Policy on the integration of sustainability risks

Article 3 SFDR

LAST UPDATE - JULY 2024

CONTENTS

INTRODUCTION

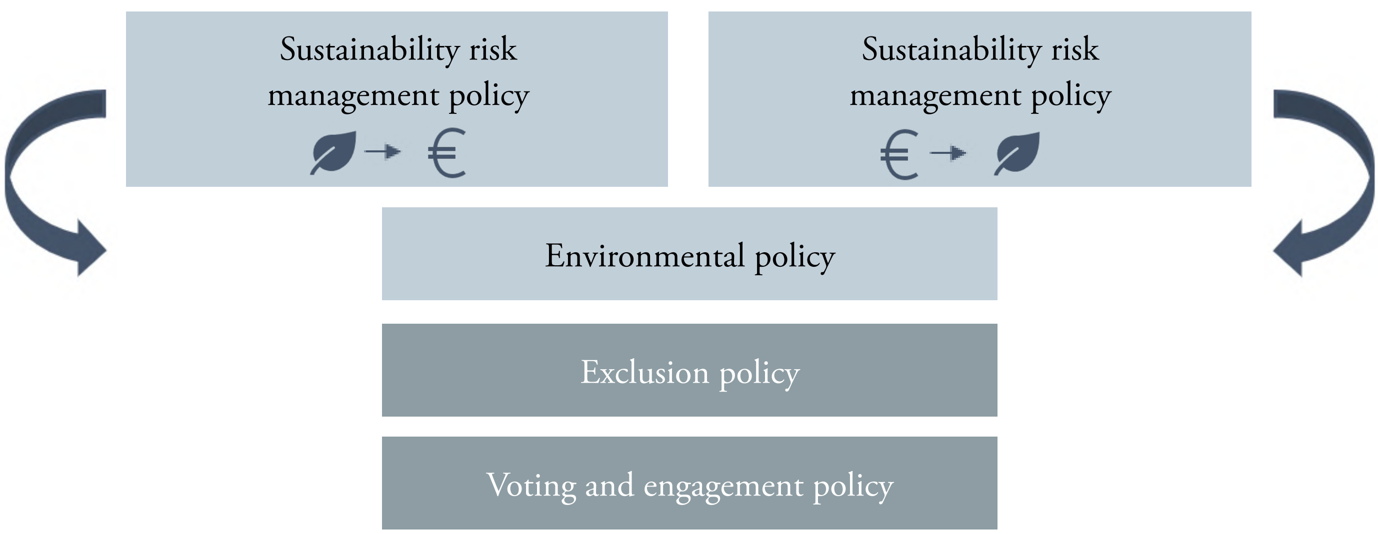
REGULATORY CONTEXT

The signing of the Paris Agreement in 2015 and the increasing prominence of environmental, social, and governance (ESG) issues have made it essential for states and public actors to define a structured framework aimed at better addressing the associated risks and opportunities. To harmonize regulation at the European level, the European Commission launched an action plan for sustainable finance in 2018.

As a long-term investor, Lazard Frères Gestion is resolutely committed to supporting the transition towards greener and more responsible finance. This document, in accordance with the requirements defined in Article 4 of Regulation EU No. 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR - Sustainable Finance Disclosure Regulation), known as the "Disclosure Regulation," establishes the policy for managing principal adverse impacts on sustainability. This policy is coupled with a sustainability risk integration policy, as required by Article 3 of the SFDR regulation.

For more information, please refer to the document "Our ESG Approach" available on the website https://www.lazardfreresgestion.fr/FR/%20ESG-ISR_112.html or contact your sales representative.

Responsible investment policy



I/ Definitions

• What is sustainable risk?

Sustainability risk is defined in the SFDR regulation as 'an environmental, social or governance event or situation which, if it occurs, could have a material adverse effect, actual or potential, on the value of the investment'. For companies, sustainability risk can take different forms. For example, in relation to the environment, companies may face physical risks, climate transition risks or biodiversity risks.

• What are Principal Adverse Impacts (PAI)?

