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## 1. FUNDS COVERED BY THIS TRANSPARENCY CODE

Fund name: Lazard Equity SRI

Dominant and complementary strategies	Main asset class	Exclusions applied by the fund	Fund AUM as of 12/31/2020	Labels	Links to fund documents
• Best In Class	• Eurozone	• Weapons	€192 million	• ISR	http://www.lazardfreresgestion.
• Exclusion	equities	• Tobacco		Label	fr/EN/Fiche-fonds 93.ht- ml?idFond=EQ1
Engagement		• Thermal coal			- KIID + Prospectus
					- Carbon footprint Report
					- Impact indicator Report
					- Monthly Report
					- Semi-annual Report
					- Annual Report
					- NAV history
					- NAV RSS feeds

Fund name: Norden SRI

Dominant and complementary strategies	Main asset class	Exclusions applied by the fund	Fund AUM as of 12/31/2020	Labels	Links to fund documents
<ul><li>Best In Universe</li><li>Exclusion</li><li>Engagement</li></ul>	• International equities	<ul><li>Weapons</li><li>Tobacco</li><li>Thermal coal</li></ul>	€583 million	• ISR Label	http://www.lazardfreresgestion. fr/EN/Fiche-fonds 93.ht- ml?idFond=NOR  - KIID + Prospectus  - Carbon footprint Report  - Impact indicator Report  - Monthly Report  - Semi-annual Report  - Annual Report  - NAV history  - NAV RSS feeds

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## Fund name: Lazard Small Caps Euro SRI

Dominant and complementary strategies	Main asset class	Exclusions applied by the fund	Fund AUM as of 12/31/2020	Labels	Links to fund documents
Best In Universe	• Eurozone	• Weapons	€579 million	• ISR	http://www.lazardfreresgestion. fr/EN/Fiche-fonds 93.ht-
Exclusion	equities	• Tobacco		Label	ml?idFond=SEA
• Engagement		• Thermal coal		• France	- KIID + Prospectus
				Relance	- Carbon footprint Report
				Label	- Impact indicator Report
					- Monthly Report
					- Semi-annual Report
					- Annual Report
					- NAV history
					- NAV RSS feeds

## Fund name: Lazard Dividend LowVol SRI

Dominant and complementary strategies	Main asset class	Exclusions applied by the fund	Fund AUM as of 12/31/2020	Labels	Links to fund documents
• Best In Universe	• Eurozone	• Weapons	€128 million	• ISR	http://www.lazardfreresgestion. fr/EN/Fiche-fonds 93.ht-
Exclusion	equities	• Tobacco		Label	ml?idFond=DIC
Engagement		• Thermal coal			- KIID + Prospectus
					- Carbon footprint Report
					- Impact indicator Report
					- Monthly Report
					- Semi-annual Report
					- Annual Report
					- NAV history
					- NAV RSS feeds

## Fund name: Lazard Alpha Euro SRI

Dominant and complementary strategies	Main asset class	Exclusions applied by the fund	Fund AUM as of 12/31/2020	Labels	Links to fund documents
Best In Universe	• Eurozone	• Weapons	€571 million	• ISR	http://www.lazardfreresgestion. fr/EN/Fiche-fonds 93.ht-
• Exclusion	equities	• Tobacco		Label	ml?idFond=ALA
Engagement		• Thermal coal			- KIID + Prospectus
					- Carbon footprint Report
					- Impact indicator Report
					- Monthly Report
					- Semi-annual Report
					- Annual Report
					- NAV history
					- NAV RSS feeds



# 2. GENERAL DATA ON THE INVESTMENT MANAGER

2.2 What are the history and principles of the Investment Manager's responsible investor approach?

Lazard Frères Gestion has long been involved in Socially Responsible Investment, with the 2001 launch of an open-ended SRI fund (systematic inclusion of ESG indicators: Environmental, Social and Governance), one of the first in France to apply "Best in Class" portfolio management.

Our aim is to provide our clients with products offering every guarantee of expertise, credibility and transparency in their management rules.

2.1 Name of Investment Manager in charge of the funds to which this Code applies

LAZARD FRÈRES GESTION 25, rue de Courcelles 75008 – PARIS www.lazardfreresgestion.fr

Founded on October 1, 1995, Lazard Frères Gestion SAS obtained AMF authorization to operate as a Portfolio Management Company under number GP 97-105 on October 31, 1997. On July 23, 2014, Lazard Frères Gestion obtained its notification of authorization as a portfolio management company from the AMF under Directive 2011/61/ EU (AIFM). This authorization does not affect the scope of Lazard Frères Gestion's previously authorized program as a portfolio management company.



## 2.3 How has the Investment Manager formalized its responsible investor approach?

Lazard Frères Gestion has formalized its responsible investor approach through the following documents presented below:

- ESG policy
- Climate change policy
- Engagement policy
- Voting policy

These policies are available on our website at: <a href="http://www.lazardfreresgestion.fr/EN/ESG-ISR">http://www.lazardfreresgestion.fr/EN/ESG-ISR</a> 112.

## 2.4 How does the Investment Manager assess ESG risks / opportunities, including those related to climate change?

Lazard Frères Gestion firmly believes that issuers should take environmental, social and governance (ESG) criteria into account to ensure the sustainability of their economic performance. The long-term performance of investments calls for a comprehensive understanding of the decisive factors driving the successful operation of a business, including the company's interaction with its social, economic and financial environment.

Integration of ESG criteria is therefore part of a natural approach included in our investment process.

Our overall approach can be summed up as follows:

Our highly extensive financial analysis of each company covers the quality of its assets, financial strength, cash flow predictability and reinvestment, profit momentum and sustainability, and quality of the Management team.

This sustainability is reinforced by the consideration of non-financial criteria:

- Environmental criteria: by preventing all environmental risks and identifying investment opportunities
- Social criteria : by enhancing human capital, observing international human rights standards and taking all stakeholders into account
- Governance criteria: by observing the balance between managerial and shareholder structures in order to prevent potential conflicts of interest and ensure that the interests of minority shareholders are respected

The majority of physical risks and transition risks are assessed as environmental criteria. Our goal is to make sure the company practices responsible environmental management and factors these risks into its business model.

## 2.5 Which of our teams are involved in the Investment Manager's responsible investment activity?

The team of Equity Analyst-Portfolio Managers in charge of investment or divestment decisions is primarily involved in the Investment Manager's responsible investment activity.

