



Lazard Global
Sustainable
Equity
Sustainability
Focus Report
2023

LAZARD
ASSET MANAGEMENT

Investment Philosophy

Sustainability issues encompass some of the greatest challenges the world faces today. Addressing issues such as health, social inequality, climate change, pollution, and biodiversity loss requires immediate action. Consumers, businesses, governments, and investors are increasingly recognising this.

The Lazard Global Sustainable Equity strategy seeks to invest in attractively valued enterprises who not only contribute to a more sustainable world through the products and services they produce, but also the way in which they conduct their operations. As such, the portfolio aims to invest in companies with high or improving levels of financial productivity, whereby structural tailwinds from the move to a greener, healthier, safer, or fairer world are driving demand for their products and services. In addition, the portfolio requires negative externalities resulting from business operations to be limited.

By investing in companies that advance sustainability and identifying where sustainability drives returns, we support the move towards a more sustainable world for future generations, whilst also delivering long-term investment returns.



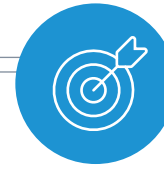
Proprietary Sustainability Research

- A proprietary approach to ESG and sustainability research, led by analysts and sector specialists
- Active security selection with a dynamic and sophisticated research agenda
- The ability to combine skillsets beyond traditional approaches to explore new ideas and reach better conclusions



Global Reach, Local Depth

- Global perspective on complex relationships between business, industry, society, and the environment
- Combination of global reach with nuanced and deep understanding of local markets
- Research capabilities all over the world, with hubs in New York and London



Targeted Interactions and Stewardship

- Connect directly with those influencing business and industry in real time
- Prioritise meeting with management teams and companies all over the world
- Engagement and voting led by analysts/portfolio managers, with findings from stewardship activities incorporated back into investment decision-making

Investment Framework

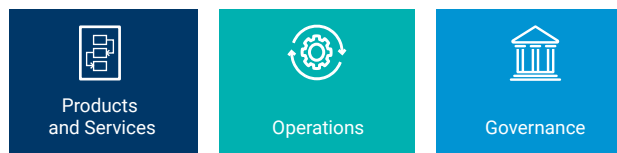
We take a diversified approach to sustainability. In our view, sustainable companies are those that support a greener, healthier, safer, and fairer world. To be considered for the strategy, we ensure the products and/or services offered by the companies we invest in are aligned with a sustainable future and that sustainability drivers contribute to high or improving financial productivity.

Sustainability drivers can link to a variety of fundamental inputs including:

- Increased total addressable market
- Scope for market share gains
- Opportunity for pricing power and increasing margins
- Reinforcement of existing competitive advantages
- Creation of attractive reinvestment opportunities

Sustainability Scorecards

Sustainability Scorecards are our proprietary framework for holistically assessing and quantifying the sustainability profile of corporates. Scorecards enable us to assess how a company interacts with all stakeholders, including its employees, customers, supply chain, community, and the environment. Scorecards are a core element of the strategy, with each company always assessed through the framework. The Scorecards focus on three components of a firm's business:



Within these three elements, Lazard's dynamic Materiality Mapping process helps analysts to contextualise idiosyncratic factors across global sectors and home in on material issues when undertaking scorecard research. Companies are assigned a score from -5 to +5 across each sustainability factor within the three components to produce an overall score for each. We set strict minimum thresholds that a company must meet to be eligible for investment based on the scores.

Importantly, given the changing nature of societal norms and stakeholder concerns, these assessments are re-evaluated on a regular basis. Upgrades and downgrades are not only contingent on incremental changes to the ambition, execution, accountability, and relevance of a company's sustainability strategy, but also broader policies and stakeholder engagement to ensure responsible operations.

“

Our fundamental research process keeps us focused on the level and trajectory of financial productivity and the structural shift towards a more sustainable world.

”



Louis Florentin-Lee
Managing Director,
Portfolio Manager/Analyst



Barnaby Wilson, CFA
Managing Director,
Portfolio Manager/Analyst

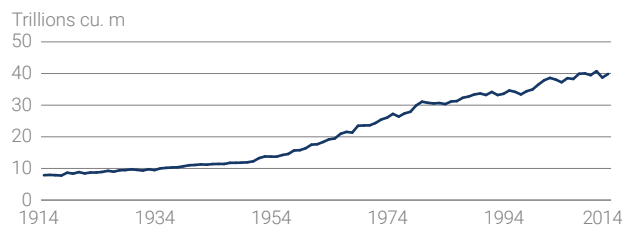


Investment Case Studies

Greener/Healthier

Water stress is a major global environmental challenge. Over time, the issue is being exacerbated by a combination of climate change, demographics, and economic development, all of which have driven a fivefold increase in global freshwater use over the last century. Research estimates there could be a 40% shortfall in freshwater supply by 2030 without action.¹ Consequently there is a critical need for greater water resource management and investment in water infrastructure.

