



Sustainable Investment

2022 Year in Review

LAZARD
ASSET MANAGEMENT



Contents

Who we are

- 5 A message from our CEO
- 6 Our firm at a glance

Sustainability insights

- 10 Three defining sustainability trends of 2022
- 17 Materiality mapping: A dynamic journey
- 26 Strategy highlights
- 28 Sustainability-focused strategy highlights

Stewardship

- 37 Our approach to stewardship
- 38 Evolving our strategy
- 43 Our principles in practice

Wider influence

- 51 Industry involvement
- 56 Thought leadership

The road ahead

- 59 A message from our Co-Heads of Sustainable Investment and ESG

Who We Are

A Message from Our CEO



Evan Russo
Chief Executive Officer
Lazard Asset Management LLC

Lazard Asset Management has witnessed repeated structural changes to global markets over the course of the past several decades. But the pace of change has accelerated rapidly in the past year alone. Geopolitical risks intensified, with the first Western war that most of us have seen in our lifetimes; energy prices and inflation skyrocketed; and the effects of a global pandemic continued to weigh heavily on companies' bottom lines

in virtually all sectors and regions. These are just some of the factors that caused more volatility in 2022 than we had seen since the global financial crisis in 2008.

Our focus on sustainable investing reflects the view that we held long before this language became a trend. We believe that returns cannot be sustained over the long term if the companies in which we invest are operating without awareness of all material risks they face.

This report details the ways in which our practices support our approach to analyzing material natural capital, human capital, and governance issues as they relate to investment outcomes—including case studies that demonstrate the tangible results of our efforts. Beyond detailing risks, this report also points to the potential alpha opportunities that sustainability tailwinds are creating on a global scale, including the wide range of climate mitigation and adaptation companies emerging around the energy transition.

We also explain how we integrate these considerations into our investment processes across relevant strategies and products, rather than treating them as a third-party checkbox item; how our definition of stewardship is adapting, as we rethink what it means to be active investors in an increasingly complex world; how we are using our voting rights to ensure that businesses are working in the best interests of our clients; and the work we put in to measuring whether our stated goals measure up to reality.

This report highlights our key sustainability insights and initiatives in 2022 as well as how we are preparing for the challenges and opportunities that lie ahead.

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We believe returns cannot be sustained over the long term if companies operate in a way that ignores financially material human and natural capital considerations impacting their business.

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Our Firm at a Glance

For decades, Lazard Asset Management has been managing investment portfolios and providing investment advice to institutional and individual investors around the world. On-the-ground fundamental and quantitative research is the foundation of our investment approach. Located in the United States, Europe, Asia, and the Middle East, our investment professionals collaborate on detailed analyses, integrating knowledge across regions, sectors, and asset classes to arrive at unique insights. We pride

ourselves on this blend of local expertise and global reach, and we empower our investment teams to make independent investment decisions. We support them with global research capabilities and strong operational infrastructure to make the best decisions for clients and integrating ESG into our processes across relevant products and strategies is a critical part of this. This model allows our teams to focus on what we do best: investing clients' capital wisely and listening to their individual needs.

\$ 2.8 bn

Operating Revenue

\$ 216 bn

Assets Under Management

~ 3,400

Employees

175

Years Serving Clients



43

Cities

26

Countries

96

Nationalities

50

Languages

Sustainability Insights

An aerial photograph of a river delta, showing a central river channel that branches out into a complex network of smaller channels and distributaries. The water in the channels is a deep blue, while the surrounding land is a mix of brown and tan, indicating different soil types or vegetation. The overall scene is a natural, intricate pattern of water and land.

Three Defining Sustainability Trends of 2022

1 The Evolving “Energy Trilemma”

The backdrop to the energy sector has shifted from a singular focus on the energy transition to a broader focus that also factors in the availability and affordability of energy, spurred by Russia’s invasion of Ukraine in 2022. Capital flowing into clean energy technology and renewable schemes globally have surged to record levels. The International Energy Agency forecasts that spending on clean energy reached a record high of around \$1.4 trillion in 2022—which surpasses the pre-pandemic peak by 20%.¹

Government programs are directly and indirectly fueling capital flows. It was a landmark year for energy policy in 2022 as the United States enacted the largest climate program in history under the Inflation Reduction Act. Under the legislation, approximately \$400 billion of subsidies and incentives for clean energy and other initiatives are to be disbursed over 10 years.

Other jurisdictions are accelerating their response in a bid to maintain competitiveness and improve energy security. Under the REPowerEU Plan, energy ministers have agreed to enact regulations designed to speed up the issuance of wind and solar permits—a factor that has so far been a bottleneck to growth—to reduce dependence on Russian oil and gas.

Our analysts are continuously looking at opportunities to invest in pure-play solution providers, as well as the incumbent energy companies—some of which have ambitious decarbonization targets. European energy majors’ capex plans could also meaningfully help to finance the development of key technologies for the energy transition by 2030 (Exhibit 1).

European oil majors, such as BP and Total, are investing heavily in renewables and other low-carbon technologies as part of their long-term strategy to diversify returns (Exhibit 2). BP expects to increase the proportion of its capital expenditure in transition growth businesses to more than 40% by 2025 and is aiming for around 50% by 2030.²

Our access and interaction with the management of companies provide us with multi-faceted insights that inform our views on the complexities of the energy transition. This supports our analysis of the financially material issues and our focus on alpha generation for clients.

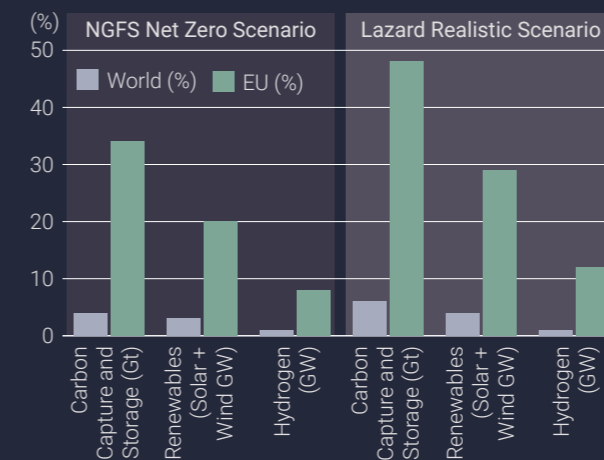
Clients also have a wide spectrum of perspectives on the appropriate exposure to fossil-fuel companies in their portfolios and are increasingly interested in how we use our voting rights and engagement with companies to reflect their views on climate policy and the energy transition. For an example of such an engagement, please refer to our BP case study in the Stewardship section of this report.

“Fundamental investors navigating the energy trilemma and a rapidly evolving energy policy backdrop must assess a complex mosaic of considerations to find companies in the energy value chain that can generate alpha for client portfolios. In our view, old, new, and transition energy ecosystems all provide investment opportunities.”



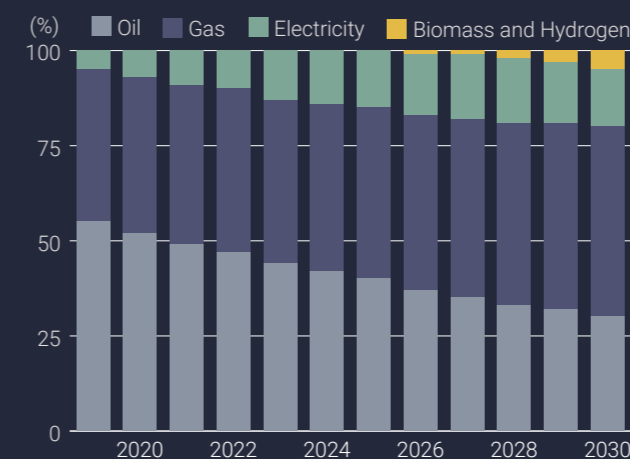
Steve Wreford, Portfolio Manager/Analyst, Lazard Global Thematic Equity

Exhibit 1: EU Energy Majors’ Contribution to the Energy Transition to 2030



As of 31 December 2022
 NGFS = Network for Greening the Financial System
 Source: Lazard, NGFS

Exhibit 2: An Energy Major’s Projected Business Mix to 2030



As of 31 December 2022
 Forecasted or estimated results do not represent a promise or guarantee of future results and are subject to change. For illustrative purposes only.
 Source: Lazard, Company Reports

“As BP looks to deploy capital into energy transition activities, it may well re-rate if it can identify opportunities with high rates of return. While renewables look more commoditized, BP’s expertise and balance sheet will be well suited to higher return activities which are clearly ‘part of the solution’ such as biofuels, hydrogen, and carbon capture.”



Neil Millar, Research Analyst, Energy Sector

“We recognize that the energy backdrop looks quite different for companies depending on the location of their assets and have a strong appreciation of country-specific constraints and incentives in emerging markets.”



Ben Wulfsohn, Research Analyst, Emerging Markets Utilities, Energy, and Healthcare Sectors

2 Assessing Corporate Net Zero Strategies

Companies and governments have committed to making meaningful advances towards net zero. Over 800 companies and 132 countries have pledged to nullify greenhouse gas emissions by 2050.³ The hard questions are, how can we help measure progress for our clients that are focused on decarbonization and are these measurements useful for understanding investment implications and real-world outcomes rather than simply providing an abstract measure of portfolio alignment?