A team of three ESG specialists and an ESG data manager, assisted by 2 interns, helps the portfolio management teams conduct business with service providers, recommends changes for ESG analysis and integration, oversees and applies appropriate regulatory documentation, monitors best practices and contributes to marketplace ESG initiatives.

The sales, consultant relations, risk, reporting, marketing, compliance and IT teams also contribute to the implementation of the responsible investment activity.

An ESG Committee meets monthly to coordinate the implementation of the ESG policy within the company. The Committee is co-chaired by Matthieu Grouès, Head of Institutional Client Strategies, and Paul Castello, Managing Director. It is comprised by members of the Portfolio Management, Marketing, Reporting, Risk Control, Compliance, Sales, Consultant Relations and Management teams.

Its role is to guarantee a consistent approach for all cross-business ESG issues relevant to the company's business by:

- Defining and implementing the Investment Manager's ESG policy
- -Overseeing regulatory compliance, and particularly with Article 173 of the French Energy Transition for Green Growth Act, adopted on August 17, 2015
- -Monitoring market developments and investor expectations
- -Monitoring external partnerships
- -Monitoring "Best Practices"

## **EXECUTIVE COMMITTEE**

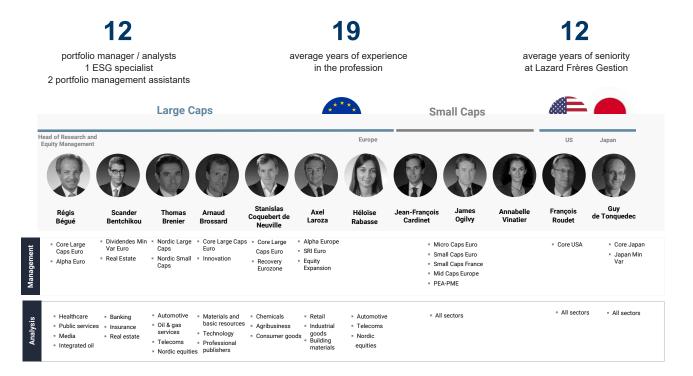
# ESG COMMITTEE Institutional Management Wealth Management Legal and Compliance Risk and Reporting Marketing

## 2.6 How many SRI analysts and SRI portfolio managers are employed by the Investment Manager?

The people involved are:

- The entire Equity team, consisting of 12 analyst-portfolio managers
- -The entire Fixed Income team, consisting of a money market portfolio manager and 7 analyst-portfolio managers
- -The entire Diversified Strategies team, consisting of 4 analyst-portfolio managers
- -The entire ESG team, consisting of 3 ESG specialists, an ESG data manager working under the Reporting team and 2 ESG analyst interns.
- -The number of people dedicated to ESG in full-time equivalent (excluding interns) is 6.3.

### **ORGANIZATION CHART - EQUITY TEAM**



## 2.7 Which SRI initiatives is the investment Manager involved in ?

General initiatives	Environmental initiatives	Social initiatives	Governance initiatives
• PRI - Principles For	• CDP – Carbon		
Responsible Investment	Disclosure Project		
• AFG Responsible	(signatory)		
Investment Technical	• TCFD – Taskforce on		
Committee	Climate-related Financial		
• SIFs - Social Investment	Disclosure (supporter)		
Forum (Spainsif)			

## 2.8 What is the Investment Manager's total SRI assets under management?

Total SRI or exclusionary assets under management as of 12/31/2020: 4.2 billion euros

Total ESG assets under management as of 12/31/2020: 26.4 billion euros

## 2.9 What is the ratio of the Investment Manager's SRI AUM to total AUM?

% SRI-type assets or excluded from total assets as of 12/31/2020 : 16%

% of ESG AUM out of total AUM as of 12/31/2020 : 98%

## 2.10 What retail SRI funds are managed by the Investment

## Manager?

Retail SRI funds as of 7/31/2021:

## **EQUITY**

- -Lazard Equity SRI
- -Norden SRI
- -Lazard Small Caps Euro SRI
- -Lazard Dividend LowVol SRI
- -Lazard Alpha Euro SRI

#### **FIXED INCOME**

- -Lazard Credit Fi SRI
- -Lazard Capital Fi SRI
- -Lazard Euro Short Duration High Yield SRI
- -Lazard Sustainable Credit 2025
- -Lazard Sustainable Euro Credit
- -Lazard Sustainable Euro Short Duration

## **MULTI-ASSET**

- -Lazard Patrimoine SRI
- -Lazard Patrimoine Opportunities SRI

## EQUITY (WEALTH MANAGEMENT)

-Lazard Patrimoine Actions SRI



# 3. GENERAL DATA ON THE SRI FUNDS PRESENTED IN THIS TRANSPARENCY CODE

## 3.1 What are the intended goals of applying ESG criteria to fund management strategies?

By applying rigorous SRI analysis and selection discipline, the portfolio managers aim to build a portfolio that promotes ESG best practices and the highest-rated companies. Our goal is thus to encourage companies to:

- -Practice responsible environmental management
- -Develop their human resources
- -Observe basic human rights

-Practice strong governance

## 3.2 What internal and external resources are used for the ESG assessment of issuers making up the investment universe?

Our 12-person in-house team of equity analyst-portfolio managers is responsible for the ESG assessment of issuers, assisted by an ESG specialist and an ESG analyst intern.

To carry out this evaluation, the teams also rely on various external resources:

- -Vigeo-Eiris (non-financial rating and controversies)
- -Trucost (carbon data)

- -Carbon Delta (temperature et carbon pathway)
- -Gaïa Rating (non-financial rating of Small Caps and ISEs)
- -MSCI (non-financial rating and ESG indicators)
- -ISS-Ethix (exclusions)
- -Proxinvest/ECGS (voting advisory firm)
- -Direct communication with companies
- -Press
- -Brokers



## 3.3 What ESG criteria are incorporated by the funds?

#### **ENVIRONMENT**

#### • Responsible environmental management

**Goal:** to promote companies that adopt environmentally friendly behaviors, control their polluting emissions, contribute to the sustainable management of natural resources and implement energy and environmental innovations.

The aim of our analysis is to understand how environmental risks are addressed and managed by the company. Inadequate consideration of environmental risks (pollution, biodiversity, resources and local communities) can lead to reputational risk and jeopardize the company's business and growth.

Environmental criteria relate to the direct or indirect impact of the company's activities on the environment (waste management, energy consumption and polluting emissions) and their assessment depends regarding the business sector.