Global Freshwater Use (1914–2014)



As at 31 December 2023

Source: Global International Geosphere-Biosphere Programme (IGB)

Water Infrastructure Innovation

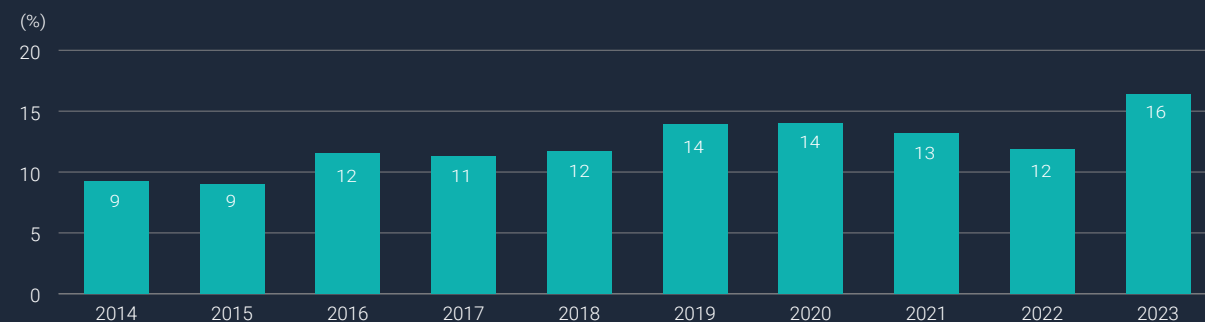
Watts Water

Watts Water contributes to both a greener and healthier world through three sustainable product categories:

- Safety and Regulation, e.g. filtration systems that remove contaminants, or detection devices for pressure build-up to reduce the risk of explosion.
- Energy Efficiency, e.g. high efficiency boilers that help reduce energy consumption in heating.
- Water Conservation, e.g. pressure-reduction valves that limit water flow. Over the years, Watts Water estimates that these valves saved their customers 19bn gallons of water globally.

Strengthening regulation and changing consumer expectations provide strong structural tailwinds for the business as governments and businesses look to address the issues of water scarcity and building energy efficiency. We believe Watts is best positioned to seize new opportunities and continue compounding its cash flow generation via 1) pricing power, 2) superior, longer-lasting products, and 3) a large existing installed base. This, combined with a history of good capital discipline and product innovation, should enable them to achieve consistently high levels of financial productivity over time. From an operational perspective, Watts has made solid progress on executing an ambitious sustainability strategy. Identifying that talent retention and cognitive diversity is key to future product innovation, over the last year Watts launched leadership and inclusivity training for all employees. The company also increased the number of suppliers on whom sustainability audits are conducted to manage supply chain emissions.

Watts Water—Cash Flow Return on Investment (2014–2023)



As of 31 December 2023

Forecasted or estimated results do not represent a promise or guarantee of future results and are subject to change.

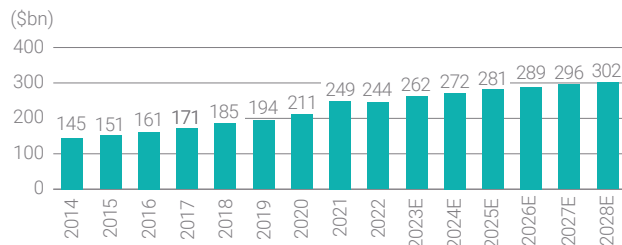
Source: Global International Geosphere-Biosphere Programme (IGB)

Investment Case Studies

Healthier

Changing demographics and socioeconomic factors are putting ever-increasing pressure on healthcare systems and driving growing demand for innovative medicines. To meet these demands, pharmaceutical and biotech companies must improve the efficiency of drug development, particularly clinical trials, which are complex, time-consuming, and expensive to run. The application of advanced data solutions can deliver significant time and cost savings during the drug discovery and development process. Studies suggest that these savings could be in the range of 25%–50%.²

Total Global Pharmaceutical R&D Spending (2014–2028)