In our view, while an emissions-reduction or net-zero target can be a first step for corporations, there are many additional metrics and data points that investors should consider, not least of which are related capital expenditures and the return on that investment. Resources such as Lazard Asset Management's proprietary [Climate Alignment Assessment tool](#) (CAA) can help unpack the key analytics that inform such an assessment.

Our proprietary CAA tool is designed to help us and our clients assess these challenges by diving into how portfolio assets are positioned today and over the long term, using a systematic and analytical approach. We can also apply the approach across global benchmarks (Exhibit 3). The results may be used to identify and prioritize engagement targets and to understand how

companies held in relevant portfolios are transitioning over time. While the methodology aligns our tool with industry guidance, we are also focused on meeting additional data challenges, unpacking nuances behind regional implications, and staying up to date in an improving disclosure environment.

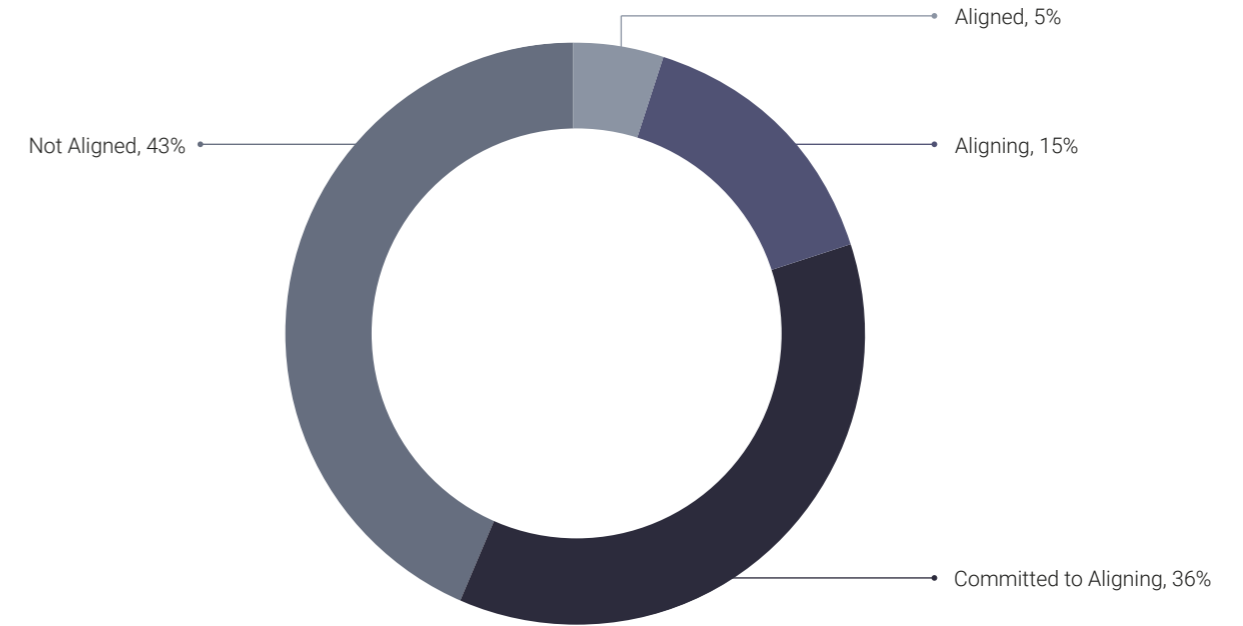
To classify companies against various alignment criteria, Lazard Asset Management's CAA model leverages data from CDP, Climate Action 100+ Net Zero Company Benchmark, Net Zero Tracker, Science Based Targets initiative, Bloomberg, and S&P Trucost.

Our proprietary CAA model follows guardrails set out by the Net Zero Investment Framework, which classifies companies across the following six alignment categories: ambition, targets, emissions performance, disclosure, decarbonization strategy, and capital allocation alignment (Exhibit 4).

As net-zero methodologies evolve and more company data becomes available, we expect the methodology to become more sophisticated to better assess the last two pillars of our CAA model—decarbonization strategy and capital allocation alignment.

For more about our methodology, read: [Our Approach to Net Zero Portfolios](#).

Exhibit 3: Climate Alignment Assessment of the MSCI All Country World Index



As of 31 December 2022
Climate Alignment Assessment of MSCI ACWI Index.
Source: Lazard, MSCI

“Tools such as our Climate Alignment Assessment model allow relevant investment professionals to understand the alignment of companies and prioritize engagement with the businesses where the climate strategy might impact financial productivity.”



Gregory Van Droogenbroeck, Director of ESG Data and Analytics

Exhibit 4: Climate Alignment Assessment Overview

Criteria	Description	Not Aligned	Committed to Aligning	Aligning	Aligned (Low Impact)	Aligned (High Impact)	Net Zero
		Transition Potential			Aligned		
Ambition	Long-term net-zero target		●			●	●
Targets	Short- or medium-term emissions targets			●	●	●	●
Emissions Performance	Current emissions vs. targets				●	●	●
Disclosure	Disclosure of Scope 1, 2, and 3 emissions			●	●	●	●
Decarbonization Strategy	Quantifiable business plan for decarbonization			●		●	●
Capital Allocation Alignment	Demonstration of capex alignment to decarbonization					●	●

For illustrative purposes only

3 Net Zero Investing in Emerging Markets: One Size Doesn't Fit All

Current one-size-fits-all approaches to net-zero investing fail to incorporate specific considerations for emerging markets including the financing gap, competition of capital between non-climate-related activities and activities for climate mitigation and adaptation, and the resulting difference in the pace of change compared to developed markets.

We believe all stakeholders should frame their work on climate change with an equity lens, including investors that have net zero in mind. The cost of capital for many emerging markets countries is already higher than for developed markets which can make investing in transition and adaptation activities more expensive in the places where it is most needed.

COP27—dubbed the emerging markets' climate conference given it was held in Egypt in 2022—presented a unique opportunity for emerging countries to shape the global climate agenda and secure financing for the energy transition. Climate change is a global problem, but an inclusive and nuanced regional approach to investment can help direct capital flows to the countries and regions that will have the most meaningful real-world impacts, many of which will be in emerging markets.

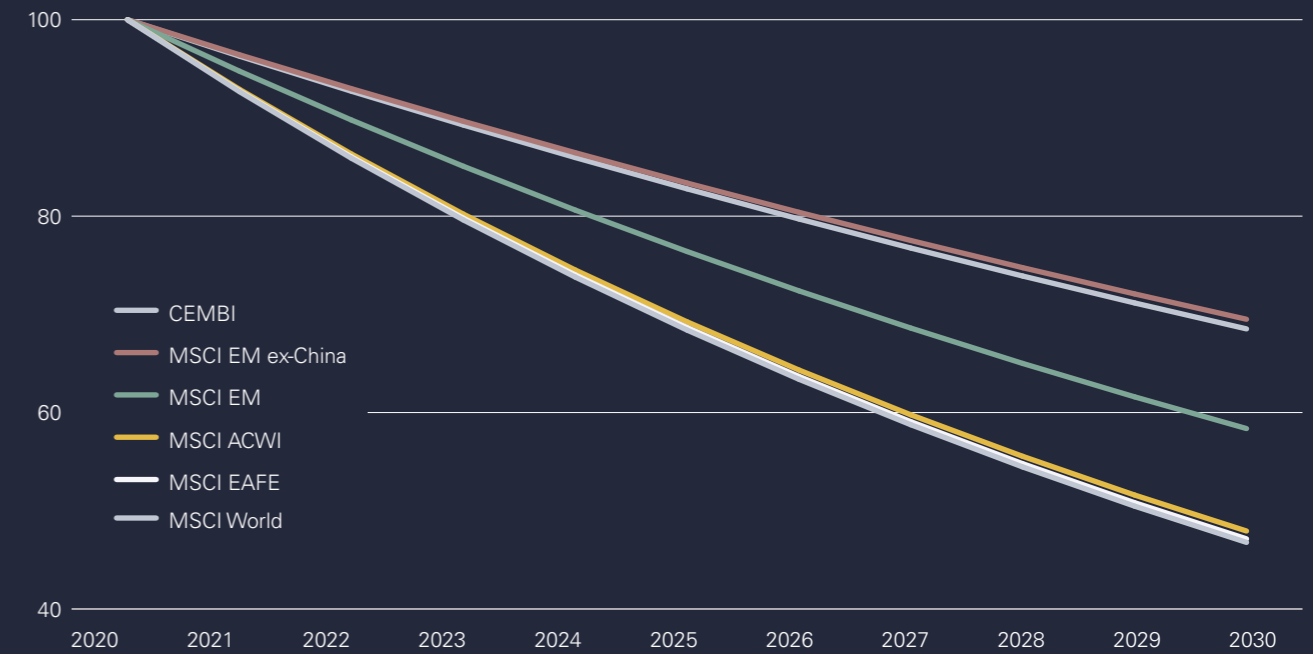
As a firm with a long history of investing in emerging markets, we have given a great deal of thought to these issues—across fixed income and equities—as set out in our paper: [The Challenges of Emerging Markets Net Zero Investing](#). Research suggests that emerging markets portfolios should have longer to decarbonize and that engagement expectations for corporates should be adjusted according to the region of domicile (Exhibit 5).