The Environment criterion is verified by:

Funds	Impact indicator	Unit of measurement	Source
Lazard Equity SRI	Carbon intensity	Tons of CO2eq/€m of revenue	Trucost
Norden SRI	Carbon intensity	Tons of CO2eq/€m of revenue	Trucost
Lazard Small Caps Euro SRI	Carbon intensity	Tons of CO2eq/€m of revenue	Trucost
Lazard Dividend LowVol SRI	Carbon intensity	Tons of CO2eq/€m of revenue	Trucost
Lazard Alpha Euro SRI	Carbon intensity	Tons of CO2eq/€m of revenue	Trucost

#### **SOCIAL**

#### • Development of human resources

**Goal:** to promote companies working to develop their human capital by ensuring satisfactory working conditions through an appropriate human resources policy, fair pay, development of employee skills, promotion of diversity and gender equality, and sound management of social aspects involved in any restructuring programs.

Together with financial capital, "human capital" is one of the two key drivers of a company's performance. Neglecting human capital can lead to losses in terms of productivity, adaptability and operating profitability, and to increased costs stemming from payroll volatility.

Social criteria address matters such as accident prevention, staff training, observation of employee rights, protection against discrimination risks, supply chain ethics and social dialog.

The Human Resources criterion is verified by:

Funds	Impact indicator	Unit of measurement	Source
Lazard Equity SRI	Staff turnover	%	MSCI
Norden SRI	Companies with high-severity or critical controversies relating to human resources	%	Vigeo-Eiris
Lazard Small Caps Euro SRI	Existence of profit sharing schemes above and beyond legal requirements (incentives, PERCO, employee share ownership)	%	Gaïa Rating
Lazard Dividend LowVol SRI	Companies with high-severity or critical controversies relating to human resources	%	Vigeo-Eiris
Lazard Alpha Euro SRI	Companies that keep track of employee satisfaction	%	MSCI

#### **HUMAN RIGHTS**

#### • Observation of basic human rights

**Goal :** to promote companies that undertake to observe the universal principles set out in the areas of human rights, labor, the environment and the fight against corruption.

Lazard Frères Gestion believes that primary responsibility for the observation of basic human rights lies with governments and public authorities. However, by developing a culture of integrity in their strategies and operations, companies are not only making a commitment to better the lives of people and the planet, but also strengthening the foundations of their sustainability as a n onoing concern in the medium and long term.

The Human Rights criterion is verified by:

Funds	Impact indicator	Unit of measurement	Source
Lazard Equity SRI	Companies having signed the United Nations Global Compact	%	Vigeo-Eiris
Norden SRI	Companies with high-severity or critical controversies relating to human resources	%	Vigeo-Eiris
Lazard Small Caps Euro SRI	Companies having signed the United Nations Global Compact	%	Gaïa Rating
Lazard Dividend LowVol SRI	Companies having signed the United Nations Global Compact	%	Vigeo-Eiris
Lazard Alpha Euro SRI	Companies having signed the United Nations Global Compact	%	Vigeo-Eiris

#### **GOVERNANCE**

### • Quality of governance

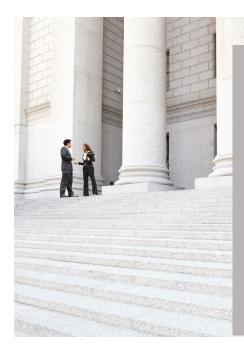
Goal: to promote governance best practices, and particularly prevention of conflicts of interest and fair treatment of shareholders.

Governance quality has always been a decisive factor in our investment policy. Satisfactory governance is a guarantee of transparency and balance of powers, with shareholders serving as a counter-weight. Lazard Frères Gestion believes that corporate governance best practices contribute to risk management, promote long-term value creation and help align the interests of all stakeholders.

Analyst-portfolio managers examine multiple aspects of sound corporate governance and monitor, among other things, the composition of Management bodies, the independence of the Board of Directors, the quality and diversity of Management teams, the quality of financial communication and the executive management remuneration policy.

The governance criterion is verified by:

Funds	Impact indicator	Unit of measurement	Source
Lazard Equity SRI	Independant directors	%	MSCI
Norden SRI	Independant directors	%	Company reports
Lazard Small Caps Euro SRI	Formalization of a business conduct and anti-corruption policy	%	Gaïa Rating
Lazard Dividend LowVol SRI	Independant directors	%	Company reports
Lazard Alpha Euro SRI	Independant directors	%	MSCI



## Other criteria taken into

All the criteria shown in the internal ESG analysis chart (see Section 3.5.) are incorporated into the attribution of E, S and G ratings by analyst-portfolio managers. These ratings reflect both a qualitative and quantitative assessment of the various criteria and are used to incorporate ESG criteria into the calculation of Beta (see Section 4.1.)

## 3.4 What are the climate change principles and criteria taken into account by the funds?

Regarding climate change, we look at how issuers take into account physical and transition risks in their development model via the Environment criterion included in the analyses provided by Vigeo-Eiris, Gaïa Rating and Carbon Delta. Our portfolio managers also communicate directly with companies to obtain further information if necessary.

#### Physical risk assessment

This assessment examines how well physical risks are managed by issuers, and determines:

- Whether or not the company has identified and quantified the physical climate-related risks to which it may be exposed
- •Measures taken to prevent, adapt and mitigate these risks
- •Indicators reflecting the results of its efforts to anticipate and mitigate the potential consequences of the physical impacts of climate change on its activities
- -Impacts on the company's assets (damages, destruction of buildings or production facilities, early decommissioning of existing assets, etc.)
- -Impacts on the supply chain (reduced availability/higher costs of raw materials, parts or equipment, etc.)
- -Impact costs (insurance costs, investment costs, operating expenses, etc.)
- -Impacts on the company's ability to conduct its activities and operations (reduction or disruption of production capacity, impacts on workforce management and planning, etc.)

#### Assessment of transition risks

3 transition risks are identified:

- Risk associated with changes in energy prices:
- We measure each issuer's commitment to reducing its energy consumption and associated emissions, or how companies are changing their energy mix.
- Risk associated with technological advancement:

This can be defined as the company's exposure to obsolescence risks due to a lack of technological innovation, substitution of existing products and services with others generating lower emissions.

We keep track of the efforts made by companies to develop and sell products and services with a reduced impact on the climate, and their investment in R&D activities aimed at developing and selling green products and services.