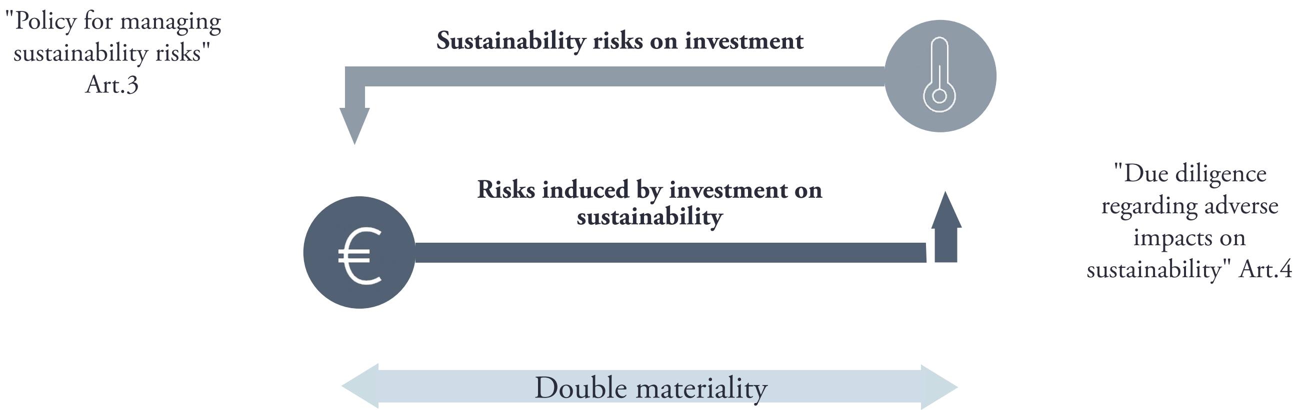
Negative sustainability impacts are all the negative effects of investment decisions on the various sustainability factors, i.e. on environmental, social and labour issues, respect for human rights and the fight against corruption and bribery.

For more information on the consideration of IAPs in the management of Lazard Frères Gestion, please consult the 'Negative Impact Management Policy' document available on the website or contact your sales agent.

• What is double materiality?

On the one hand, materiality relating to sustainability risks concerns investors insofar as climate, environmental, social and governance factors exert pressure on the sustainability of companies. On the other hand, negative impact materiality is concerned with the impact of investments on society and the environment as a whole.

To ensure that neither aspect is neglected, the European Commission has introduced the concept of 'double materiality'. In this way, the Commission points out that non-financial information can have a financial impact and, conversely, that finance can have consequences for the environment and/or society.



[1] *Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (view)*
[2] *SFDR, Article 2 (22)*
[3] *DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directives 2013/34/EU, 2004/109/EC, and 2006/43/EC as well as Regulation (EU) No 537/2014 regarding the disclosure of sustainability information by companies (view)*

• What is the SFDR classification?

The SFDR regulation defines three categories of financial products classified according to their integration of sustainability risks, their consideration of ESG criteria and IAPs:

'Article 6' products

All financial products that are not eligible under either Article 8 or Article 9.

These products are not required to take ESG criteria into account.

However, they must comply with the duty of transparency regarding the integration of sustainability risks.

'Article 8' products

'Article 8' products promote environmental or social characteristics.

'Article 9' products

'Article 9' products aim at sustainable investment, i.e. they invest in economic activities that contribute to an environmental and/or social objective.

For 'Article 8' and 'Article 9' products, the transparency and communication requirements are higher. In the same way as market risk, credit risk and liquidity risk, sustainability risk must be taken into account in the investment decision-making process.

II/ Policy for integrating sustainability risks into the management of UCIs

SCOPE OF APPLICATION

In a world marked by uncertainty, Lazard Frères Gestion wishes to offer its clients conviction-based management with a long-term perspective. Our investment process takes the form of active management and focuses on demanding stock selection to optimise the risk/return trade-off, in particular by taking account of environmental, social and governance (ESG) criteria.

We apply this approach to **four** different **categories** of UCI:

• Article 6 compliant funds
• Article 8 compliant funds
• Article 8-compliant funds with the SRI label
• Article 9 compliant funds

Our approach to sustainability risk and negative sustainability impact is based on **five pillars**:

• ESG analysis
• Integration into management
• Exclusions
• Controversy monitoring
• Dialogue, vote and engagement

CONDITION OF APPLICATION

Lazard Frères Gestion is aware of the limitations associated with ESG data and, in particular, its potential influence on the achievement of the environmental and social characteristics promoted by our financial products.

The methodologies used by data providers may present inherent biases, highlighting only one dimension of the company being evaluated, thereby degrading the quality of the data. The lack of maturity of certain calculation methodologies, low coverage rates or inaccurate data are further limitations.

In this context, we are deploying a continuous improvement approach, in particular with regard to strategies for aligning with the Paris Agreement and long-term biodiversity objectives.

A/ Governance

ESG INTEGRATION AT ALL LEVELS

All of the asset management company's activities, for both institutional and private clients, are now concerned with environmental, social and governance issues. The principles of responsible investment are now anchored in the discussions and practices of all key functions: internal governance, research and analysis, portfolio management, risk control and reporting, compliance and customer relations.

In this way, Lazard Frères Gestion has put in place a governance structure that enables effective decision-making on ESG issues, while leaving room for dialogue between all the business lines.

DIFFERENT COMMITTEES INVOLVING ALL THE BUSINESS LINES

Several decision-making bodies help to structure the responsible investment decision-making process.

• **The Executive Committee**, chaired by François-Marc Durand, Chairman of Lazard Frères Gestion, sets the broad guidelines for sustainability issues. It monitors progress on the various strategic projects and validates ESG principles, philosophy and new policies. The Executive Committee discusses these issues at least once a quarter.