To better understand decarbonization efforts by emerging countries and offer opportunities for structured dialogue and engagement through our sovereign fixed income investments, Lazard Asset Management joined the Emerging Markets Investors Alliance. The alliance focuses on engaging with governments and companies in emerging markets to support good governance, promote sustainable development, and improve investment performance.

For more details on this sovereign engagement, please refer to the Stewardship section of this report.

Exhibit 5: Financial Benchmark Decarbonization Pathways

NGFS-Derived Emissions Pathway (Rebased to 100, 2020)



As of 27 September 2022

Shows the different decarbonization pathways for the MSCI regional benchmarks, highlighting a slower decarbonization rate for emerging markets indices.

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

Source: Lazard, JP Morgan, MSCI, NGFS

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Without a nuanced approach to considering the energy transition in emerging markets, perverse incentives might compel net zero aware investors to use divestment as a catalyst to decarbonize their portfolios rather than provide needed capital for climate mitigation and adaptation.”

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Rohit Chopra, Portfolio Manager/Analyst, Lazard Emerging Markets Equities

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With the Emerging Markets Investors Alliance, we can engage with government representatives alongside other investors to drive better outcomes for our sovereign fixed income investing. We conducted our first sovereign collaborative engagement through this initiative with the National Treasury of South Africa.”

”



William Romary, Sovereign Research Analyst, Lazard Emerging Markets Debt



Materiality Mapping: A Dynamic Journey

To ensure a systematic approach to governance, human, and natural capital research, Lazard Asset Management has adopted a dynamic, global proprietary process called Materiality Mapping which captures the most material ESG risks and opportunities across different sectors.

Materiality Mapping has the potential to add value to our investment process in several ways. Internal workshops provide a forum for analysts from various investment teams and regional offices to understand and debate how ESG considerations may create or destroy value in a particular industry over time and to contextualize the risks and opportunities most pertinent to a specific company given its operating activities. In 2022, we structured discussions on a regional basis for the first time (Exhibit 6).

We consider the financial materiality of ESG issues to exist on a spectrum, with varying levels of intensity, influenced by contextual considerations across geographies and industries. Once our relevant analysts have identified a material issue, they assess the likelihood, velocity, magnitude, and duration of its impact. This approach is designed to enable us to quickly identify emerging issues as well as adapt to shifts in those already unfolding. This process also helps our relevant investment professionals identify where to spend time building proprietary, forward-looking research frameworks.

Lazard Asset Management has been utilizing its Materiality Mapping process for four years. We revise our Materiality Map each year to incorporate current events and create a compilation of key frameworks that can support company- and industry-specific research, engagement, and idea generation.

Perhaps not surprisingly in 2022, geopolitics emerged as a key theme. The escalation of concerns about military security, energy security, technology security, and public health have been the defining issues of 2020–2022 and these all relate to national boundaries or sovereignty. We therefore included geopolitical considerations within our latest Materiality Map.

Other trending topics included societal harms stemming from the use of certain products, employee diversity, equity, and inclusion practices, and data privacy and security. Some of the key research issues identified included purposeful brands, digital disruption, financial inclusion, the energy trilemma (as described earlier in this report), and product safety, such as in the medical device/biopharma industry.

In this section we highlight a selection of the research frameworks developed in 2022. For more information on our Materiality Mapping process and resulting research frameworks, visit the [Integration Processes and Frameworks](#) section of our website.

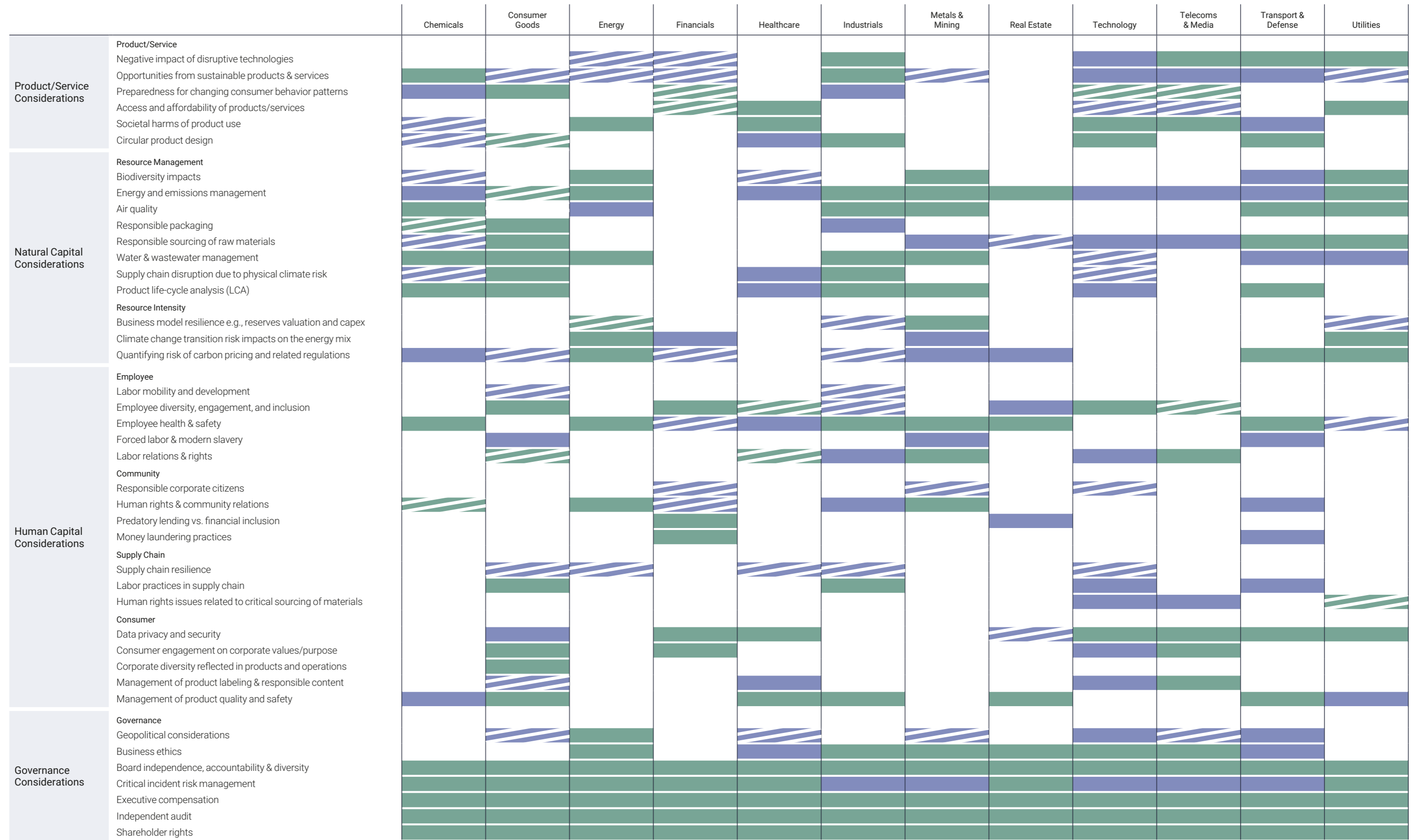
Exhibit 6: Workshop Statistics for 2022

Platform	Workshops	Analysts
United States	5	16
Emerging Markets	8	18
International	6	21

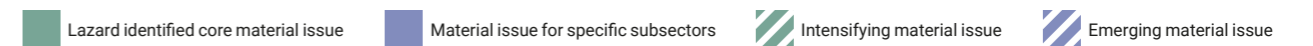
As of 31 December 2022
Source: Lazard

We use our proprietary Materiality Map and compilation of key frameworks to support research, engagement, and idea generation.

Our Materiality Map



As of 31 March 2023 and a point-in-time reflection of the assessed material issues.



Materiality Mapping Frameworks

Framework 1 – Water Analytics, Identifying Risks and Opportunities

Water scarcity—the physical or economic lack of access to fresh water for daily consumption—remains a material issue across the globe. The United Nations World Water Development Report in 2022 highlights water scarcity as a universal concern that affects all countries, including high-GDP countries, such as the United States and Australia.

Across relevant portfolios, water scarcity is more than just a localized or periodic issue. Many companies, particularly in the beverage, industrials, utilities, and mining industries, as identified by our Materiality Mapping process, rely on consistent water availability to operate.

First developed by Lazard Asset Management’s consumer goods analyst in 2019, our water risk framework is designed to identify metrics for analysis that allow cross-company comparisons and trend assessments, including water intensity ratios—which help determine efficiency of water use—and profitability versus water stress—which identifies water-vulnerable companies.

In 2022—in collaboration with the Sustainable Investment and ESG team—the framework was deepened to provide asset-specific analytical capabilities for public companies, assessment and benchmarking of water management programs, and easier comparison across peers.

The framework uses financial, CDP, and World Resources Institute Aqueduct data, which is made accessible via our specialized dashboard, Lazard Asset Management Water Analytics. The tool is a resource available to all our

investment professionals when assessing the impact of water-related risks and opportunities of a particular investment opportunity.