As at 31 December 2023
 Forecasted or estimated results do not represent a promise or guarantee of future results and are subject to change.
 Source: EvaluatePharma

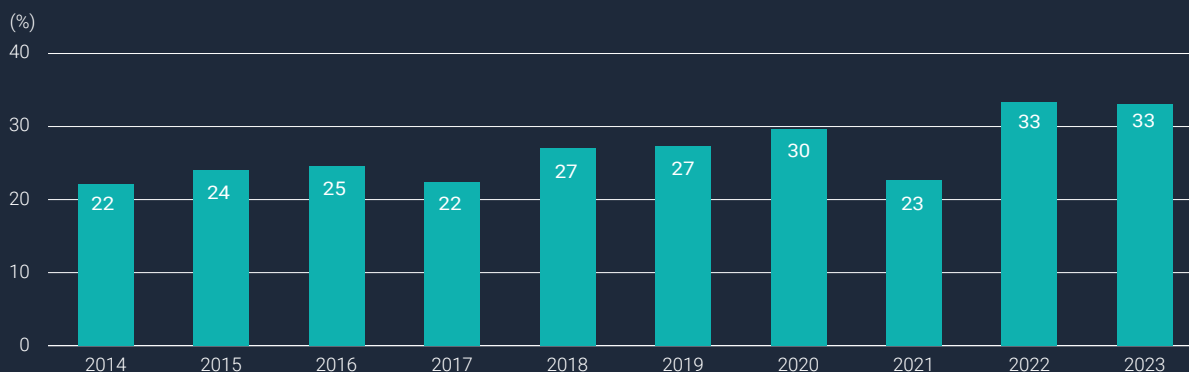
Advanced Healthcare Technologies

IQVIA

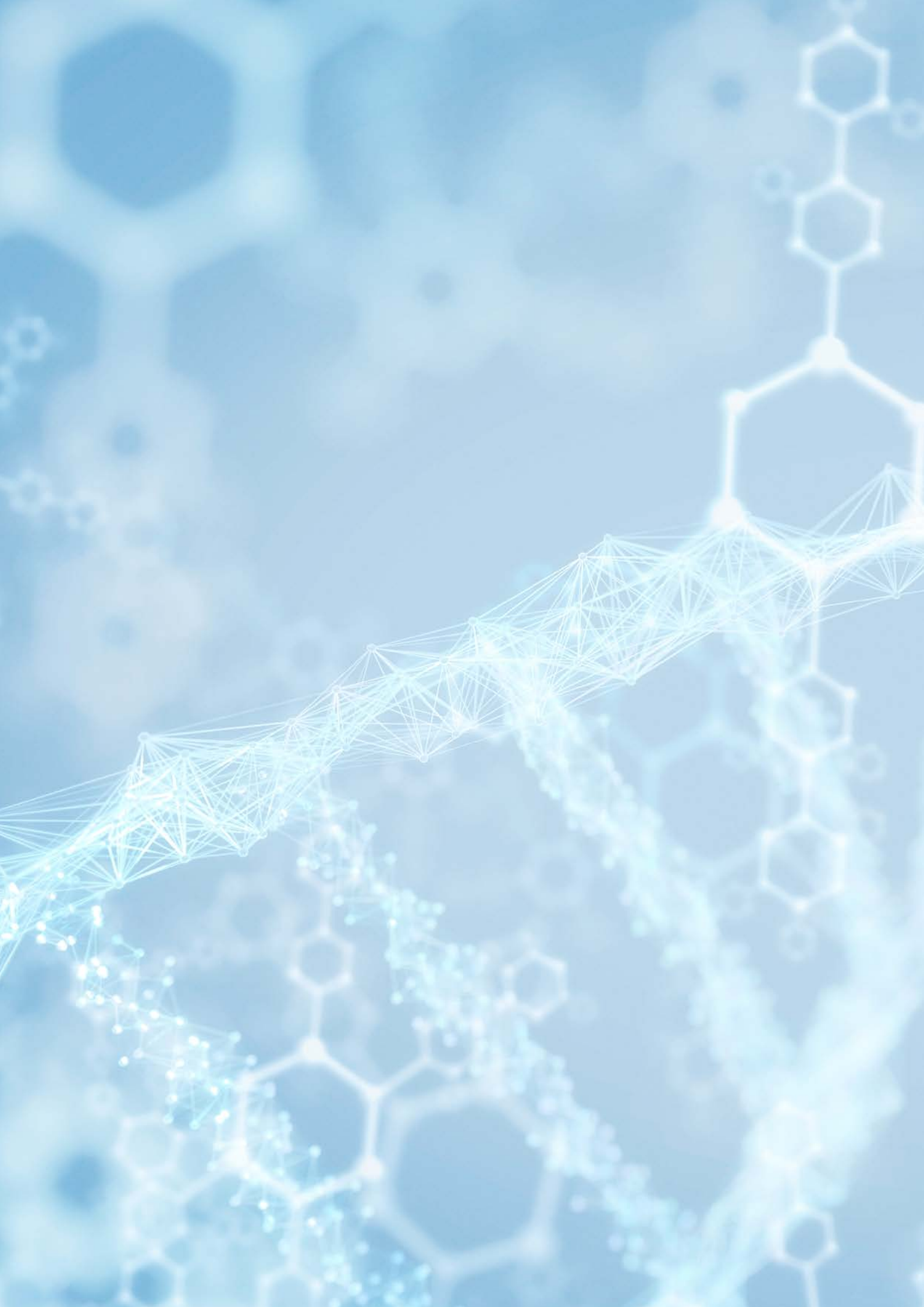
IQVIA is a global healthcare provider of clinical research services, advanced data analytics, and technology solutions to the life sciences industry. The company leverages its data bank of healthcare information to generate insights and address one of the largest bottlenecks in drug development: finding and enrolling patients in increasingly complex clinical trials in a more timely and cost-effective manner.