• **The ESG Committee**, made up of the Chairman of Lazard Frères Gestion, the ESG team, the Chief Investment Officer (CIO), representatives from institutional and private asset management, the Chief Operations Officer (COO) and the Risk and Compliance teams, validates internal policies, processes and methodologies relating to responsible investment. The ESG Committee meets every fortnight.

• **The ESG Risk Committee** identifies the environmental, social and governance risks associated with investment management and implements solutions to mitigate these risks. It validates the ESG parameters to be respected, monitors compliance with these criteria, reports alerts in terms of ratios and monitors methodological exceptions. The ESG Risk Committee meets every month to implement the risk management policy.

• **The monthly ESG meeting** brings together all the management company's business lines. At this meeting, participants keep abreast of regulatory developments relating to sustainable finance, update tools, and discuss business needs and competitive practices.

AN ESG TEAM FULLY INTEGRATED INTO MANAGEMENT

The analyst-manager model, unique to Lazard Frères Gestion, enables all portfolio managers to include responsible investment practices at the heart of their management. Analyst managers are directly responsible for the ESG analysis of companies, their internal ratings, ESG integration and the implementation of engagement measures.

The management analysts and other Lazard Frères Gestion teams are assisted by the ESG team, which comprises the ESG Director, 6 ESG specialists and ESG analyst trainees. This ESG department reports directly to François-Marc Durand, Chairman of Lazard Frères Gestion.

B/ Internal ESG analysis

ESG ANALYSIS PROCESS

Our analyses are based on an in-depth, informed, forward-looking and, if necessary, critical study of all available environmental, social and governance data. ESG analyses are carried out directly by our management analysts, in line with our desire to reject a 'silo' ESG approach.

INTERNAL ANALYSIS GRID

The information on each company is summarised in an internal grid shared by all the management analysts.
The sector analysts, responsible for monitoring each stock, draw up an internal ESG rating based on both a quantitative and qualitative approach.

For each pillar E (Environment), S (Social/Societal) and G (Governance), around fifteen key indicators are monitored and then aggregated into a summary score. Each pillar is scored out of 5, and the company's overall ESG score is a summary of the E, S and G scores, weighted as follows: 30% for the Environment, 30% for Social/Societal and 40% for Governance, which has always been an essential element and therefore deserves slightly more weight in our view. The overall ESG rating is between 1 and 5 (5 being the best). In total, more than 50 indicators are examined during each analysis.

Designed to combine granularity and efficiency, this score enables management teams to include ESG elements in their analysis that are likely to exert an influence in the future that is currently underestimated.

THE DIFFERENT INDICATORS

E Environment

ENVIRONMENTAL POLICY

OBJECTIVES

- Integration of environmental factors adapted to the sector's challenges
- Development of an environmental strategy and management system

CRITERIA

- Definition and formulation of guidelines, priorities, appropriate means, and specific quantified objectives
- Integration of sector-related regulations

CONTROL OF ENVIRONMENTAL IMPACTS

OBJECTIVES

- Control of risks associated with climate change
- Responsible water and waste management
- Biodiversity preservation

CRITERIA

- Limitation of GHG emissions and anticipation of the physical consequences related to climate change
- Optimization of water usage, limitation of discharges into the environment
- Measurement of the impact of activities on biodiversity and reduction of exploitation of sensitive areas, ecosystems, plants, and organisms

ENVIRONMENTAL IMPACT OF PRODUCTS OR SERVICES

OBJECTIVES

- Environmental innovation
- Eco-design of products or services

CRITERIA

- Development of technological innovations and energy efficiency solutions
- Reduction of the impact related to the manufacturing, use, and disposal of products or services, development of the circular economy

S Social

RESPECT FOR HUMAN RIGHTS

OBJECTIVES

- Prevention of situations or acts of complicity in human rights violations
- Respect for the right to safety and security of persons
- Respect for privacy and data protection

CRITERIA

- Respect for basic human rights, especially for UNGC and UNGP principles and OECD guidelines for multinational enterprises
- Elimination of prohibited forms of work, in particular child labour and forced or compulsory labour
- Protection of employees from potential threats, especially in high-risk regions
- Compliance with the regulations on the protection of personal data

HUMAN RESOURCES MANAGEMENT

OBJECTIVES

- Constructive social dialogue
- Favorable training and career management for human development
- Promotion of diversity
- Health, safety, and well-being at work

CRITERIA

- Respect and promotion of freedom of association and the right to collective bargaining
- Employment strategy: training plan, sector transition, internal development policy, and restructuring management
- Principle of equal opportunities and treatment of people
- Prevention of accidents at work and occupational diseases and continuous improvement of health and safety conditions at work

MANAGE THE VALUE CHAIN

OBJECTIVES

- Responsible supply chain management
- Quality, safety, and traceability of products

