

Integration of ESG factors in the financial valuation of the company

At Lazard Frères Gestion, we believe that companies must consider environmental, social and governance (ESG) factors to ensure their economic and financial long term performance.

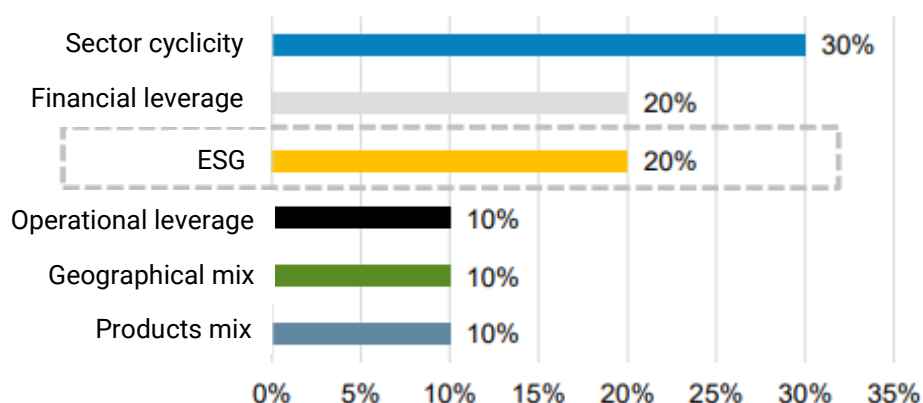
Long term performance of investments is more reliable if they concern companies that consider the social and the economic environment in which they operate.

Therefore, Lazard Frères Gestion has decided to measure more precisely the ESG criteria integration degree of companies and to increase the sensitivity of its valuation models to these now crucial parameters. Used to determine the cost of equity, the beta is adjusted and combined with the cost of debt to calculate the discount rate for the company's future cash flows (DCF).

The beta measures all the company's risks in a synthetic way. It is calculated internally, using a proprietary methodology that estimates these risks at a specific time and not in history.

With the ambition to better integrate ESG criteria into our management, starting in January 2020, the weight of the beta components has been increased to 20%. Within this ESG set, each of the components has a specific rating and Governance remains a central dimension.

Our methodology now weights the factors as follows:



Taking ESG criteria into account therefore has a direct impact on our valuations.