Ageing populations, increasing trial complexity, and acceleration of drug discovery due to AI creates solid structural tailwinds for efficient clinical trial services. With their extensive patient database, leading technological capabilities, and reputation for efficiency, we believe IQVIA is well placed to maintain their high levels of financial productivity. This is supported by strong reinvestment opportunities within technology and patient searches, which should help reinforce their market-leading position. From an operational perspective, we are encouraged by the continued focus IQVIA places on material issues, such as enhancing their cybersecurity and diversity. Diversity has been central to IQVIA, both within their organisation and the trials they undertake, which they noted during a recent engagement has been key in helping them win new business. Positively, IQVIA had their SBTi emissions reduction targets approved during the year.

IQVIA—Cash Flow Return on Investment (2014–2023)



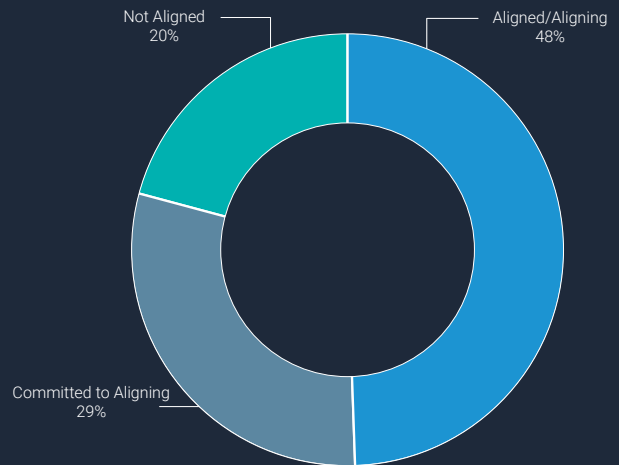
As of 31 December 2023
 Source: FactSet



Sustainability Profile

Net Zero Review

As part of our net zero research, we assess our portfolio using a proprietary Climate Alignment Assessment (CAA) model. The model classifies companies into different alignment categories ranging from “Not Aligned” to “Aligned/ Net Zero” based on six underlying measures of ambition, targets, emissions performance, disclosure, decarbonisation strategy, and capital allocation. Here we present the CAA output for the portfolio:

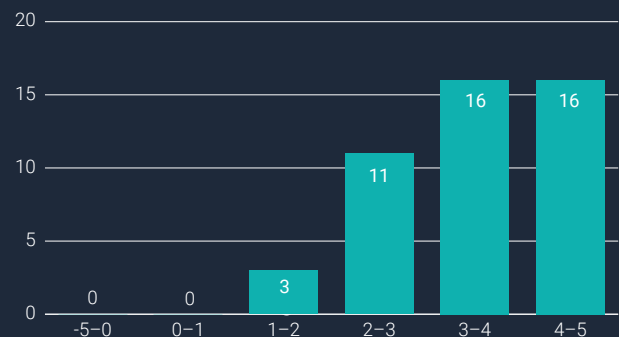


As of 31 December 2023
Source: Lazard

Sustainability Scorecards

Sustainability Scorecards are our proprietary framework for holistically assessing and quantifying the sustainability profile of corporates. Scorecards assess how a company interacts with all stakeholders, including its employees, customers, supply chain, community, and the environment. Here we show the distribution of scores in the portfolio:

Number of Companies by Overall Score



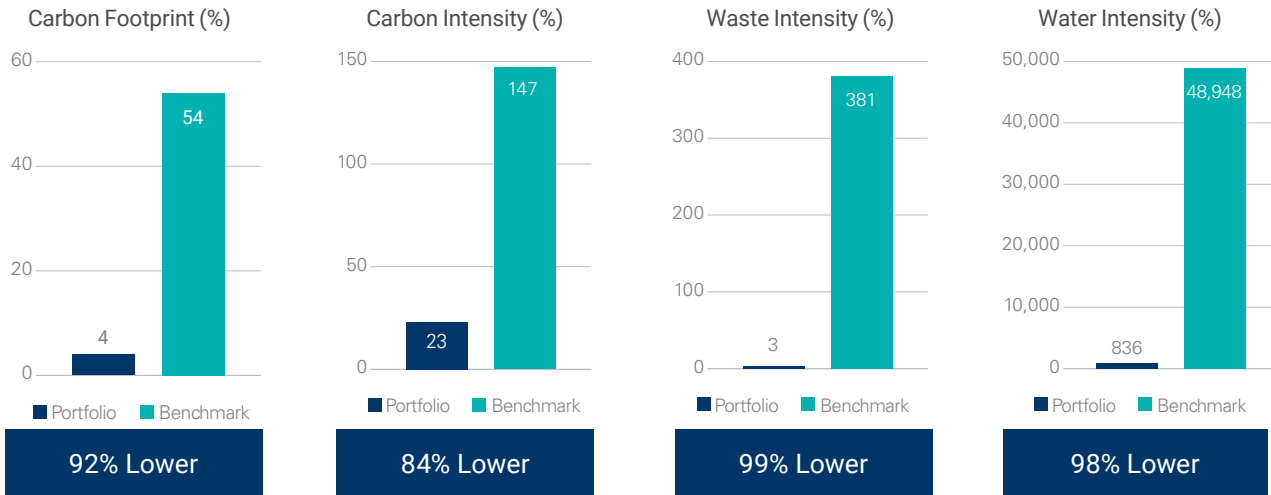
As of 31 December 2023
Source: Lazard



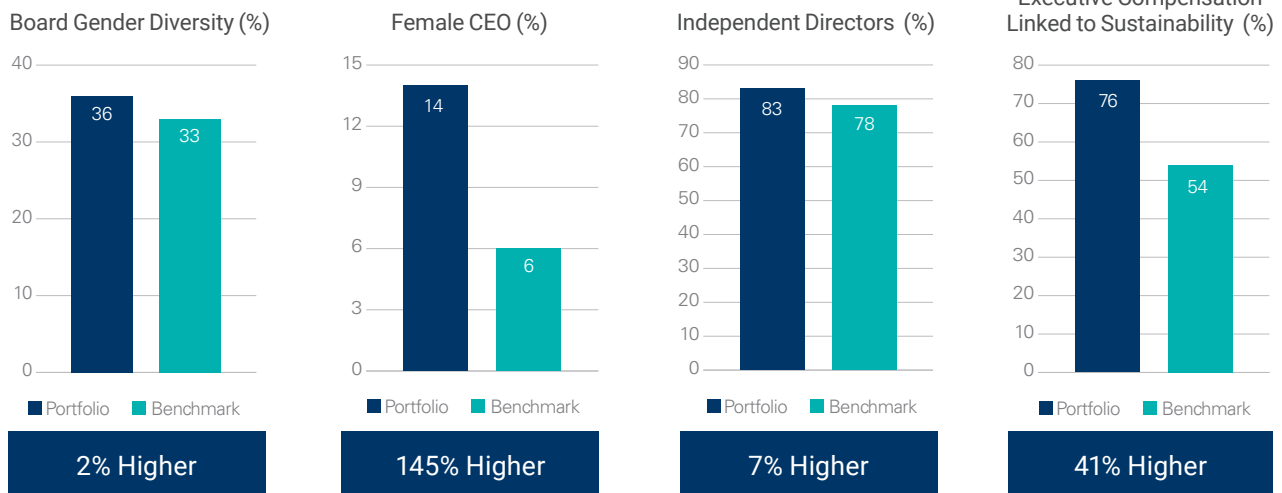
Incorporating climate-related risks and opportunities is an important component of our investment process and stewardship activities through engagements and proxy voting. The strategy's typical underweight exposure to high-emitting sectors such as utilities, energy, and materials, as well as the exclusion of companies involved in the

generation, extraction, and/or refining of fossil fuels, lead to a portfolio with a significantly lower environmental footprint than that of the reference benchmark. Over the period, we saw improvements in climate alignment and targets set by companies in the portfolio.