Applying the Analytics to the Beverage Industry

2022 was yet another year that highlighted the importance of water risk assessments for beverage companies, with significant water shortages already affecting the sector. Maintaining the high-margin levels associated with the beverage industry (approaching 30% in the United States and 25% in international markets⁴) relies, in part, on the availability of an increasingly scarce and widely underpriced resource: fresh, clean water.

We have been following and analyzing the beverage industry from the perspective of water for several years. Our research reveals significant improvements in water intensity across almost all beverage categories (Exhibit 7), with leading companies in the soft drinks industry approaching water intensity levels of 1 (one liter of water used for one liter of beverage produced)—a ratio that would have been unthinkable just a few years ago. We think this evidences the investment made by companies toward water management over that time.

For our relevant investment professionals, we believe analyzing water—when material and as part of the overall fundamental research process—will be increasingly critical to understanding how companies, and potential portfolio holdings, are positioned for the future.

“We believe an effective water management program can be a long-term competitive advantage for companies, and this is evidenced by our research which identifies the leaders and laggards in water intensity reduction.”



Dennis Neveling, Research Analyst, Consumer Staples

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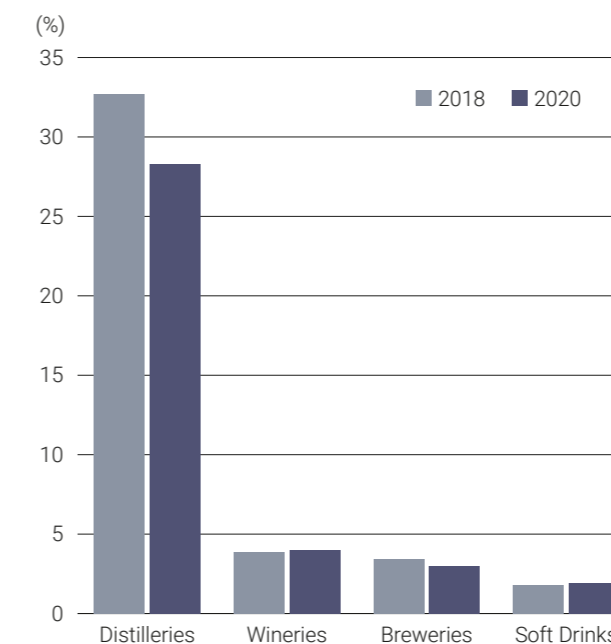
Through our Water Analytics tool and our enhanced framework, we were able to see past the noise and assess risk exposure on an asset-specific basis, as well as identify key engagement opportunities across our coverage of semiconductor companies.”

”



Robert Horton III, Research Analyst, Technology

Exhibit 7: Water Intensity by Beverage Category



As of 1 February 2022
Source: Beverage Industry Environmental Roundtable (BIER) 2021, and Greenhouse Gas Emissions Benchmarking Study

Applying the Analytics to the Semiconductor Industry

We also witnessed a backlash in 2022 against semiconductor companies looking to build plants in arid areas of the United States due to the large quantities of ultrapure water required in the semiconductor fabrication process. This resulted in heightened risk assumptions for those facilities.

We evaluated water management programs, trends in water intensity (efficiency) over time, recycling infrastructure, withdrawal estimates on a hyper-local basis, probability of fines or cuts, and availability of alternative sources of water.

This level of detail revealed two very different risk pictures at two different companies—one of which draws water from a secure water supply, is forecast to draw a low percentage of water from the basin, and implements strong recycling infrastructure, while the other is forecast to be a significant user of local water supply with little evidence of water management or recycling activities.

As a next step, actively engaging with these businesses allowed us to get an understanding of how relevant water scarcity would be to their financial outcomes. A catch-all approach that checks water scarcity off the list of ESG factors would be unlikely to capture these variations and could lead to inaccurate financial projections.

Framework 2 – Medical Device and Biopharma Complaint Tracking

Medical devices and biopharma companies are notably at risk for recalls or litigation events, due to strict oversight from federal agencies as well as an increased ability to link consumer safety to specific manufacturers. The potentially significant financial implications of improper product quality and safety management makes the topic highly material to specific healthcare subsectors, according to our Materiality Mapping process.

In 2022, to enhance our assessment of product quality and safety, we began developing a monitoring tool for complaints, recalls, and other potential risks for companies operating in the medical device and biopharma manufacturing spaces. Our healthcare analysts worked collaboratively with members of the Sustainable Investment and ESG team to identify companies that have products or services in the US market which require reporting to federal agencies.

We then generated automated alerts and risk scores for associated companies and specific product lines by looping in large data sets that cover all biopharma and medical device complaints and recalls in the United States.

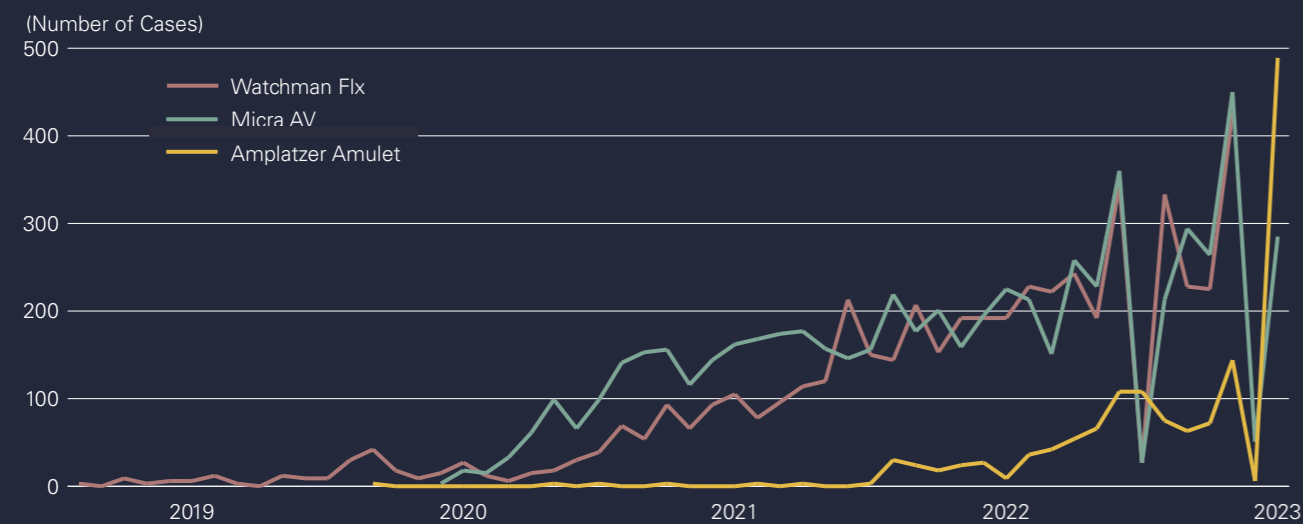
This permits our relevant analysts to receive timely updates on device recalls as well as track biopharma and device complaints and severity over time (Exhibit 8), all of which feed into the risk profiles and profitability of covered companies. The prompt nature of the monitoring system also provides a proactive approach to company analytics, rather than relying purely on lagging third-party controversy alerts.

“The tool enables our relevant analysts to efficiently track and identify trends in key therapeutics and devices in the US market, which are particularly important for newly launched products. This supports our forecasting and gives us leading indicator insights.”



Rhett Brown, Research Analyst, Healthcare

Exhibit 8: Tracking Medical Device Complaints



As of March 2023
Source: Lazard

Framework 3 – Government Support for the Energy Transition

The energy transition is a financially material structural change with ripple effects on a global scale. Disruptive technologies and associated products/services are creating alpha generation opportunities for investors across multiple industries. Given the renewed focus on energy security while still maintaining the urgent drive for decarbonization, Western economies have enacted ambitious new climate policies to spur domestic production through subsidies and onshore critical elements of the supply chains in important industries.

Policy changes and spending programs, such as the Inflation Reduction Act in the US and the Green Deal Industrial Plan in the UK, could reshape global supply chains and see challenger firms in mature clean energy industries, such as solar and wind, become more attractive. It should also support the development of companies in emerging and niche technology areas such as green hydrogen and carbon capture and storage.

Climate policy globally has had some wins since the 2020 US presidential election. The US re-joined the Paris Agreement, the European Union (EU) announced Fit for 55, and India announced a net-zero target. In aggregate, announced policies now bring the planet toward an

estimated 2.1°C of warming according to the Climate Action Tracker, which is also supported by estimates from the International Energy Agency and the Inevitable Policy Response—a climate transition forecasting consortium. Global climate policy may tighten further and in doing so support the delivery of a 1.5°C scenario.