CRITERIA

- Elimination of prohibited forms of labour at suppliers and subcontractors and sustainable cooperation with suppliers
- Protection and respect of customer/consumer rights: prevention of anti-competitive practices, safety, contractual protection, and client information

G Governance

BOARD OF DIRECTORS OR SUPERVISORY BOARD

OBJECTIVES

- Independence of the Board
- Competence and diversity of the Board
- Limitation of total mandates

CRITERIA

Board able to control and advise executive directors to ensure balance of powers:

- Separation of the positions of chairman and chief executive officer
- Diversity and complementarity of expertise
- Significant proportion of independent members allowing objective and impartial control of directors

QUALITY OF MANAGEMENT

OBJECTIVES

- Quality of the strategy
- Business ethic
- Effectiveness of the audit and control mechanisms

CRITERIA

- Establishment and implementation of a strategy that is coherent with the external environment and internal resources
- Prevention of all forms of corruption, among private players as well as public officials
- Internal control systems that can identify and evaluate risks facing the company and guarantee confidence in the independence and objectivity of external auditors

QUALITY OF FINANCIAL AND EXTRA-FINANCIAL COMMUNICATION

OBJECTIVES

- Confidence in forecasts and transparency
- Accessibility of management

CRITERIA

- History of profit warnings
- Publication of quantitative data and qualitative explanations giving a true and fair view of the company's current situation and its prospects with regard to financial and extra-financial issues

DIRECTORS' REMUNERATION

OBJECTIVES

- Clear formulation of directors' remuneration
- Transparency with regard to remuneration
- Consistency with results achieved

CRITERIA

- Remuneration policy describing its principles and detailing the different elements
- Integration of ESG objectives in the remuneration policy
- Remuneration in line with the strategy, linked to company performance and changes in the company share price over the long term

DATA SOURCES

To feed our analyses, we use various specialist data providers. As part of our vigilance, their respective offers are reviewed annually to ensure that we are using the most appropriate services for our management.

Moody's ESG Solutions: we have a long-standing partnership with Moody's ESG Solutions, with our first contract signed in 2001. Moody's ESG Solutions provides us with information on the majority of companies in our investment universe. The agency provides a detailed analysis of each company and rates its environmental, social and governance performance. Since 2019, Moody's ESG Solutions has also provided a controversy analysis tool for the companies in our portfolios.

MSCI: our partnership with MSCI enables us to assess physical and transition risks. In particular, we are able to calculate a portfolio 'temperature', in other words, to assess its ability to meet the 2°C alignment stipulated in the Paris Agreement. In addition, we use the PAI data provided by MSCI as part of our sustainable investment methodology within the meaning of the SFDR Regulation.

Trucost: this agency specialises in corporate carbon data and provides input for our internal ESG analysis grids and our extra-financial performance reports.

ISS Ethix: This research tool on controversial weapons is used to monitor and exclude from our portfolios companies that directly or indirectly contravene the 1997 Ottawa Convention (anti-personnel mines) and the 2010 Oslo Treaty (cluster bombs).

Proxinvest: this company advises investors on their engagement and voting policy. It analyses General Meeting resolutions that fall within our voting perimeter and issues voting recommendations that serve as a decision-making tool for our analysts and managers.