Environmental Metrics



Social and Governance Metrics



Climate Disclosure and Targets



As at 31 December 2023
 Showing relative to the Benchmark: MSCI ACWI Index
 Source: Lazard, Bloomberg ESG, Sustainalytics

Active Ownership

Active ownership and engagement are integral parts of the strategy’s investment process. Investment professionals, both within the team and sector specialists within the wider investment platform, conduct meetings with company management as a regular part of the research process and to better understand how companies are deploying capital and conducting business operations. Engagement is also supported by the firm’s Sustainable Investment and ESG team and Global Stewardship Committee. As part of our ongoing monitoring and research, we develop company-specific purposeful engagement objectives where we identify room for improvement at the companies that we invest in.

In 2023, the Global Sustainable Equity team continued to implement a strategy-specific active ownership approach, identifying engagement opportunities through processes such as our proprietary Sustainability Scorecards and Climate Alignment Assessment, as well as when we have voted against management on key proposals or when a controversy is flagged.

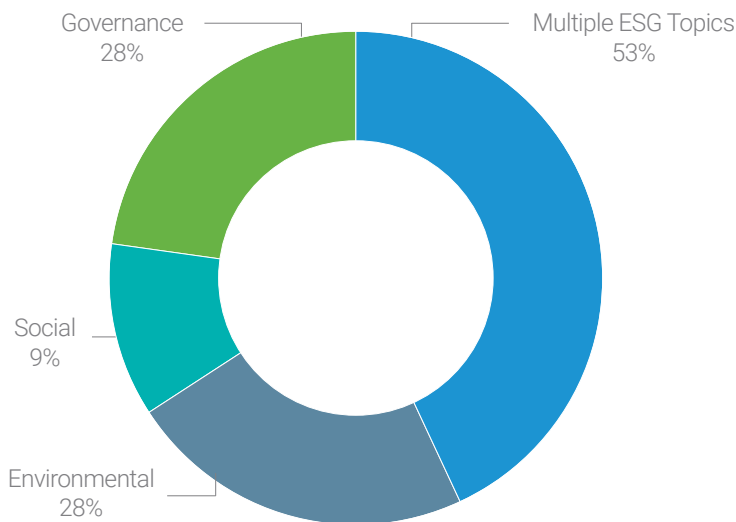
Over the course of the year, our key engagement topics with companies included board governance and independence, understanding corporate DE&I strategies, and progress on net zero targets. We believe our engagements help us have a more informed view of financially material natural capital, human capital, and governance-related risks and opportunities within the portfolio.

How We Define Engagements

Meetings	<p>Company Meetings</p> <p>Objective: As an active manager, we seek regular dialogue with company management as an integral part of our fundamental research process. This allows us to understand company strategy, industry trends, capital allocation, and management quality.</p>
Monitoring	<p>ESG Due Diligence</p> <p>Objective: Meetings with company management that allow us to gain a better understanding of a company’s approach to managing natural and human capital-related risks and opportunities.</p>
Engagement	<p>Engagements with a Tangible Outcome</p> <p>Objective:</p> <ol style="list-style-type: none"> 1. Investment outcome where there can be a change to our investment view, including valuation, or voting decision 2. Observable change/improvement in company or issuer practices that support real-world outcomes

Engagement Summary 2023

ESG Meetings by Topic



36

ESG Due Diligence Meetings (#)

17

Engagements with a Tangible Outcome (#)

All data of 31 December 2023
Source: Lazard

Engaging on Antimicrobial Resistance

Zoetis



Objective

Zoetis is a leading global animal health company. The engagement discussion focused on the emerging risk of antimicrobial resistance (AMR) to both society and Zoetis' business model, as well as the role they play in helping to mitigate this risk. We anticipated this topic to receive increased scrutiny during both proxy season and more generally going forward, so wanted to ensure we best understood 1) Zoetis' role in enabling/preventing AMR in society and 2) the potential risks/opportunities AMR presents to their product offering.