- Risk associated with regulatory changes:
- -This involves measuring how companies anticipate regulatory changes:
- -Carbon footprint/carbon price: a carbon footprint measurement identifies the sectors and companies recording the highest greenhouse gas emissions and thus with the highest exposure to climate regulations
- -Stranded Asset/Impairment risk: identification of issuers generating revenues from fossil fuels and issuers with fossil fuel reserves in order to determine which have the highest exposure to impairment risk
- -Compliance with 2° scenarios: measurement of an issuer's commitment to the energy transition of their business model. This is done by assessing the level of commitments and effectiveness of measures implemented to reduce GHG emissions, change the energy mix and reduce energy consumption.

## Temperature and compliance with Paris Agreement commitments

In addition, as of January 2020, Lazard Frères Gestion has access to the Carbon Delta database, which covers more than 9,000 companies, each of which is assigned a "temperature" goal to be reached by 2030. A company's temperature reflects its ability to meet the goals of the Paris Agreement, aimed at limiting global warming to 2°C by 2100.

The lower the temperature, the closer to achieving the  $2^{\circ}$ C target. For all sectors, temperatures range from a minimum of  $1.3^{\circ}$ C<sup>1</sup> a maximum of  $10^{\circ}$ C.

 $<sup>^1</sup>$  The minimum temperature increase expected for 2100 is 1.3 °C. According to the IPCC, air temperature increased by 0.85 °C from 1880 to 2012; without recognizing the current rise in atmospheric emissions, a similar temperature increase is projected.

#### **METHODOLOGY**

- 1. United Nations scenario study (UN Gap Report), and more in-depth research into the PIK 3°C scenario (Postdam Institute Klimate). Using these scenarios, a carbon budget is defined by sector (16 sectors identified) for Scope 1, giving a temperature curve for each sector. For Scope 2, another overall temperature curve is obtained from the carbon budgets of the electricity providers sector. Lastly, another overall temperature (Scope 3) is calculated using MSCI ESG Research data
- **2.** Calculation of the carbon intensity specific to each emissions scope, for each company, based in particular on the annual publications of each company:

Scope x

- 3. Projected readvangases in carbon future non-green revenues intensity, based on the company's decarbonization and emissions reduction targets
- 4. Positioning of the company's future carbon intensity on the corresponding curve, by scope and/or sector (16 different curves depending on the sector for Scope 1, single overall curve for Scopes 2 and 3)
- 5. Definition of a temperaturebased "cooling potential" for each company, according to avoided emissions (thanks in large part to low-carbon patents)
- **6.** Allocation of a specific weighting to the 4 temperatures obtained, depending on the sector

- 7. Calculation of the company's final temperature via the weighted sum of the 4 previous metrics
- \* Sector-specific and sector-agnostic temperature data for each issuer are included in the company's internal ESG chart (see below). They are directly factored in to the rating of the Environment pillar.

## Exclusion of companies tied to thermal coal

In accordance with Lazard Frères Gestion's climate change policy, the fund does not invest in companies for which:

- More than 30% of revenues come from thermal coal-related activities
- More than 30% of the energy mix (per MWh generated) is generated from coal
- Annual thermal coal production exceeds 20MT per year
- Coal-fired installed capacity exceeds 10 GW
- Plans include the development of thermal coal mines or coal-fired power plants

In the interest of consistency with its approach to supporting and promoting companies, this scope does not apply to green bonds, which are eligible regardless of the investor.

The exclusion thresholds defined above are reviewed each year, in accordance with AFG recommendations, with the aim of reaching the goal of exiting the coal industry by 2030 for European countries and by 2040 for other countries.



## 3.5 What is your issuer ESG analysis and assessment methodology (construction, rating scale, etc.)?

In 2019, Lazard Frères Gestion's Equity Analysis Team developed a proprietary ESG analysis process in the form of an internal ESG chart. The chart centralizes the quantitative and qualitative information deemed most relevant in terms of environmental, social and governance criteria and provides a dashboard tracking each issuer.

Analysts responsible for monitoring each company establish an internal ESG rating based on a combined quantitative approach (energy intensity, staff turnover, Board independence, etc.) and qualitative approach (environmental policy, employment strategy, expertise of directors, etc.). The ESG rating factors in each company's Principal Adverse Impacts (carbon emissions, energy consumption, water consumption, waste production) and Sustainability Risks (regulatory and physical risks, reputational risk by keeping track of controversies, among other factors).

Based on the data provided by our ESG partners (Vigeo-Eiris, Gaïa Rating, Trucost, Carbon Delta), Bloomberg, each company's annual and CSR reports, the Vigeo-Eiris controversy tracking tool and direct communication with issuers, the sector analysts responsible for monitoring each company establish an internal ESG rating based on a quantitative and qualitative approach.

Each pillar is given a score out of 5, based on roughly fifteen KPIs according to the company's size, and the total ESG score combines the E, S and G scores as follows: 30% for the Environment pillar, 30% for the Social pillar and 40% for the Governance pillar, which we believe best reflects the in-depth knowledge and experience our portfolio managers have developed in analyzing and working with companies. This has always been a key component of our analysis, a major source of added value in the selection of issuers and a distinctive source of expertise.

In the interest of continuously generating tangible added value in the selection of portfolio investments, our analyst-portfolio managers are committed to regularly consulting these charts for portfolio management, dialog and engagement purposes.

ESG ratings are directly incorporated in the valuation models used by the Equity teams through Beta (see section 4.1.).

Below is an example of an anonymized internal ESG analysis chart:

#### 4,0 Analyst rnaud Brossar Update date 9-juil.-20 Score Note relative % du capital Conflit? 25,0 47,4 55 76 49 4,45 / 5 Weighting EUR Commentary G - Détail do conflit d'Intérêts le cas échéant - Indépendance et composition du conseil d'administration - Qualifie du management - Qualifie da communication financière - Rémuniération du CEO Indigacement Participation aux Board meetings (%) Durke moyenne du mandat au Board (# années) Nombre de membres du Board servant depuis plus de 10 ans Chairman depuis (# années) impensation Attribution dactions Attribution dactions % d'actionnaires approuvant la rémunération des dirigeants **ESG SCORE** Nom BLACKROCK Durée moyenne du mandat au Comex (# années) CEO depuis (# années) air representation % de Board members executifs > 2 Boards Nombre de Board positions du CEO dependence Cumul des roles de DG et Président (Y/N) Ta⊪e du Board % d'indépendants au board Chairman indépendant (Y/N) % de membres non executifs au Board Ancien CEO au Board (Y/N) ıı . **GOVERNANCE SCORE (/5)** Diversity % de femmes à la direction % de femmes au Board Age moyen du Board Age du Chairman Age du CEO Droits de vote multiples (Y/N) Gouvernance d'entreprise Actionnaire principal Autre (activiste, etc) Flottant G Impact E Impact S Impact Share ownership Governance 2019 Tendency 100 330 2017 2018 2019 Tendency Tendency **4,5** 30% Sector Score Note relative 2019 Weighting 6,1 50 33 2018 Rotation du personnel (%) 5,4 4 d'employés syndqués 50 % de fermies dans les salariés 33 % de fermies dans le mgmt % de fermies dans le mgmt Politique de protection (//N) Politique de protection des lanceurs d'alerte (//N) 2017 % de fournisseurs audités % de fournisseurs non-compliant prigue des droits de thorame (YM) Politique des droits de thorame (YM) Politique de juste rémunération (YM) Respect des droits humains Respect des droits humains Cestion des ressources humaines Cirat et dialogue social Formation et gestion des carrières Promotion de la diversité Formation de la diversité Sent, sécurité et lebre être Cestion de la chaine de valeur Devoir de viglance de valeur Devoir de viglance de valeur Coulté, sécurité et trapailité produits -troution des tendances Taux d'incidents en tos perdu (%) Taux d'incidents total (%) Politique de santé et sécurité (Y/N) Drots humains Ressources humaines Comportement commercial Engagement sociétal SOCIAL SCORE (/5) th and safety Social critical severity Carbon Delta Carbon Delta Carbon Delta Carbon Delta Data year 2018 Tendency 5,0 30% Source Trucost Trucost Tendency Tendency 1 of high or Commentary E - Infegration des enjeux environnementaux et définition d'une politique adéquate - Infegration des produis ou services - Tratement de seu et les déchais - Tratement de les ut les déchais - Impact de l'oritre des déchais - Impact de l'oritre des déchais - Impact de l'oritre de l'entreprise sur l'environnement - Boultion de loritre prise aur l'environnement - Boultion de forcomé coronné crousire - Développement de fronné crousire - Evolution des tendances Score 4878 28 ),57% 2019 2019 2019 2019 Weighting NOK 4 active including Number 5667 32 0,56% 2018 2018 2018 **ESG ANALYSIS - COMPANY X** Moyenne Europe Software & Computer Services († CO2e/m 2017 39 51 Intensité de consommation d'eau (m3/m CA) Politique de gestion de l'eau (Y/N) Intensité de génération de déchets (Vm CA) **ENVIRONMENT SCORE (/5)** Intensité énergétique (MWh/m CA) Temperature sector specific (°C) Temperature sector agnostic (°C) 2019 Intensité CO2 (t CO2e/mCA USD) nberg Ticker Ongoing controversies Analyst's commentary % brevets Low Carbon Brevets Low Carbon Environment Environnement

## 3.6 How often is the ESG assessment of issuers reviewed?

Proprietary ESG analysis charts are updated annually. However, qualitative criteria can be reassessed or quantitative data corrected as often as needed.

Lazard Frères Gestion continuously keeps track of controversies involving the companies in its investment universe, using a variety of external data sources. As of January 2020, we also receive the analysis of ESG controversies carried out by Vigeo-Eiris, which sheds light on any events liable to impact a company's reputation, legal and economic security, and financial value. It is an important component of the ESG risk analysis that is incorporated in Lazard Frères Gestion's proprietary ESG analysis chart.

On a daily basis, the information provided by the media and brokers also alert analyst/portfolio managers to any controversies affecting companies in their investment universe.

Controversies deemed particularly relevant and impactful by the analyst-portfolio manager are subject to in-depth individual analysis. If deemed necessary, the analyst-portfolio manager reviews the issuer's post-controversy E, S or G rating. The impacts of the controversy are thus directly included in the assessment of the company's instruments.

By assessing each controversy according to its severity, frequency and the company's responsiveness, Vigeo-Eiris informs analyst-portfolio managers of how well issuers are able to manage controversies. The data provided are used as a decision-making tool and as a basis for raising the alert.

Companies affected by frequent high-severity controversies without providing appropriate responses are blacklisted. Analyst-portfolio managers watch these companies closely and prioritize them for engagement initiatives.

In the event of a controversy deemed particularly critical, analyst-portfolio managers may decide to exclude the company in question from the fund, after consulting with the portfolio management team.



## 4. INVESTMENT PROCESS



## 4.1 How are the results of ESG research incorporated in portfolio construction?

To transition from an **ESG investment universe** to a final **SRI portfolio**, we first apply non-financial screening specific to each fund, followed by quantitative and finally financial screening. Both screening tests must be passed. Neither can offset the other.



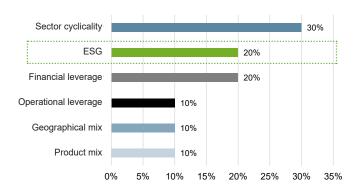
## Financial screening applied to all Equity funds

Financial screening is based on the following three pillars: profitability, growth and valuation.

We express a company's profitability and growth criteria by determining its "fair value" (DCF, past multiples, valuation of financial productivity). The preferred multiples and valuation method are the Enterprise Value/Operating Income ratio and the DCF method. Under the DCF method, cash flows are discounted using the Weighted Average Cost of Capital (WACC).

This cost consists of the **cost of equity** and the **cost of debt**. The cost of equity depends on the company's profile, and in particular its specific risk measured via Beta. This specific risk includes, among other things, the cyclicality of the company's business, geographic location, and compliance with **ESG criteria** that can also impact the financial assessment of the company if they are not sufficiently taken into account.

We thus include ESG criteria in WACC via Beta, which measures the company's specific risk relative to the market. Beta is calculated internally using a proprietary methodology that weights the factors such as:



The ESG criteria included in the definition of Beta are derived from the proprietary analysis model developed by Lazard Frères Gestion (see section 3.5.).

The valuation, and thus the determination of the upside potential for each of the previously selected securities, is used to determine the weight of each security in the portfolio. The portfolio manager ensures compliance with the portfolio's risk constraints, such as maximum overexposure to a given security or sector.



In addition to incorporating ESG criteria in the assessment of issuers, Lazard Frères Gestion applies more restrictive non-financial screening to its SRI funds.

Screening is specific to each SRI fund:

## Lazard Equity SRI

#### SRI investment universe:

Our non-financial screening is applied to all listed eurozone large caps.