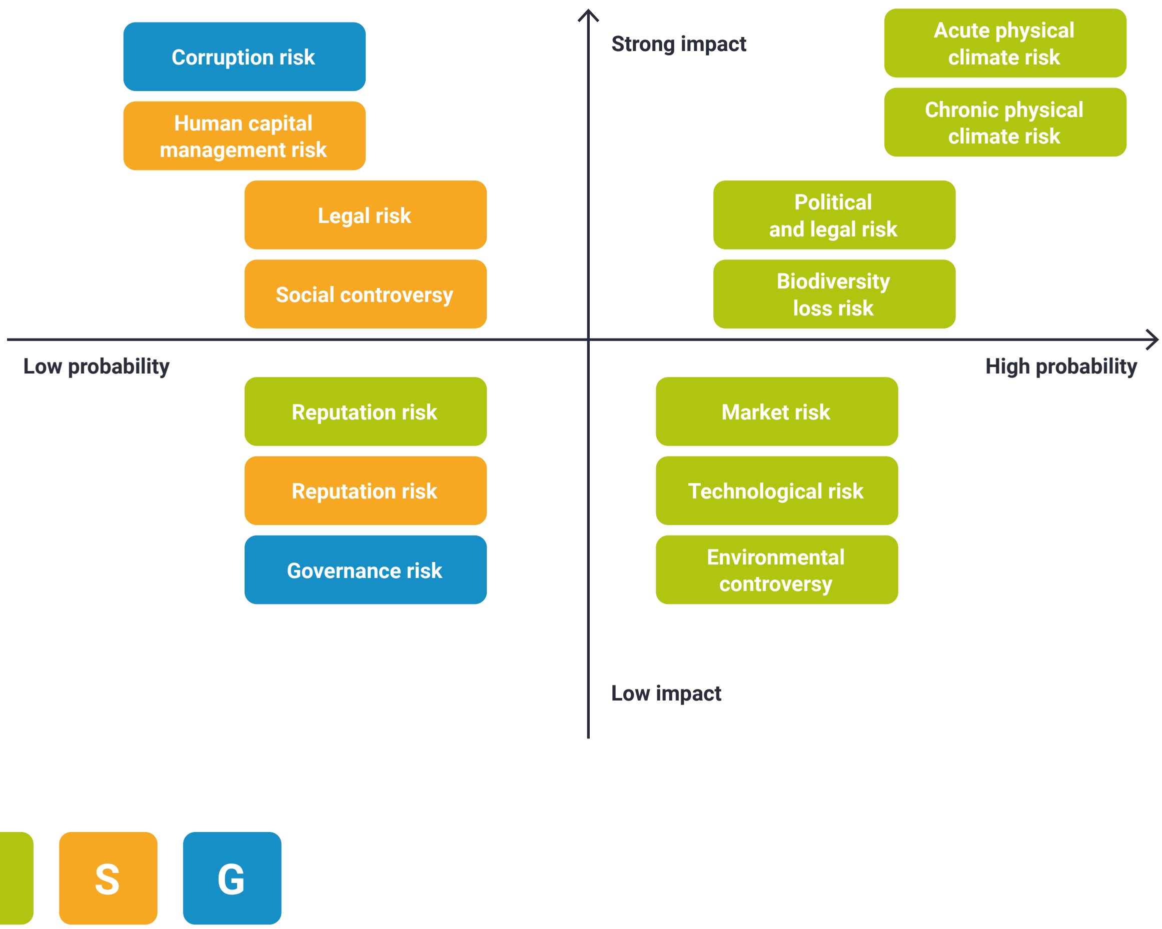
Gaïa Ratings: a subsidiary of Ethifinance, Gaïa is an extra-financial rating agency specialising in ESG ratings for SMEs and SMIs listed on the European market.

C/ Identifying risks in our management

Based on the TCFD's recommendations, Lazard Frères Gestion has drawn up a table of the various risks that companies may face. There are several types of risk relating to the E, S and G pillars. For example, environmental risks can be divided into physical and transition risks linked to global warming, on the one hand, and biodiversity risks, on the other.

The sustainability risk matrix illustrates high-impact, high-probability risks. However, for greater granularity at issuer level, the materiality of the risks (and in particular their geographical or sectoral nature) is assessed using a proprietary materiality table, which is reflected in the internal analysis grids.

SUSTAINABILITY RISK MATRIX



Sustainability risk		Example	Effect	Probability	Horizon	Impact	Type	Type of intake
Environment								
Physical and climatic risks	Acute	Extreme weather events such as storms, hurricanes or floods	. Direct impact: damage to assets . Indirect impact: supply chain disruption	High	Short term	High	Current Exogenous	ESG analysis > Comment E
	Chronic	· Changes in precipitation and extreme volatility in weather patterns · Rising temperatures and chronic heat waves · Rising sea levels		High	Medium term	High	Current Exogenous	· ESG analysis > CO2 intensity, sector temperature (°C), climate change policy · Implied Temperature Rise
Climate transition risks	Political and legal	· Tighter regulation of existing products and services · Tougher requirements on GHG emissions reporting · Litigation	· Increased costs · Direct financial impact: litigation · Risk of stranded asset / depreciation	High	Short term	High	Emerging Endoge-nous	ESG analysis > climate change policy
	Technology	· Substitution of existing products and services towards less GHG emitting alternatives · Cost of transition to low-carbon technologies · Insufficient investment in new technologies	Technological lag that can lead to a loss of competitiveness	High	Medium term	Me-dium	Current Exogenous	ESG analysis > Patents, Low Carbon Patents
	Market	· High cost of raw materials · Market uncertainty	Rising raw material and energy costs	Medium	Medium term	Me-dium	Current Exogenous	ESG analysis > Sector
	Reputational	· Growing concern or negative reaction from stakeholders · Changing consumer preferences	Risk of market loss	Medium	Short term	Me-dium	Emerging Endoge-nous	ESG analysis > Comment E
Biodiversity risks	Loss of biodiversity	Pollution and destruction of ecosystems: deforestation, water pollution, etc.	Impact on companies and business activities dependent on ecosystems	High	Strong term	Me-dium	Current Exogenous	· ESG analysis > Water management policy, water consumption intensity, waste generation intensity · Biodiversity score
Risks of controversy	Legal	Environmental controversy	Direct financial repercussions: lawsuits	Medium	Medium term	Me-dium	Current Exogenous	Controversy management process