Details of Engagement

It was clear that Zoetis is taking the issue of AMR seriously: working with regulators on the topic, focusing their treatment portfolio on injectables (meaning specific sick animals are given antibiotics rather than the whole herd), and strategically pivoting their business towards prevention (vaccines) over the long term. Vaccines are not only higher margin than antibiotics (which supports future financial productivity) but will also help mitigate the growing concern of AMR by reducing antibiotic use. Injectable antibiotics are also packaged in measured doses, helping to eliminate over-use for animal growth if administered correctly.



Outcome

Zoetis' product shift away from treatment towards prevention not only mitigates the business impact on society when it comes to AMR, but also supports margin expansion going forward. The engagement reinforced conviction in both our investment thesis of high and sustained financial productivity as well as Zoetis' contribution to creating a healthier world.

Engaging on Corporate Governance Concerns

Hexagon



Objective

We proactively engaged with company management to address concerns regarding transparency, governance, and conflicts of interest, and hence determine if a change in our investment thesis was needed.



Details of Engagement

We engaged directly with the company on four occasions and participated in industry conferences and group investor calls. Across our meetings with the Investor Relations, CEO, Chairman, and Chair of the Nominations Committee, we discussed potential conflicts of interest between the company and the Chairman's investment business, concerns about the lack of disclosure, including the rationale for mergers and acquisitions, and their alignment with the company's strategy. We also discussed board independence and the replacement of three Non-Executive Directors which stepped down before the Annual General Meeting (AGM).



Outcome

Following the engagements we made specific requests for change, such as adding two independent board members and improving ESG disclosures, which have since been implemented by management. Hexagon's responsiveness to our corporate governance concerns have given us confidence in both management and our initial investment thesis.

Proxy Voting

Our proxy voting approach is based on our [Global Governance Principles](#) which outline our expectations of company management. They are founded on the belief that long-term shareholder value is enhanced through a more comprehensive assessment of stakeholder management. We believe that we must vote in a manner:

1. That will maximise shareholder value as a long-term investor;
2. That is in the best interest of our clients; and
3. Where the votes casted are intended in good faith to accomplish those objectives.

We believe the effective management of material financial, governance, and reputational risks and opportunities is a key priority that should support better long-term financial returns. All votes are assessed against our Global Governance Principles and related voting policy, followed by a review and final vote decision from the relevant analysts. ESG-related shareholder proposals receive additional research support from domain specialists within the Sustainable Investment team.

Voting Summary

2023	Total	Percent
Total number of meetings	46	100%
Meetings voted	41	89%
Meetings voted with management	29	71%
Meetings with one or more votes against management	12	26%
Resolutions voted	554	79%