For conditions 1 and 2, we examine five major categories (environmental and social), defined in partnership with Vigeo-Eiris. The Vigeo-Eiris rating of each category is used for each sector on a five-tier scale (from --, "companies not involved" to ++, "pioneering companies").

For condition 3, we use our own corporate governance rating. This rating is directly incorporated into the general stock picking process (see section 3.5), whether or not an SRI strategy is implemented.

The following conditions must be met:

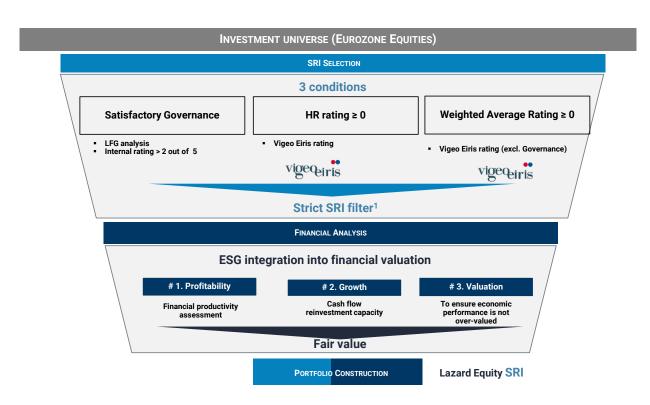
- Condition 1: have a rating of "=" or higher in Human Resources: a company's financial performance may be affected if it neglects its human capital. The quality of general working conditions, continuous improvement of managementemployee relations and promotion of jobs and skills are the main points reviewed.
- Condition 2: have a weighted average rating of "=" or higher:
   Lazard Frères Gestion imposes a weighting specific to each of the five categories of non-financial analysis selected, depending on their importance:
- Human resources (40%): Management of human capital: training, safety, reclassification measures included in redundancy plans, remuneration policy.

- Environment (30%): Management of the impact of the company's activities, products or services on the environment and climate.
- Customer-supplier relations (10%): Supplier management and identification of compliance with certain practices by suppliers (prohibiting child labor, etc.).
- Human rights (10%): Prevention of risks, including discrimination.
- Community engagement (10%): Company's involvement in its community. Contribution to development in general and to the development of certain activities in particular (e.g. supporting education in a given area).
- Condition 3: have an internal governance score of more than
   2 out of 5: the company should have a governance system that, in the Investment Manager's view, ensures that minority shareholders are treated fairly and prevents conflicts of interest.

The combination of these three non-financial screening conditions eliminates more than 20% of the lowest-rated companies from the initial investment universe, as required by the SRI Label.

#### **Summary:**

The Lazard Equity SRI portfolio construction process can be summarized as follows:



## Norden SRI

#### SRI investment universe:

Our non-financial screening is applied to all Nordic companies with a market cap of more than €250m and rated by Vigeo-Eiris. Each pillar (E, S and G) is rated on an absolute scale of 0 to 100 (applicable to all sectors) using the scores of the 6 main categories defined by Vigeo-Eiris as follows:

#### Reorganization of the 6 Vigeo-Eiris categories:

- Environment pillar:
  - Environment (100%): Management of the impact of the company's activities, products or services on the environment and climate. Level of information available for this criterion.
- Social pillar:
  - Human resources (25%): Management of human capital: training, safety, reclassification measures included in redundancy plans, remuneration policy.
  - Customer-supplier relations (25%): Supplier management and identification of compliance with certain practices by suppliers (prohibiting child labor etc.).
  - Human rights (25%): Prevention of risks, including discrimination.
  - Community engagement (25%): Company's involvement in its community. Contribution to development in general and to the development of certain activities in particular.
- Governance pillar:
  - Corporate governance (100%): Integration of best practices in this area, level of transparency, balance of powers with shareholder counter-weight.

## Final score out of 100: equally-weighted average of the E, S and G pillars

Based on this final score, and in accordance with SRI certification requirements, Lazard Frères Gestion excludes 20% of the lowest-rated companies to obtain the fund's SRI investment universe. Given the constraints imposed by the SRI certification in terms of exclusion and coverage of companies by ESG analysis (see section 4.3), 90% of the fund is required to consist of the 80% top-rated companies by Vigeo-Eiris, while the remaining 10% may be invested in companies not covered by Vigeo-Eiris.

#### Additional ESG integration process:

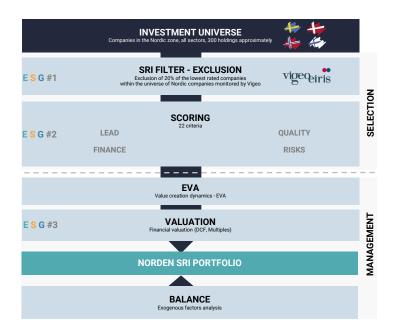
A scoring system, incorporated in Lazard Frères Gestion's proprietary model, has also been developed by the analyst-portfolio managers to structure the qualitative and financial analysis of companies. This scoring system gives an overall score for each company, approximately one-fourth of which is determined by ESG criteria. This score is used as a stock picking and portfolio construction tool:

- It is used to summarize the financial and non-financial analysis
- It has a direct impact on the determination of the maximum weight allocated to a given company.

carried out by the analyst-portfolio managers;

#### **Summary:**

The Norden SRI portfolio construction process can be summarized as follows:



Norden SRI incorporates ESG criteria in three different ways in its analysis and selection process: via Beta, the scoring system and exclusion.

## Lazard Small Caps Euro SRI

#### SRI investment universe:

Our non-financial screening is applied to all eurozone stocks with a market cap ranging from €100m to €2bn and rated by Gaïa Rating. Each company's final rating is based on an absolute scale of 0 to 100 (applicable all sectors) and is broken down into 4 pillars: E, S, G and External Stakeholders.