Sustainability risk		Example	Effect	Probability	Horizon	Impact	Type	Type of intake
Social								
Internal risks	Human capital management	· Inadequate human resources · Lack of training, loss of employee motivation · Deterioration in well-being at work · Staff turnover	Loss of productivity and responsiveness to customer needs	Low	Short term	Medium	Current Endogenous	ESG analysis > staff turnover, total incident rate, health and safety policy...
	Legal	Violation of human rights	Direct financial repercussions: lawsuit	Low	Short term	High	Current Endogenous	ESG analysis > Human rights policy
External risks	Reputational	· Professional inequalities · Difficulties in attracting talent · Diversity	Loss of competitiveness	Medium	Medium term	Medium	Emerging Endogenous	ESG analysis > % women in workforce, equal opportunities policy, fair pay policy
Risks of controversy	Legal	Social controversy	· Direct financial repercussions: lawsuit · Loss of competitiveness	Medium	Short term	Medium	Current Endogenous	Controversy management process
Governance								
Internal risks	Governance	· Excessive concentration of power · Lack of involvement and skills of directors	Poor decision-making leading to financial loss	Medium	Short term	High	Current Endogenous	ESG analysis > combining the roles of CEO and Chairman, % of independents on the board, % of non-executive members on the board, attendance at board meetings
	Corruption	Corruption, lack of integrity, tax evasion	Direct financial repercussions: lawsuits	Medium	Short term	High	Current Endogenous	ESG analysis > Comment G

ASSESSMENT OF PHYSICAL RISKS

The assessment looks at the extent to which issuers are managing these risks, and examines :

- Whether companies have identified and quantified the physical climate-related risks to which they may be exposed
- The measures taken to prevent, adapt and mitigate these risks
- The indicators reflecting the results of these efforts to anticipate and mitigate the consequences that the physical impacts of climate change could have on its activities:

> - Impact on company assets (damage, destruction of buildings or production equipment, early retirement of existing assets, etc.)
> - Impacts on the supply chain (reduced availability/increased cost of raw materials, components or equipment, etc.) components or equipment, etc.)
> - Impact costs (insurance costs, investment costs, operating costs)
> - The repercussions on the company's ability to carry out its activities and operations (reduction or disruption of production production capacity, impact on workforce management and planning, etc.)

ASSESSMENT OF TRANSITION RISKS

Three transition risks have been identified:

• The risk linked to changes in energy prices

This measures the commitments made by issuers to reduce their energy consumption and associated emissions, as well as the way in which companies are changing their energy mix.

• The risk linked to technological advances

This corresponds to companies' exposure to the risks of obsolescence linked to a lack of technological innovation and the substitution of existing products and services by others with lower emissions.
We monitor the efforts made by companies to develop and market products and services that have a reduced impact on the climate, as well as their involvement in R&D activities for environmentally-friendly products and services.

• Regulatory risk

This involves measuring the way in which companies anticipate regulatory changes:

- Carbon footprint / carbon price
Measuring the carbon footprint to assess which sectors and companies emit the most greenhouse gases and are therefore most exposed to climate regulations.

- "Stranded asset" / Impairment
Identification of issuers whose activities derive from fossil fuels and those with fossil fuel reserves, to identify those most exposed to the risk of impairment of their assets.

- Compliance with 2°C scenarios
Measurement of issuers' level of engagement in the energy transition of their business model.
Assessment of the level of engagement and the effectiveness of the measures implemented to reduce their GHG emissions, change their energy mix and reduce their energy consumption.

CONSIDERATION OF BIODIVERSITY

As part of its ESG Approach, Lazard Frères Gestion aims to make biodiversity a fully integrated issue in its strategy. Our internal materiality framework already allows us to identify sectors particularly exposed to the risk of biodiversity loss. Additionally, biodiversity-related factors are integrated into our ESG data provider Moody's ESG Solutions' analysis for the E (Environment) pillar rating when they are considered material.

Since the first half of 2022, Lazard Frères Gestion has committed to explicitly integrating biodiversity risk in accordance with Article 29 of the Energy-Climate Law and the second phase of the SFDR regulation (PAI reporting).

To this end, our teams stay as up-to-date as possible on available data despite the low quantity and quality of existing information.

CONSIDERATION OF MATERIALITY

Aware of the importance of intra-sector comparisons and a good understanding of the operational, geographical, and regulatory environment in which companies operate, we pay particular attention to the materiality of ESG risks and opportunities in our analysis methodology. A differentiated consideration of criteria according to sectors, countries, or even specific characteristics seems necessary to adequately account for the ESG performance specific to each company.

To better assess materiality and understand how sustainability factors can affect an issuer's financial performance, Lazard Frères Gestion developed a proprietary materiality table in January 2021.

This materiality table serves a dual purpose: on one hand, it allows for the transparent formalization of how analyst-managers select the most relevant indicators within the internal ESG analysis framework. On the other hand, it serves as a foundation for the themes and engagement actions carried out by Lazard Frères Gestion with companies.