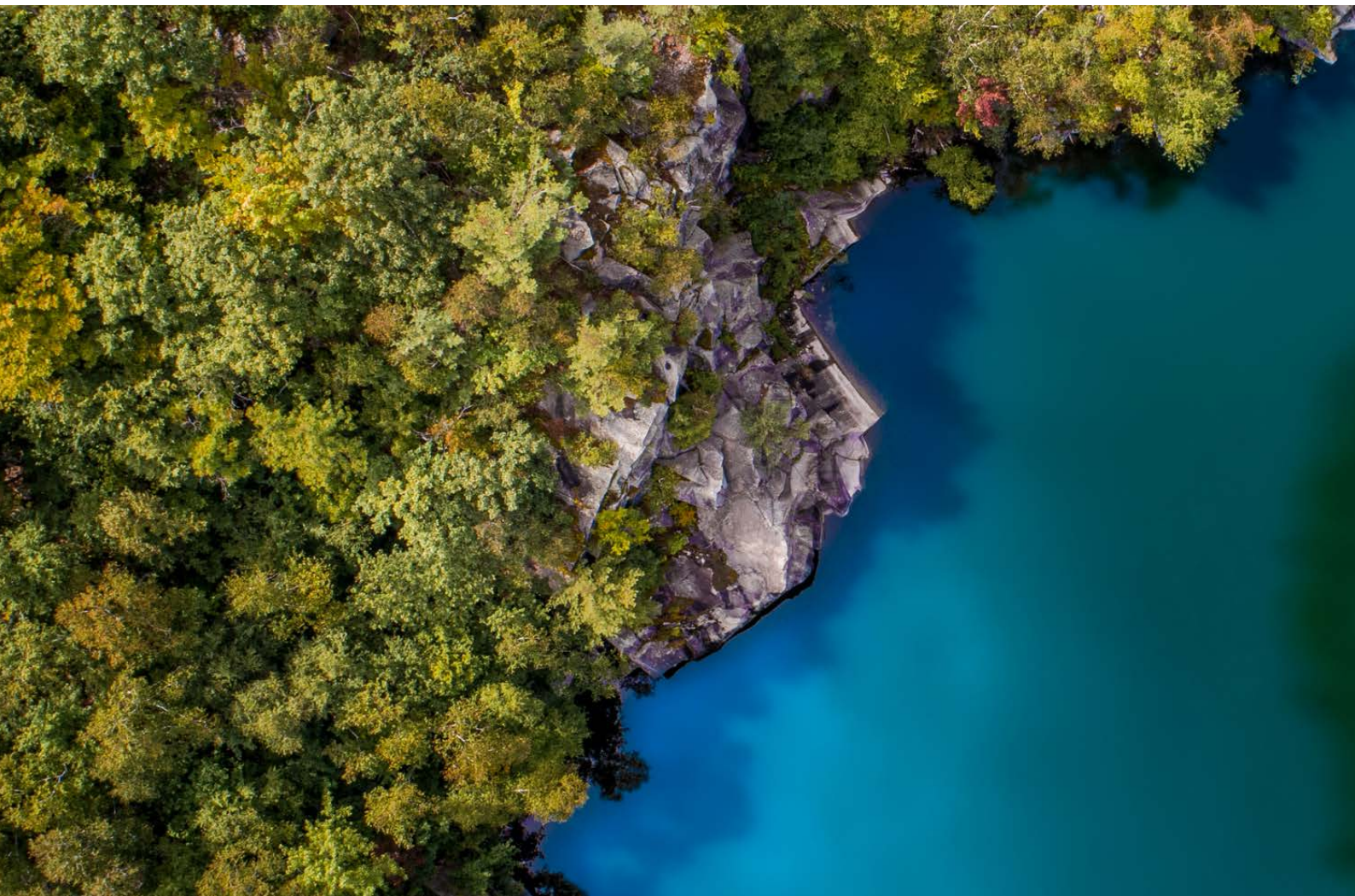
26%

Shareholder
Proposal Support

26%

Votes against
Management


All data of 31 December 2023
Source: Lazard




Significant Votes

As active managers, outcomes stemming from voting decisions and engagement are incorporated into our investment process, further enhancing long-term value for clients and beneficiaries. As part our commitment to


transparency around voting, we have created a framework to define the most significant votes and disclose the outcomes of such votes. The definition of what constitutes a significant vote is outlined below.



1. Votes against management – indicating where we have identified poor governance practices and we are using our vote to hold companies to account for higher governance standards.






2. Shareholder proposals – addressing human and natural capital considerations, as well as management-proposed Say on Climate votes.



3. Meetings marked as significant by LAM’s investment professionals – for example, companies which they have actively engaged on governance, or their analysis has identified a material issue such as a significant board change, controversy, or relevance to an investment thesis.

Significant Vote Examples in 2023

Company	Colgate-Palmolive Company 	Danaher Corporation 	Hexagon 
Proposal	Shareholder proposal: Adopt Share Retention Policy for Senior Executives	Shareholder proposal: Require Independent Board Chair	Management proposal: Election of Directors
Why It Is 'Significant'	We voted for this shareholder proposal as our view was that the more rigorous guidelines recommended by the proponent may better address concerns about creating a strong link between the interests of top executives and long-term shareholder value.	We supported this proposal as we believe the company would benefit from increased independence on its board.	We voted based on our view of an insufficient level of independence for certain directors on the Board, as well as a lack of overall independence of the Board. We voted for three directors due to no related concern for the individuals, while voting against three directors due to the questions around independence.
Outcome	Although the proposal did not pass, 29.7% of shareholders voted in favour of the proposal.	While the proposal did not pass, shareholders sent a strong message with 38.4% support.	The proposal passed.

Lazard Global Sustainable Equity Portfolio Management Team



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Latest Thinking

[Explore](#) the latest thinking from the Global Sustainable team



Discover more about Lazard's Global Sustainable Equity strategy on our [website here](#)

This content represents the views of the author(s), and its conclusions may vary from those held elsewhere within Lazard Asset Management. Lazard is committed to giving our investment professionals the autonomy to develop their own investment views, which are informed by a robust exchange of ideas throughout the firm.

Notes

- 1 Source: Global Commission on the Economics of Water
- 2 Source: BCG. Unlocking the potential of AI in Drug Discovery

Important Information

Published on 8 April 2024.

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