On the other hand, elections in key markets such as the US and unforeseen volatility in energy markets, as seen recently, may challenge the current pace of climate change regulation making it more cyclical than the goals set forth by the UN Paris Agreement.⁵

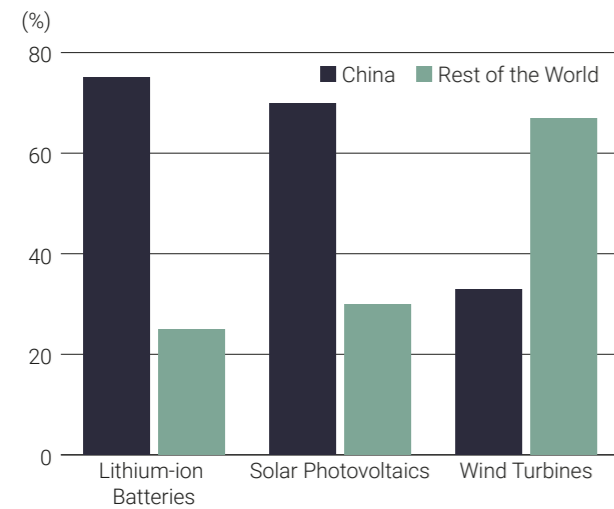
Clean energy markets are also now deeply intertwined with geopolitical considerations. China has invested heavily to become a leading global manufacturer of clean energy technologies, particularly for solar panels and lithium-ion batteries in electric vehicles (Exhibit 9). While this has supported rapid improvements in the cost competitiveness of certain technologies and therefore global adoption, it has also raised concerns over China's dominance in key markets linked to clean technologies. This explains the focus on onshoring the manufacturing of key technologies and protectionist aspects in some areas of recent climate policy in some regions, including higher subsidies for domestically produced elements such as car batteries.

“We believe there are compelling investment opportunities for those who identify where and how government support for clean energy markets will be expressed in equity valuations. However, doing so will require a deep understanding of geopolitics and how the policy agenda evolves, which industries and companies it will likely affect, and the geographic nuances involved.”



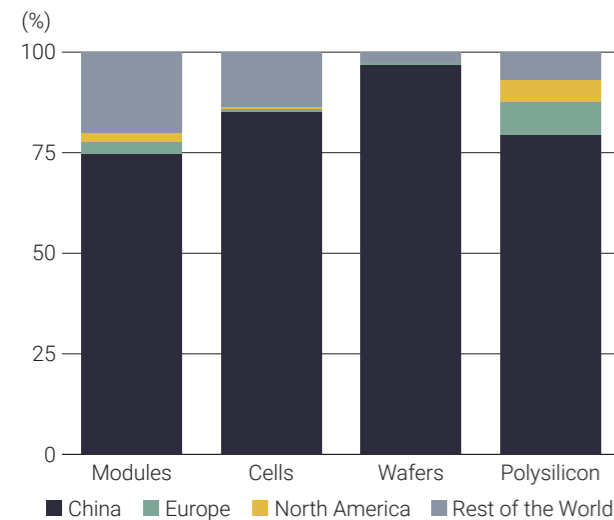
Arjun Saini, Research Analyst, Energy

Exhibit 9: China Dominates in the Global Manufacturing of Clean Energy Technologies



As of December 2022
Source: Global Wind Energy Council, European Commission, Benchmark Mineral Intelligence

Solar Products Are Almost Entirely Manufactured by China



As of July 2022
Source: International Energy Agency

While the growing protectionist measures of climate policy complicates the global energy landscape, our energy analysts believe this ramp up of government support is widely beneficial for structural growth in clean energy markets, helping to create new investment opportunities in companies with competitive advantages.

Framework 4 – Energy Efficiency and the Role of HVAC Systems

Energy efficiency is another key sustainability objective that is linked to government subsidies and tighter standards on efficiency for both residential and commercial construction. We believe these trends are likely to support demand dynamics and create opportunities for companies operating in the heating, ventilation, and air conditioning (HVAC) industry, as market dynamics shift in residential and commercial markets.

For example, one important factor for building developers is the increased stringency around refrigerant standards used in HVAC systems. HVAC devices are built for a specific refrigerant and are generally challenging to retrofit. Meeting new standards around the use of certain refrigerant chemicals may drive up replacement demand—a key driver of demand in the HVAC market.

This is likely to be most prevalent in the EU, which set stricter standards on the energy performance of buildings in 2022 and launched its Fit for 55 initiative, where all new buildings must be net-zero emissions by 2030 and existing buildings by 2050 (Exhibit 10). In the US, the New York City Council has also set new regulations on building emissions and energy use beginning in 2024 as part of Local Law 97 (Exhibit 11). HVAC companies that are also involved in refrigerant manufacturing may be better positioned to meet evolving standards and benefit from this rising replacement demand.

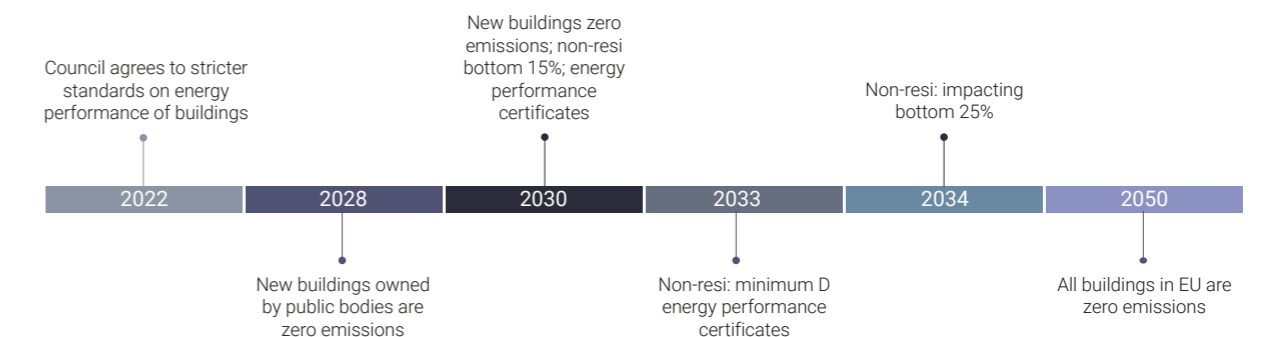
Through this research framework, analysts identified some of the best-positioned companies within the HVAC industry and the factors that are most likely to impact demand trends going forward. Since HVAC systems play a critical role in regulating temperature and air flow in buildings, climate adaptation considerations are also likely to play a role in adoption as well.

“The heating, ventilation, and air conditioning market remains relatively concentrated among a few global leaders in the commercial space that we believe are well positioned to benefit from rising demand linked to governments’ mandated energy efficiency goals.”



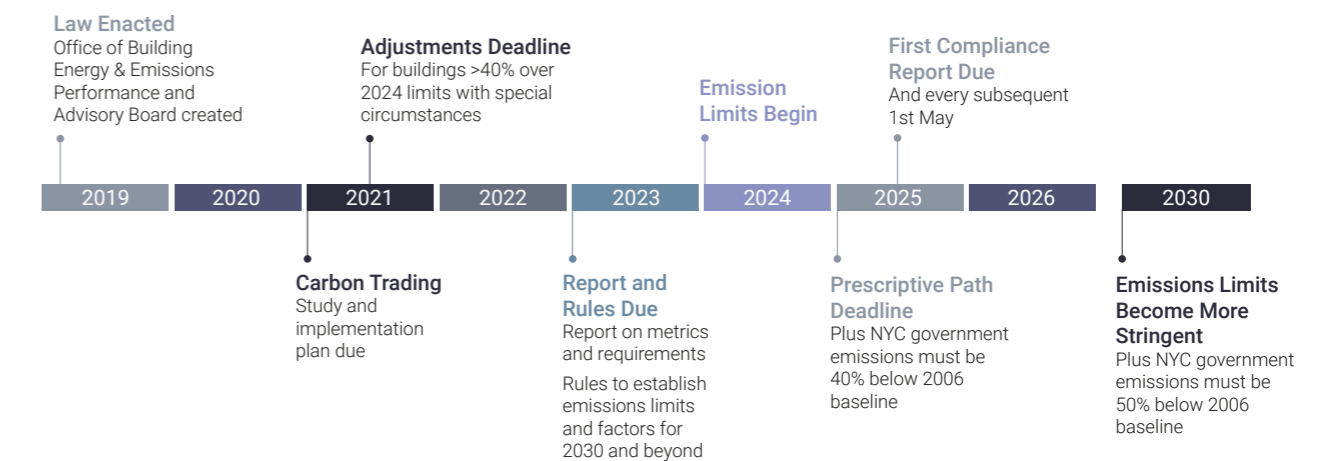
Keith Mori, Research Analyst, Industrials
Megan Makini, Research Analyst, Industrials

Exhibit 10: EU Timeline for Decarbonization and Energy Efficiency of Buildings



Source: European Commission

Exhibit 11: New York City Local Law 97 Timeline



Source: Urban Green Council

Strategy Highlights

As we enter a new market regime, investors are now exploring areas less well trodden or revisiting assets in which they may be underinvested. In this context, it is important to consider how ESG considerations can be included within the overall mosaic of investment research and to inform financial analysis across different asset classes, from sovereign and corporate debt to convertible bond arbitrage strategies.

Lazard Emerging Markets Debt

In 2022, the Emerging Markets Debt team enhanced its existing Country Risk Assessment model to include an assessment of emerging countries' willingness and ability to reduce emissions, as well as their vulnerability to the physical impacts of climate change. Assessing climate risk is becoming an increasingly important consideration as the frequency and severity of extreme weather events climb globally—with the human costs associated often highest in the emerging world.

The willingness indicators the team assess focus on the policies adopted by each country to respond to climate change, the effectiveness of these policies, and each country's access to investment and ability to convert them into efforts to adapt to climate change.