D Exclusion policy

SECTORAL EXCLUSIONS

Disengagement from Thermal Coal

In 2020, Lazard Frères Gestion defined a thermal coal exclusion strategy that applies to all managed portfolios. Its objective is to combat climate change and reduce human pollution while considering the financial, regulatory, physical, and reputational risks associated with coal assets within the energy transition framework.

Lazard Frères Gestion thus excludes any investment in companies where:

- More than 10% of revenue comes from thermal coal-related activities,
- More than 10% of the energy mix (per MWh generated) is based on coal,
- Annual thermal coal production exceeds 10 MT per year,
- Installed capacities operating on coal exceed 5 GW,
- Projects involve the development of thermal coal mines or coal-fired power plants.

Tobacco

The tobacco industry, in particular, is subject to numerous ESG controversies related to child labor in tobacco farming, transparency about product composition, and deforestation. In response to these major ESG issues, Lazard Frères Gestion excludes from its investment universe companies for which the production of tobacco or tobacco-related products constitutes a core activity.

NORMATIVE EXCLUSIONS

Controversial weapons

Lazard Frères Gestion complies with current regulations in accordance with the Ottawa and Oslo Conventions. Therefore, we exclude from all our management any investment in companies involved in the manufacturing or trading of anti-personnel mines (APMs), cluster bombs (CBs), chemical weapons, and biological weapons. To ensure this compliance, we have partnered with ISS-Ethix.

Furthermore, since 2023, Lazard Frères Gestion excludes any company domiciled in a country that is not a signatory to the Non-Proliferation Treaty (1968) and is involved in the production of nuclear weapons. We use MSCI as our data provider for this information.

Based on the information provided by our partner, an internal exclusion list is established and monitored by our Risk Department.

Violations of the United Nations Global Compact

As part of the ongoing controversy management process, the ESG team pays particular attention to companies that violate the Principles of the United Nations Global Compact. In cases of severe, proven, and repeated violations of one of the Global Compact principles, companies are placed on the exclusion list.

Companies that have taken corrective measures in response to a severe controversy to address the issue are placed on a deep engagement list. An engagement process is initiated to decide whether or not to exclude the company. In the absence of a satisfactory response or after a period of 6 months, the company will be automatically placed on the exclusion list.

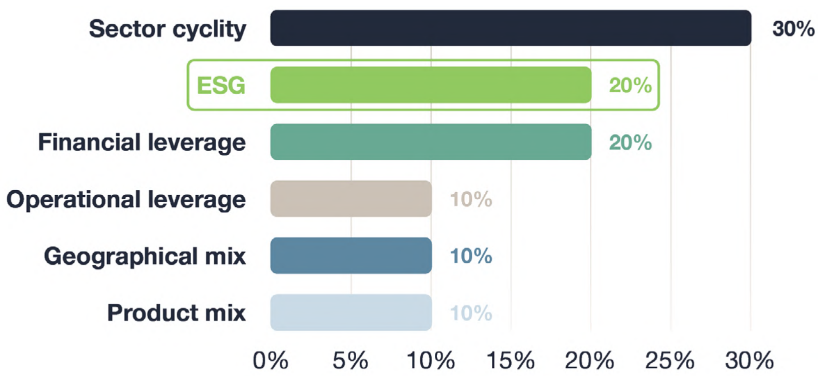
In the case of a controversy contested by Lazard Frères Gestion, companies are placed on a monitoring list. They are then subject to an in-depth evaluation and analysis conducted by the ESG team, resulting in a specific report summarizing the main conclusions of the analysis. The list is updated semi-annually based on new controversies.

A committee comprising analyst-managers and ESG specialists submits these three lists for validation by the executive committee of Lazard Frères Gestion on a quarterly basis. After the controversy is resolved and a period of one year has passed, the company will be removed from the three lists.

E/ Consideration of risks in management

CONSIDERATION IN MANAGEMENT

Within Equity management, our analyst-managers integrate the internal ESG score derived from the analysis into their calculation of the cost of capital via the Beta calculation. This calculation provides a measure of the company's overall risks. Financial and non-financial criteria are considered according to the following weighting:



In Bond management, analyst-managers exclude from the investment universe issuers whose internal ratings are deemed weak (≤ 2/5). Additionally, for Investment Grade issues, the share of issuers rated between 2/5 and 3/5 is limited to 30% of the portfolio holdings. For High Yield portfolios, which are more exposed to smaller and traditionally lower-rated issuers, this share is limited to 50% of the portfolios (see opposite).

Type of issuer	Internal rating	Exclusion	Exposure limit
All issuers	Rating ≤ 2/5	Yes	-
Investment Grade	2 < Rating ≤ 3	-	Max 30%
High Yield	2 < Rating ≤ 3	-	Max 50%

The diversified management team defines the tactical allocation based on the cycle and markets and delegates the management of equity and bond pockets to specialized management teams.