#### Lazard Frères Gestion applies its own weightings to the ratings scores making up the 4 pillars:

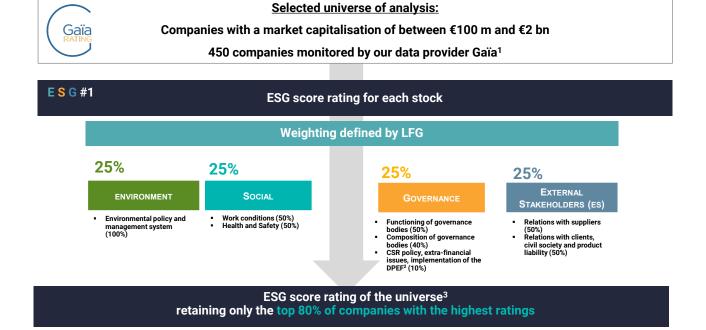
- Environment pillar:
  - Environmental policy and management system (100%)
- Social pillar:
- Working conditions (50%)
- Health and Safety (50%)
- Governance pillar:
- Composition of governance bodies (40%)
- Operation of governance bodies (50%)
- CSR policy, non-financial issues and publication of a Non-Financial Performance Report (10%)
- External stakeholders pillar:
- Supplier relations (50%)
- Relations with customers and civil society, product responsibility (50%)

#### Final score of 100: equally-weighted average of the E, S, G and External Stakeholders pillars

For the purposes of implementing the SRI strategy applied to Lazard Small Caps Euro SRI, the analysts-managers are responsible for maintaining an ESG rating above the average score for the 80% highest-rated companies in the fund's SRI universe (score improvement approach, based on the AMF classification).

#### **Summary:**

The portfolio construction process for the Lazard Small Caps Euro SRI fund can be summarized as follows:



## Lazard Dividend LowVol SRI

#### SRI investment universe:

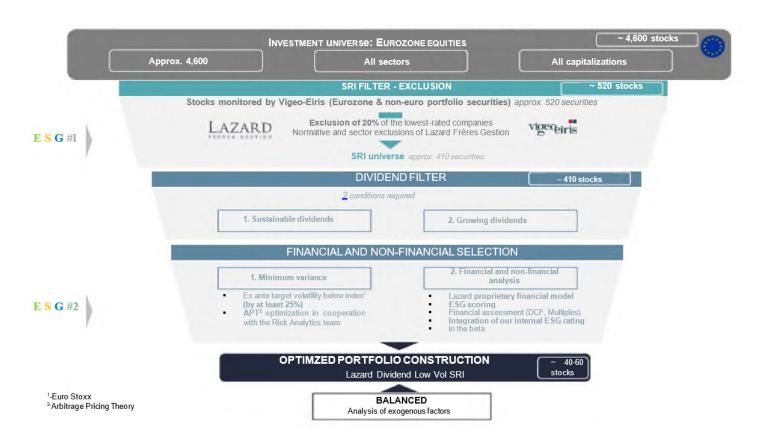
Our non-financial screening is applied to all eurozone equities rated by Vigeo-Eiris<sup>1</sup>.

Each company is given a rating on an absolute scale ranging from 0 to 100 (applicable to all sectors), using the scores and weightings for the 3 Environment, Social and Governance pillars defined by Vigeo-Eiris.

Based on this score, and in accordance with SRI certification requirements, Lazard Frères Gestion excludes 20% of the lowest-rated companies to obtain the fund's SRI investment universe. Given the constraints imposed by the SRI certification in terms of exclusion and coverage of companies by ESG analysis (see section 4.3), 90% of the fund is required to consist of the 80% top-rated companies by Vigeo-Eiris, while the remaining 10% may be invested in companies not covered by Vigeo-Eiris.

#### **Summary:**

The portfolio construction process for the Lazard Dividend LowVol SRI fund can be summarized as follows:



## Lazard Alpha Euro SRI

#### SRI investment universe:

Our non-financial screening is applied to all eurozone and European equities rated by Vigeo-Eiris.

Each company is given a rating on an absolute scale ranging from 0 to 100 (applicable to all sectors), using the scores and weightings for the criteria defined by Vigeo-Eiris.

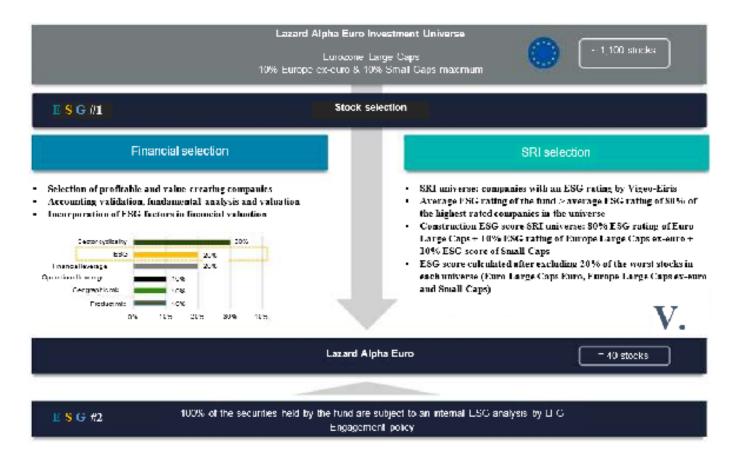
For the purposes of implementing the SRI strategy applied to Lazard Alpha Euro SRI, the analysts-managers are responsible for maintaining an ESG rating above the average score for the 80% highest-rated companies in the fund's SRI universe (score improvement approach, based on the AMF classification).

The SRI investment universe score can be broken down as follows: the ESG score of eurozone companies (80%), the ESG score of non-eurozone European companies (10%), and the ESG score of small cap companies (10%).

This score is calculated after excluding 20% of the lowest-rated stocks in each zone (Eurozone, non-eurozone Europe and small caps).

#### **Summary:**

The Lazard Alpha Euro SRI portfolio construction process can be summarized as follows:



## 4.2 How often is the ESG assessment of issuers reviewed?

Climate change criteria are included:

• In the Environment criterion component:

This component measures the level of commitments to the energy transition through the company's business model, and the effectiveness of measures implemented to reduce GHG emissions, change the energy mix and reduce energy consumption.

In the ESG risks included in our valuation models via cost of capital. They impact our price targets and thus directly influence
the portfolio manager's decision.

As ESG analysis is incorporated in our fundamental analysis, it directly impacts investment decisions.

## 4.3 How are portfolio issuers that are not subject to ESG analysis (excluding mutual funds) taken into account?

In accordance with SRI certification requirements, at least 90% of issuers present in funds covered by this transparency code are subject to ESG analysis.

Portfolio managers can initiate dialog with non-rated or low-rated companies to ask them to improve their ESG transparency.

## 4.4 Has the ESG assessment process and/or portfolio management process changed in the last twelve months?

A new ESG analysis process was defined in 2019 by the Equity team's ESG working group. This led to the implementation of the mentioned ESG analysis charts (Section 3.4.), which have covered a growing number of issuers since the beginning of 2020. The portfolio management teams set a goal of covering 100% of the Equity portfolios and the main companies followed by the end of 2020.

