

Global Governance Principles

Lazard Asset Management

Lazard, Inc. (Lazard) is a global financial advisory firm and investment manager, with a long established history. Lazard provides trusted financial advice and investment solutions through our two specialised divisions: Lazard Asset Management LLC (LAM) and Lazard Financial Advisory. LAM is an active asset manager with a global presence. Our diverse client base includes corporations, public funds, sovereign entities, endowments and foundations, labour funds, financial intermediaries, and private wealth clients.

LAM is a fiduciary that aims to manage client portfolios in a way that seeks to deliver strong investment performance and maximises long-term shareholder value. Among other things, we believe this entails the assessment of value creation for multiple stakeholders—employees, customers, suppliers, communities, and the environment. Accordingly, consistent with our overall goal of enhancing shareholder returns and understanding that every investment situation is unique, LAM has adopted the following broad governance principles. We will consider these principles when engaging with companies and voting proxies:

Board Composition and Effectiveness

The composition and effectiveness of a board are critical to ensuring robust, ethical governance and long-term shareholder value.

- **Board Composition** – Boards should encompass diverse skills, experiences, and characteristics to foster cognitive diversity, enhance decision-making, and avoid groupthink. Regular reviews and disclosures, including a skills matrix, are encouraged to ensure alignment with the company's strategy.
- **Board Independence** – A majority of directors should be independent to effectively challenge and oversee management. Independence is defined by market-specific governance standards, often requiring key board committees to be composed solely of independent directors.
- **Board Accountability** – Directors should engage regularly with shareholders, with accountability reinforced through regular elections, ideally annually.
- **Corporate Culture and Ethics** – Boards should instill integrity and high standards of ethics, recognising that companies with a healthy corporate culture are more likely to achieve long-term success.

Compensation

Effective compensation policies are designed to align executive pay with long-term shareholder value, and vary significantly across industries and regions. These policies aim to incentivise performance, ensure transparency, and maintain fairness in rewarding executives and directors.

- **Structure** – Compensation should balance fixed and variable pay, aligning with industry practices and promoting long-term shareholder value. Plans should incorporate retention mechanisms for high-performing executives and avoid excessive dilution or costs to shareholders. Non-executive directors are typically compensated through cash or equity retainers to maintain independence.
- **Alignment** – Executive compensation must be linked to performance metrics that align with the company's strategy and shareholder experience. This includes equity ownership to ensure executives' interests are aligned with those of shareholders. Performance targets should be rigorous but achievable, fostering a culture of accountability and rewarding long-term value creation.
- **Responsiveness & Disclosure** – Transparency in compensation plans is essential, with comprehensive disclosure of decision-making processes, performance metrics, and outcomes to enable shareholder evaluation. Regular reviews and shareholder engagement are crucial for adapting compensation structures to evolving business environments and stakeholder expectations. Boards should incorporate claw back provisions to address discrepancies related to misconduct or inaccurate financial reporting.

Audit Oversight and Disclosure

Effective audit oversight and transparent financial reporting are crucial for safeguarding shareholder interests and ensuring the integrity of financial statements.

- **Audit Oversight** – Independent audit committees should oversee internal controls and risk management and ensure auditors are free from conflicts of interest. Auditor rotation is recommended for enhancing independence and audit quality, but its implementation varies across countries due to differing regulatory environments.
- **Transparency & Financial Reporting** – Companies should provide comprehensive and transparent disclosures that effectively integrate material risks into their business strategies. Robust disclosures allow investors to assess long-term operational risks and strategic alignment, fostering trust in governance practices. Companies are encouraged to align their reporting with international standards, such as the IFRS and ISSB frameworks, to enhance the quality and comparability of disclosures.

Shareholder Rights

Shareholder rights are a fundamental aspect of corporate governance, enabling shareholders to participate actively in decision-making processes that impact long-term economic performance and governance standards.

- **Proportional Voting Rights** – Shareholders should have voting rights that reflect their economic ownership, adhering to the “one share, one vote” principle. Disproportionate voting rights are generally discouraged, as they concentrate power among a few shareholders and may disadvantage minority shareholders. The introduction of unequal voting structures should be time-limited and transparent, ideally with sunset provisions to eventually align voting power with economic interests.
- **Anti-takeover Provisions** – Shareholder rights plans, commonly known as poison pills, and often criticised for potentially entrenching management, should be closely examined by shareholders. Companies are advised to ensure transparency and obtain periodic shareholder approval of such measures to prevent limiting shareholder decision-making power.
- **Additional Shareholder Rights** – Shareholders possess additional rights such as the ability to call special meetings and influence key corporate decisions. These rights are vital for maintaining transparency and ensuring that management acts in the best interests of shareholders. Companies are expected to facilitate these rights through clear communication and robust governance practices.

Capital Management

One of the key responsibilities of a board is to allocate capital appropriately to grow the company's business and create value for both its shareholders and other stakeholders.

- **Share Issuance and Buybacks** – Companies should respect existing shareholders' rights to approve share issuances to prevent ownership dilution without prior consent. Share issuances should be limited to what is necessary for business operations and strategic initiatives, adhering to preemptive rights where applicable. Buybacks should ideally lead to share cancellations, to prevent reissuance without shareholder authority.
- **Corporate Transactions** – Corporate transactions such as mergers and acquisitions should maximise shareholder value and be subject to shareholder approval when significant. Transparency and equitable treatment of all shareholders are essential, with disclosures regarding any financial benefits to a board or executives from proposed transactions.
- **Related-Party Transactions** – Related-party transactions should be conducted on market terms and clearly benefit all shareholders. Boards are expected to disclose comprehensive policies and procedures for monitoring, approving, and disclosing related-party transactions. This includes providing detailed information about the transaction's materiality, the parties involved, their affiliations, the business rationale, and the terms of the transaction.

Board Oversight of Natural and Human Capital

The integration of human and natural capital risks and opportunities into business strategies is essential for maximising long-term shareholder value and enhancing financial performance. It aids the identification, assessment, and management of material sustainability-related risks and opportunities.

- **Governance and Oversight** – Companies are encouraged to identify, assess, and manage significant and material natural and human capital risks and opportunities, such as workforce strategy, resource dependency, and climate-related issues. Boards are recommended to establish robust governance frameworks that promote accountability and effective oversight.
- **Shareholder Proposals** – In evaluating shareholder proposals on natural and human capital, we will support those that address material issues for enhancing long-term shareholder value, drive improvement in areas with insufficient progress, increase transparency for investors, respect management's expertise in implementing change, and promote responsible conduct, particularly when responses to controversies are inadequate.

Important Information

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