CONTROVERSY MONITORING

Lazard Frères Gestion ensures continuous monitoring of controversies involving companies within its universe using various sources and external data. Since January 2020, internal monitoring has been enriched by the ESG controversy analysis conducted by our partner Moody's ESG Solutions.

This analysis helps to understand any event that could impact the company's reputation, legal security, economic stability, and financial value. It is an important element of the company's ESG risk analysis, and Lazard Frères Gestion's proprietary ESG analysis framework dedicates a section to it, influencing the internal rating of companies.

Information communicated by the media and brokers also continuously alerts analyst-managers to potential controversies that could affect companies within their investment universe. Controversies deemed relevant and particularly severe by the analyst-manager are subject to in-depth analysis. If deemed necessary, the analyst-manager revises the E, S, or G score of the issuer based on their analysis of the controversy, directly integrating the effects of the controv its severity, frequency, and the company's responsiveness, Moody's ESG Solutions informs analyst-managers about the issuers' ability to manage controversies. The data provided is used as a decision-making tool and an alert basis.

Companies involved in severe, frequent controversies and that do not provide appropriate responses are placed on a watch list. They receive particular attention from analyst-managers and are prime targets for engagement actions.

RISK MANAGEMENT

Climate change generates physical and transition risks that can have direct or indirect consequences on the economic and financial performance of companies. Lazard Frères Gestion has decided to integrate the Climate VAR indicator provided by MSCI. This indicator measures the potential impact of the effects of climate change on the market value of a security by 2100. These impacts can be of three types: policy, technological, or physical.

For all three types of impacts, the model calculates estimates of future costs and revenues based on the scenario and the company, then applies its financial model to deduce the impacts on the valuation of the security.

For more information on the methodology of our climate stress tests as well as the results, please refer to our Article 29 Report.

Through this analysis, Lazard Frères Gestion can better understand these impacts in its management to mitigate these long-term risks.

USE OF INDICATORS AND ALERT SYSTEMS

Lazard Frères Gestion has both an internal tool for private management mandates, with an alert system at the ESG indicator level, and a platform developed by an external provider for open and dedicated funds.

These tools are available to managers and monitor daily compliance with ESG constraints related to the considered portfolios. The trigger threshold for these alerts and their type depend on the portfolio strategy and are based on internal ESG ratings, data from our providers, and the monitoring of exclusions.

F/ Dialogues, voting, and engagement

Lazard Frères Gestion places particular importance on meetings with company management. The objective is to encourage these companies to continuously and constructively improve all ESG practices: transparency, integration of sustainable development issues, SDGs (Sustainable Development Goals), and good governance practices.

During these meetings, analyst-managers discuss a wide range of topics with the management, including ESG. Leveraging their expertise, they determine which key points to address during these encounters. The follow-up of dialogues and engagement actions is carried out through a database that compiles all meeting reports prepared by the analyst-managers. Thus, these individual meetings with management are a crucial part of the analysis and monitoring process.

Lazard Frères Gestion also supports active ownership, which allows shareholders to influence the ESG strategies and practices of companies. We apply our own voting policy (available online) when we vote at the General Meetings of issuers within our scope. The number and reasons for dissenting votes are recorded in a tool and are an integral part of the annual voting report.

III/ Policy for integrating sustainability risks in mandate management

A/ Adaptation to client preferences

All management activities at Lazard Frères Gestion incorporate the internal ESG analysis described above and take it into account in their UCITS and mandate management activities. Since August 2, 2022, in accordance with the European MiFID II directive, Lazard Frères Gestion has been asking its clients about their sustainability preferences and has developed a range of products and services accordingly.

B/ Mandate management service offerings

In the context of its mandate management activities, Lazard Frères Gestion distinguishes three management approaches that integrate ESG criteria at different levels:

- **Direct Securities:** for direct securities, we apply the same approach as for the management of UCITS.
- **Lazard Frères Gestion UCITS:** all Lazard Frères Gestion UCITS incorporate non-financial criteria, including ESG criteria, in their management.
- **External UCITS:** non-financial criteria are taken into account during the preliminary analysis for selection, particularly within the framework of due diligence applied to them. However, these criteria are not blocking factors in the final choice and investment.

C/ Private Equity

Investment teams strive to identify and examine ESG considerations during the due diligence process for each new investment. Our responsible investment due diligence encompasses ESG factors that may impact investment selection as well as transaction structuring. We include a dedicated section in our due diligence questionnaire to evaluate the fund's investment process.

This section aims to assess the consideration of ESG criteria during the pre-investment phase, in the investment decision, during the holding period, and in the exit strategy.

The result of the analysis of ESG criteria and sustainability risks in the context of evaluating an investment opportunity is a determining factor in the investment decision by the Management Company. As such, the Management Company may decide not to proceed with an investment based on the sustainability risks identified by this analysis.

POLICY ON THE INTEGRATION OF SUSTAINABILITY RISKS

LAZARD FRÈRES GESTION

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