Ability indicators focus on comparative economic or geographic advantages that make a country better—or worse—positioned to manage a transition to a lower carbon economy and/or adjust to the physical risks of climate change.

Vulnerability indicators include analysis of changes in registered temperatures and indices that assess a country's exposure, sensitivity, and capacity to adapt to the negative effects of climate change, as well as its exposure and vulnerability to extreme weather events.

The Emerging Markets Debt team seeks further collaborative engagement with sovereigns through Lazard Asset Management's membership in the Emerging Markets Investors Alliance, the details of which can be found in the Stewardship section of this report.

Further information on the strategies can be found [here](#).

Lazard Rathmore

The Lazard Rathmore strategy is a convertible bond arbitrage strategy that aims to monetize market volatility, tapping into the different return drivers offered by convertible bonds relative to traditional fixed income assets.

As part of the overall investment process, the team seeks to distinguish between companies that are managing human and natural capital issues effectively and those that are not, with the goal of making what they believe to be optimal investments accordingly as one of the many factors under consideration. The investment team uses external scores as a starting point to gauge and benchmark issuers on ESG risk and carbon emissions.

Material issues and controversies identified by external sources are factored into the team's direct engagement with issuers. Additionally, the team monitors whether any investee company appears on internal and external ESG watchlists, including TruCost Impact Ratio, Sustainalytics Risk Rating, Sustainalytics Highest Controversy, and the UN Global Compact List.

The Lazard Rathmore analysts engage with companies to understand what measures, if any, they are taking to improve their ESG practices and, where appropriate, encourage further such disclosures. These engagements are tracked over time in a bid to help measure progress on financially material ESG-specific risks.

Further information on the strategy can be found [here](#).

“ We believe that companies that manage their ESG risks well ultimately will be rewarded with lower costs of capital, while those that do not may, at a minimum, pay a higher cost of capital. ”

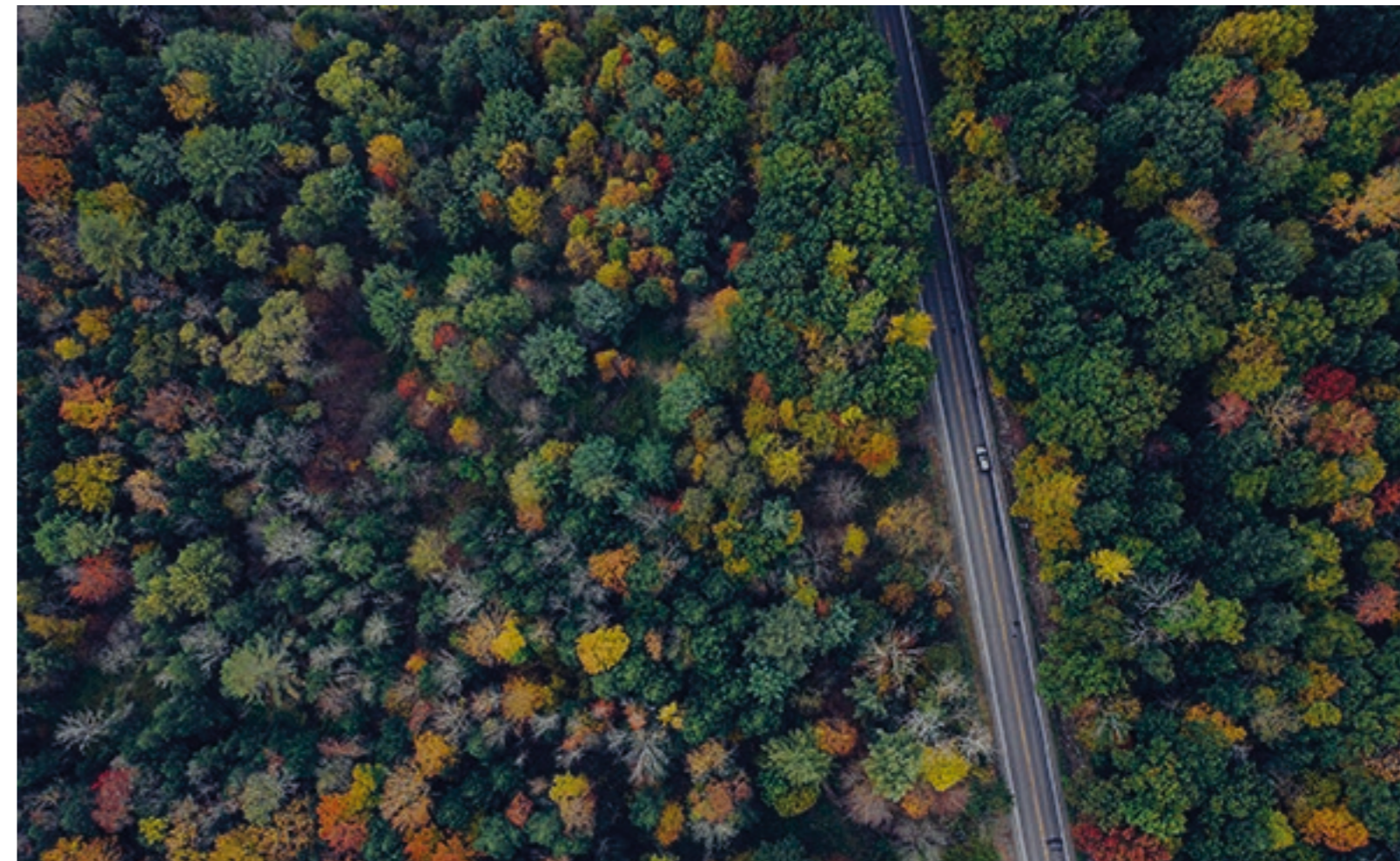


Sean Reynolds, Portfolio Manager/Analyst, Lazard Rathmore

“ Our country risk framework is designed for consistent comparison of ESG risks across sovereign issuers. By embedding a forward-looking ESG framework in our bottom-up analysis, we seek to gain a comprehensive understanding of an issuer's creditworthiness and make better-informed investment decisions as a result. ”



Denise Simon, Portfolio Manager/Analyst, Lazard Emerging Markets Debt



Sustainability-Focused Strategy Highlights

Sustainability-focused strategies have an important place for investors looking for solutions that go beyond ESG integration. Often, such strategies reflect a belief that the world is increasingly adopting more sustainable practices and seek to gain exposure to the companies that support this transition through the products and services they offer or their operational decisions.

For us, ESG integration incorporates an assessment of material ESG considerations that could impact the long-term financial performance of an issuer, while sustainability-focused strategies have a particular focus on set of sustainability objectives and require clear thresholds to be met for the inclusion of securities in the portfolio.

At a more granular level, these distinctions are becoming increasingly necessary as global regulatory classifications evolve at pace. Investment firms, pension funds, and asset

managers in Europe spent much of the year preparing for the second stage of the European Sustainable Finance Directive Regulation alongside new sustainability-related rules set by French regulator AMF and changes to the Markets in Financial Directive II. Although the European Union is leading the ESG regulatory movement, important markets such as the United States could follow.

Changes in regulation and climate policy are creating commercial and investment opportunities. We have carefully considered the development of our sustainability-focused strategies against this backdrop and the likely direction of travel. For investors seeking to gain exposure to these structural shifts, a clear idea of the investment theme and how it should be expressed will be required.

Lazard Global Sustainable Equity

The Lazard Global Sustainable Equity strategy developed an enhanced engagement prioritization process in 2022, working collaboratively with the firm's Sustainable Investment and ESG team. This process seeks to prioritize engagement topics across the following key considerations (Exhibit 12).

We believe this enhanced engagement process will support better outcomes for investors by identifying and actively engaging with companies using a structured

and consistent approach that can be tracked over time, while also leveraging the insights from our proprietary sustainability research.

Lazard Global Sustainable Equity has a three-year track record. The 2022 Sustainability Focus Report can be found [here](#).

Further information on the strategy can be found [here](#).

Exhibit 12: Key Engagement Topics

Considerations	Catalyst	Proactive Engagement	Reactive Engagement
Changes in ESG Risk	Team's sustainability scorecard thresholds breached e.g., owing to a material change in business practices or conduct	●	
Climate Alignment Assessment	Engaging with holdings that are not currently aligned to—or those that are least aligned with—a net-zero pathway Engagement objective will be to influence companies to progress along the alignment spectrum, guided by our Climate Alignment Assessment	●	
Governance	Engaging with companies where we have voted against management or where a shareholder proposal has been filed and the company response has been insufficient	●	
Controversies	A controversy triggers the engagement, guided by the firm's Controversy Response Framework		●

As of 31 December 2022
Source: Lazard

“

Underlying the investment process is a belief that sustainability opportunities can support investment returns by helping companies maintain or improve their financial productivity.

”



Louis Florentin-Lee, Portfolio Manager/Analyst,
Lazard Global Sustainable Equity



Lazard US Sustainable Equity

The Lazard US Sustainable Equity strategy also made progress in 2022 on its engagement strategy working in collaboration with the Sustainable Investment and ESG team. The team began actively integrating climate assessments from the firm's proprietary Climate Alignment Assessment tool (highlighted earlier in this report) into the investment process to identify key risks and opportunities linked to the energy transition, as well as provide insights for investors that are seeking to align with net-zero-targets.