## 4.5 Is a portion of fund assets invested in solidarity-oriented organizations?

None of the funds covered by this transparency code invests a portion of its assets in solidarity-oriented organizations.

## 4.6 Do the funds carry out securities borrowing/lending transactions?

None of the funds covered by this transparency code carry out borrowing/lending transactions.

## 4.7 Do the funds use derivatives?

None of the funds covered by this transparency code uses derivatives, even if permitted in order to hedge against equity or forex risk.

## 4.8 Do the funds invest in other funds?

The funds covered by this transparency code may invest in money market funds for cash management purposes (max 10% of net assets) and in equity funds.

## 5. ESG CONTROLS

5.1 What are the internal and/or external control procedures in place to ensure that portfolios comply with the ESG rules established for fund management?



All funds managed by Lazard Frères Gestion are subject to pre-trade controls to ensure that they comply with the normative and sector exclusion rules set out in our ESG policy. The Risk team directly incorporates the list of excluded issuers in the investment constraints engine of our portfolio management software tool. Any attempt to buy a security on the exclusion list is thus automatically blocked.

Systematic controls are also carried out by portfolio management assistants in the event of activity in SRI portfolios:

- Buy-side activity: verification that the stock is included in the investment universe
- Sell-side activity: in the event a company's rating is downgraded due to a controversy or is updated



The Risk team ensures that more than 90% of each fund is covered by the Vigeo-Eiris or Gaïa Rating analysis. According to the methodology used by the fund, the Risk team also verifies that well above 20% of the lowest-rated companies on the index or in the investment universe are excluded from the fund, and that the fund's ESG score is well above that of the 80% highest-rated companies on the index or in the investment universe. The results of this control are regularly audited by the Compliance team.

In the event of an operational anomaly, the incident is placed on the agenda of the Institutional Strategies - Operational Risk Committee, which meets monthly and comprises the Head of Institutional Strategies, the COO, the RCCI, the Risk Manager and the operational staff in charge of Level 1 controls.

For open-ended mutual funds (SICAVs) covered by this transparency code:

- The Board of Directors meets at least once a year and verifies the SRI analysis methodology;
- At the end of each fiscal year, the statutory auditor checks that fund investments comply with the SRI
  criteria set out in the prospectus.

Lastly, SRI certification body EY verifies once a year that the principles and implementation of fund management comply with the SRI criteria set out in the specifications for certification.

# 6. IMPACT MEASUREMENT AND ESG REPORTING

## 6.1 How is the ESG quality of each fund assessed?

Each fund's ESG report specifies the overall ESG score given by Vigeo-Eiris or Gaïa Rating to the fund and the benchmark index/investment universe, the average score of each pillar (for the fund and the benchmark index/investment universe) and the distribution of scores on a scale of 0 to 100.

A quarterly Carbon Footprint Report provides another opportunity to assess the portfolio's environmental quality relative to its benchmark index.

## 6.2 What ESG impact indicators are used by the funds?

In line with the ESG criteria set out in section 3.3., Lazard Frères Gestion's SRI funds use the following impact indicators:

#### The Environment criterion is verified by:

Funds	Impact indicator	Unit of measurement	Source
Lazard Equity SRI	Carbon intensity	Tons of CO2eq/€m of revenue	Trucost
Norden SRI	Carbon intensity	Tons of CO2eq/€m of revenue	Trucost
Lazard Small Caps Euro SRI	Carbon intensity	Tons of CO2eq/€m of revenue	Trucost
Lazard Dividend LowVol SRI	Carbon intensity	Tons of CO2eq/€m of revenue	Trucost
Lazard Alpha Euro SRI	Carbon intensity	Tons of CO2eq/€m of revenue	Trucost

#### The Human resources criterion is verified by:

Funds	Impact indicator	Unit of measurement	Source
Lazard Equity SRI	Staff turnover	%	MSCI
Norden SRI	Companies with high-severity or critical controversies relating to human resources	%	Vigeo-Eiris
Lazard Small Caps Euro SRI	Existence of profit sharing schemes above and beyond legal requirements (incentives, PERCO, employee share ownership)	%	Gaïa Rating
Lazard Dividend LowVol SRI	Companies with high-severity or critical controversies relating to human resources	%	Vigeo-Eiris
Lazard Alpha Euro SRI	Companies that keep track of employee satisfaction	%	MSCI

#### The Human rights criterion is verified by:

Funds	Impact indicator	Unit of measurement	Source
Lazard Equity SRI	Companies having signed the United Nations Global Compact	%	Vigeo-Eiris
Norden SRI	Companies with high-severity or critical controversies relating to human resources	%	Vigeo-Eiris
Lazard Small Caps Euro SRI	Companies having signed the United Nations Global Compact	%	Gaïa Rating
Lazard Dividend LowVol SRI	Companies having signed the United Nations Global Compact	%	Vigeo-Eiris
Lazard Alpha Euro SRI	Companies having signed the United Nations Global Compact	%	Vigeo-Eiris

#### The Governance criterion is verified by:

Funds	Impact indicator	Unit of measurement	Source
Lazard Equity SRI	Independant directors	%	MSCI
Norden SRI	Independant directors	%	Company reports
Lazard Small Caps Euro SRI	Formalization of a business conduct and anti-corruption policy	%	Gaïa Rating
Lazard Dividend LowVol SRI	Independant directors	%	Company reports
Lazard Alpha Euro SRI	Independant directors	%	MSCI

These indicators are published quarterly in a special-purpose document entitled "ESG Report", available on the website.

## 6.3 How are investors informed about the SRI strategies implemented for their funds?

- The website, where they can find:
- -Transparency code for equity funds
- -Documents relating to ESG policies
- -Monthly fund reports

- -"Impact Indicator Report" documents
- -Carbon Footprint and Energy Transition reports
- -Annual report
- Social media

# 6.4 Does the Investment Manager publish the results of its voting policy and engagement policy?

- Lazard Frères Gestion publishes an engagement report containing the various initiatives undertaken and their results. This information is drawn from the various meetings conducted by the analyst-portfolio managers with the Management teams of portfolio companies.
- The voting policy, annual voting report, engagement policy and engagement report are published and available online at: <a href="http://www.lazardfreresgestion.fr/EN/ESG-ISR">http://www.lazardfreresgestion.fr/EN/ESG-ISR</a> 112.html

EQUITY FUND TRANSPARENCY CODE - LAZARD FRÈRES GESTION

