG rating agencies, little dialogue on the environmental management of buildings, and a lack of integrity on the part of management regarding financial accounting.

Lazard Frères Gestion has alerted the issuer to the need to develop its practices so that we can support it in the future.

The efforts made by the issuer were not sufficient to address our concerns and as a result the internal rating was downgraded to below 2. The issuer is therefore excluded from our investment universe.



## Pillar E Engagement

<b>Sector</b>	Chemistry
<b>Geographic area</b>	England
<b>Market capitalization</b>	High Yield
<b>Theme</b>	E: CO <sub>2</sub> emissions reduction strategy and engagement with non-financial rating agencies

The company was rated 21/100 by Moody's ESG Solutions before the fixed income team engaged with it.

We initially identified material risks for the company due to incomplete reporting of greenhouse gas emissions, little involvement in clean technology initiatives, and little engagement with ESG rating agencies.

The company was contacted by Lazard Frères Gestion regarding its extra-financial issues, particularly on the environmental pillar.

Following our dialogue, the issuer announced new environmental commitments covering most of their material issues including new Net Zero targets by 2050, interim targets of 10% greenhouse gas reduction by 2025 and a discussion on future strategy and engagement with Moody's ESG Solutions.

We therefore decided to increase our internal ESG rating and this also allowed us to increase the rating of our extra-financial partner to 38/100.

# APPENDIX

## 1. ENGAGEMENT STATISTICS ON SRI FUNDS - EQUITY

### Lazard Alpha Euro SRI

- In-depth ESG engagement with 15 companies, representing 38% of the portfolio.

### Lazard Equity SRI

- In-depth ESG engagement with 14 companies, representing 34% of the portfolio.

### Lazard Dividend LowVol SRI

- In-depth ESG engagement with 10 companies, representing 25% of the portfolio.

### Norden SRI

- In-depth ESG engagement with 10 companies, representing 24% of the portfolio.

### Lazard Small Caps Euro SRI

- In-depth ESG engagement with 4 companies, representing 11% of the portfolio.

### Lazard Equity Inflation SRI

- In-depth ESG engagement with 7 companies, representing 21% of the portfolio.

## 2. ENGAGEMENT STATISTICS ON SRI FUNDS - FIXED INCOME

### Lazard Capital Fi SRI

- In-depth ESG engagement with 13 companies, representing 34% of the portfolio.

### Lazard Credit Fi SRI

- In-depth ESG engagement with 22 companies, representing 33% of the portfolio.

### Lazard Euro Short Duration High Yield SRI

- In-depth ESG engagement with 13 companies, representing 12% of the portfolio.

### Lazard Euro Short Duration SRI

- In-depth ESG engagement with 11 companies, representing 14% of the portfolio.

### Lazard Euro Credit SRI

- In-depth ESG engagement with 16 companies, representing 17% of the portfolio.

## 3. ENGAGEMENT STATISTICS ON SRI FUNDS - MULTI-ASSETS

### Lazard Patrimoine SRI

- In-depth ESG engagement with 14 companies, representing 30% of the equity sleeve.
- In-depth ESG engagement with 16 companies, representing 9% of the fixed income sleeve.

### Lazard Patrimoine Opportunities SRI

- In-depth ESG engagement with 14 companies, i.e. 29% of the equity sleeve.
- In-depth ESG engagement with 5 companies, i.e. 7% of the fixed income sleeve.

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