The investment team analyzes the transition pathway companies are on to help assess climate-related risks and opportunities. This helps to uncover areas where businesses will be forced to transition or use new solutions, observe instances when companies emerge to provide climate-friendly products or services, or identify companies in verticals that are seeing momentum from sustainability-focused tailwinds. Conversely, headwinds can also be identified. For instance, a company may be unable to decarbonize rapidly owing to a lack of technology, for instance, while other companies may not be able to absorb increased costs to transition as effectively as peers can, which could pose risks to profitability.

Understanding the pace of the transition is then all tied into the implications on financial productivity by seeking to assess how decarbonization plans are affecting a

company's revenues, capex, and investment decisions. At the portfolio level, emissions are modeled to display potential decarbonization pathways based on forecasted carbon intensity reductions—based on each company's unique targets, decarbonization pathways, and climate-related risks and opportunities. This approach is designed to highlight any concentration in higher-emitting names, allowing the investment team to focus on high-value engagement opportunities.

Lazard US Sustainable Equity has a three-year track record. The 2022 Sustainability Focus Report can be found [here](#).

Further information on the strategy can be found [here](#).

Lazard International Sustainable Equity

Lazard International Sustainable Equity is a diversified sustainability strategy, which invests in companies that either promote a more sustainable world or enable the transition by providing essential products and services in a more sustainable manner.

In terms of emissions, the portfolio management team believes many higher-emitting industries cannot be avoided. In the team's view, we need utilities to provide our energy, mining to provide materials for the energy transition, and shipping to move goods and for transport, among others. Their goal is to find, invest in, and support companies that are seeking to reduce their emissions and, in doing so, achieve strong returns for clients.

“Corporate net-zero targets are being approached inconsistently, with decarbonization pathways varying between sectors depending on the commercial availability of cleaner technologies, changing customer preferences, and the evolving regulatory environment in each. We believe active management is required to evaluate the investment risks and opportunities effectively.”



Shanu Mathew, Portfolio Manager/Analyst,
Lazard US Sustainable Equity

“We believe that companies providing essential products and services which are transitioning their businesses towards more sustainable offerings may emerge as the next set of sustainability leaders.”



Giles Edwards, Portfolio Manager/Analyst, Lazard International Sustainable Equity



Lazard Minerva Gender Diversity

The strategy seeks to invest in high-quality companies—i.e., those that have sustainably high financial productivity and a clear and demonstrable commitment to gender equality. The strategy’s purpose is to deliver strong investment returns for our clients and to promote gender equality. The portfolio management team strongly believes that one does not have to sacrifice returns to achieve this dual objective.

The team takes a holistic approach to diversity, equity, and inclusion research that extends far beyond female representation at senior leadership—an approach often taken by other gender lens strategies. The strategy screens for financial productivity and our gender thresholds allow us to narrow our investment universe to a more focused group of companies on which to concentrate diversity research. Through our diversity due diligence, the team aims to have a holistic perspective of an organization’s overall commitment to diversity, equity, and inclusion, both within and outside their organization.

The team actively engages with companies as a powerful tool to influence company behavior and accelerate the pace of change (Exhibit 13). Through engagement, the team shares best practices and holds management accountable. Bespoke engagement meetings are led by the portfolio management team in conjunction with our global sector specialists.

Lazard Minerva Gender Diversity has a three-year track record.

Further information on the strategy can be found [here](#).

“ Our philosophy is rooted in the premise that investing in gender equality offers a significant structural opportunity for economies and societies to reach their full potential. ”

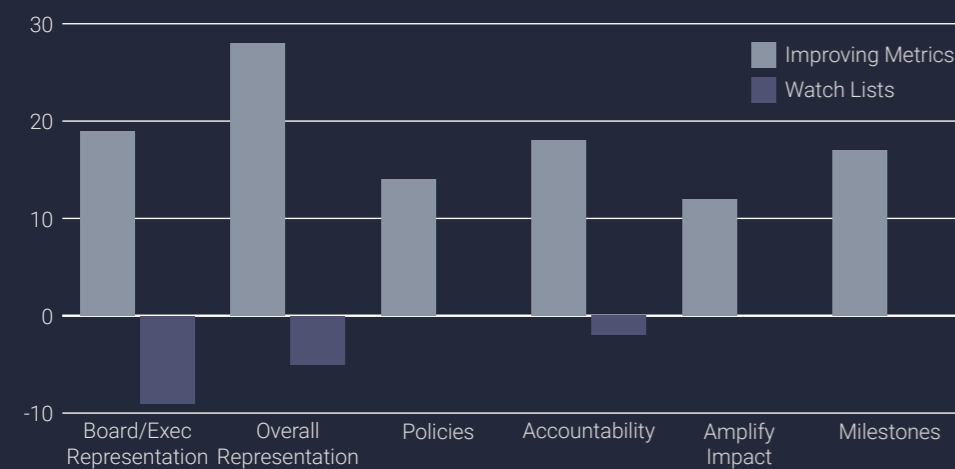





Marina Leacock, Portfolio Manager/Analyst, Lazard Minerva Gender Diversity



Exhibit 13: Real-World Outcomes: Minerva Gender Diversity

Engagement by Key Marker



-  **91** Improving Metrics
-  **17** Milestones
-  **16** Items on Watchlists

As of 30 April 2022
Source: FactSet

Lazard Sustainable Private Infrastructure

The Lazard Global Sustainable Private Infrastructure strategy focuses on making investments in privately owned infrastructure companies that the team believes are well positioned to achieve strong investment performance while delivering positive and measurable improvements in ESG and sustainability outcomes.

Launched in 2022, the strategy successfully completed its inaugural investment, acquiring a majority stake in DBE Energy, a waste-to-biogas business that owns and operates an anaerobic digestion plant in Surrey, England.

This investment marks the beginning of a pipeline of continued capital deployment. The team seeks to invest in rewarding opportunities that have strong infrastructure investment characteristics and a demonstrable positive long-term impact on environmental and societal outcomes.

Further information on the strategy can be found [here](#).

“ We seek to invest in essential infrastructure companies which enable, and benefit from, the transition to a more sustainable economy and society. ”



Robert Wall, Portfolio Manager/Analyst, Lazard Sustainable Private Infrastructure

Lazard Climate Action

The Lazard Climate Action strategy is an active global equity solution that seeks to capitalize on the opportunities created by the transition to a low-carbon economy. The strategy is focused on climate solution providers whose technologies, products, and services directly and tangibly help to mitigate greenhouse gas emissions and/or help society adapt to the effects of climate change (Exhibit 14).

The team's research process regularly monitors external developments and policy change, such as the Inflation Reduction Act in the United States, the heightened focus on energy independence in Europe, and global shifts in consumer behavior—all of which stand to impact the profitability and growth trajectory of companies over the long term.

Further, the team evaluates return potential alongside valuation, differentiating them from peers that seek exposure to a theme at any price. This comprehensive analysis of, and exposure to, the asset class cannot be duplicated by passive approaches or generalist cleantech funds.

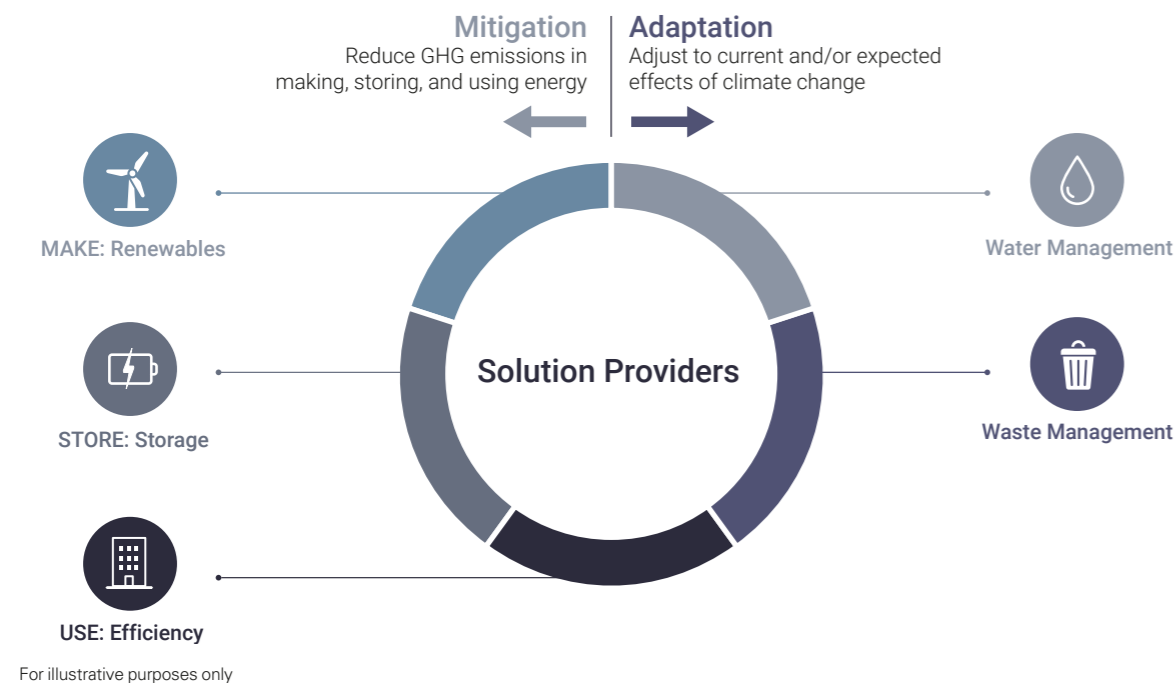
Further information on the strategy can be found [here](#).

“As disciplined fundamental investors, we are most focused on identifying the healthiest, most durable businesses—not just the trendiest—by using rigorous fundamental analysis which fully leverages Lazard’s global research platform for ideas across sectors and value chains.”



Koen Popleu, Portfolio Manager/
Analyst, Lazard Climate Action

Exhibit 14: Identifying Climate Solution Providers



Lazard Sustainable Agriculture

The Sustainable Agriculture strategy is a global equity strategy designed to capitalize on the long-term investment opportunity pursuant to the growing awareness of the future of food supply amid population growth and the interaction of agricultural practices with climate change and greenhouse gas emissions. The strategy is structured as a collection of solutions that seeks to take advantage of the global trends, innovations, and practices being implemented in agriculture. The investment team employs proprietary data science-driven techniques alongside fundamental analysis to determine the portfolio's asset allocation.

Further information on the strategy can be found [here](#).

“We are on the cusp of a fourth agricultural revolution, critical to meeting the urgent challenges of building resilience to climate change, reducing resource use, and ensuring food security.”



Juan Mier, Portfolio Manager/
Analyst, Lazard Sustainable
Agriculture

“Sustainability concerns drive powerful long-term trends that shape policy and the business environment—they are inherently macroeconomic issues and we treat them as such.”



David Alcaly, Portfolio Manager/Analyst, Lazard Sustainable Agriculture

Stewardship

Our Approach to Stewardship

The desire to improve accountability from stewardship activities is understandable, but approaches need to be carefully considered. Increased pressure from investors could be unintentionally fueling a new trend in corporate reporting called green hushing. This relatively new term relates to the practice of companies limiting their public disclosure of sustainability practices to the minimum level as required by regulation, possibly for fear of drawing criticism over green washing. Longer term, we have concerns this could become counterproductive for active managers, who require robust disclosures to size and price ESG risks and opportunities.

We have a long history in engaging with companies. Our investment professionals have long-standing relationships with senior managements and other stakeholders and a deep knowledge of the companies in which we invest. We believe that our investment professionals are the most relevant stewards to engage with company management and make the final decision on how to vote at company annual general meetings.

Our stewardship approach seeks to align engagement and proxy voting, with investment decision-making at the heart of these interactions. Our dedicated Sustainable Investment and ESG team works in collaboration with our relevant investment professionals, providing additional subject-matter expertise.

For more information about our stewardship policies and processes, the following reports are available on our [website](#).

Our stewardship approach is based on genuine integration and focus on investment

100% of voting decisions are made by investment professionals

96% of meetings with ESG content were led by investment professionals⁶

“

As active managers, we endeavor to continuously incorporate the insights from stewardship activities into investment decisions, and vice versa, to enhance long-term value for clients and their beneficiaries.

”



Elly Irving, Director of Stewardship

Evolving Our Strategy

During 2022 we sought to strengthen our stewardship strategy with support from our Global Stewardship Committee. Specifically, the committee oversaw four key developments:

- 1. Redefining engagement:** To ensure our efforts are focused on tangible outcomes
- 2. Prioritizing engagement:** Developing a framework to help our investment professionals identify which companies to engage with based on financial materiality
- 3. Implementing a new collaborative engagement policy:** To guide decisions so that we only dedicate time to initiatives that are financially material and aligned with our investment views
- 4. Launching a new process for reviewing ESG shareholder proposals:** To more effectively leverage ESG subject-matter expertise and company knowledge held by investment professionals

an influencing engagement, this is where we can identify a missed opportunity or risk that has not been adequately addressed.

This is where we define a specific objective around something we want a company to address differently. Again, this must result in a tangible outcome for our investment process, but we can also measure results through what has changed at a company—i.e., a real-world outcome such as lower absolute emissions or a more effective board.

ESG Due Diligence

If an engagement does not result in a tangible outcome, then we label it as due diligence. This is where we seek to understand the company's actions in managing financially material natural and human capital-related risks and opportunities.

In consultation with many stakeholders, including investment professionals on our ESG Integrated and Sustainability-Focused strategies, across our firm, our new definitions (Exhibit 15) were approved by our Global Stewardship Committee in the third quarter of 2022. We then started piloting a new tracking system via our centralized research platform in the fourth quarter of 2022.

We believe the revised criteria will also support client and regulatory reporting as expectations around evidencing the level and depth of engagement activities grows over time. We will continue to explore options to further strengthen our engagement tracking capabilities in the future.

Prioritizing Engagement

Prioritizing engagement objectives is a key element of our approach to stewardship. In 2022, we formalized our engagement priorities (Exhibit 16).

Lazard Asset Management's investment professionals conduct meetings with company management as a regular part of their research process and to better understand how companies are deploying their capital and conducting their business operations. The prioritization of the engagement may reflect both the materiality of the issue and the significance of the security within a given portfolio.

Redefining Engagement

Discussing ESG issues through the 4,200+ company interactions we had in 2022 is part of our business as usual. But what differentiates monitoring from purposeful engagements? This question of purpose helped us to reassess our approach in 2022.

Previously, we had defined our engagements as either information gathering or purposeful, with the latter initiated where we believe risks or opportunities are not being addressed adequately. In 2022, we sought to create a process to better track engagement objectives and outcomes, which would then allow us to measure our engagement effectiveness over time. With this goal in mind, we started by revisiting our definitions of engagement.

We now categorize engagements across relevant portfolios and strategies under two possible definitions (Exhibit 15). First, if we are looking at sustainability through the lens of pricing externalities to understand financial risk and opportunities, then we need to translate our engagements so that they are meaningful to our investment process as active managers.

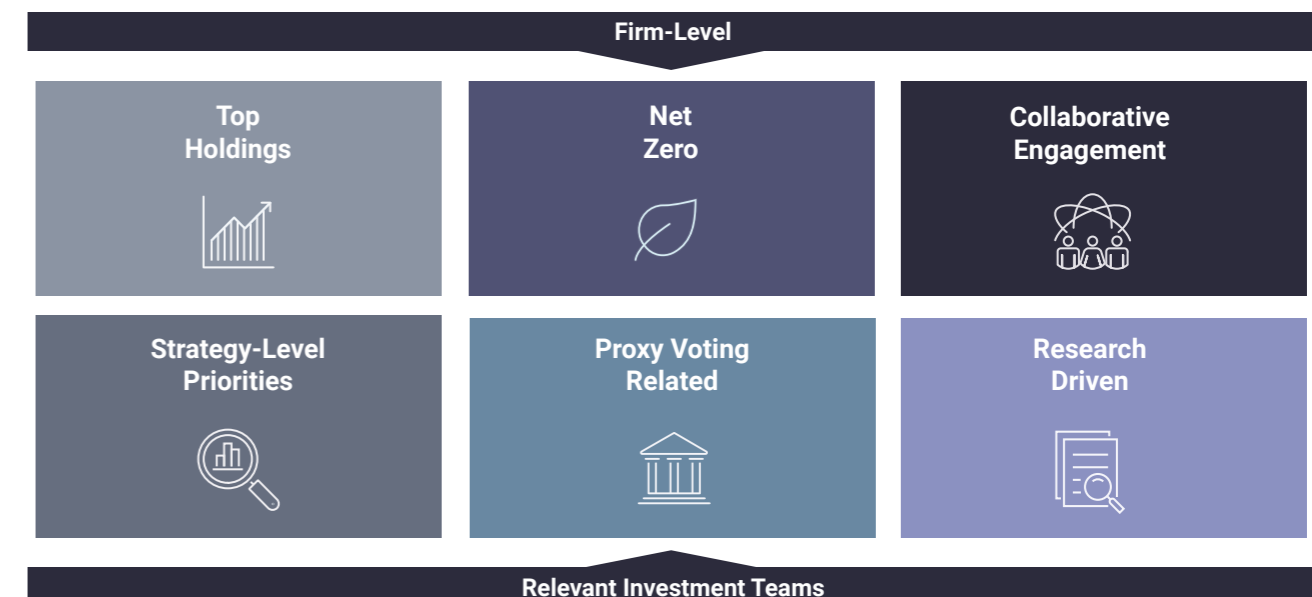
ESG Engagement with a Tangible Outcome

Learnings from an engagement can lead to a change to our investment thesis, our proxy voting decisions, sustainability scorecards, or other investment-focused metrics. It may also lead to another type of engagement,

Exhibit 15: Our New Engagement Definitions across Relevant Investment Teams

Engagement	ESG Engagement with a Tangible Outcome Objective. Can either: a) be an INTEGRATED CONVERSATION and investment outcome and a change to our valuation, sustainable score, or voting decision or; b) INFLUENCE a real-world outcome where we have requested a change of company or issuer practices	
Monitoring	ESG Due Diligence Objective: To gain a better understanding of a company's approach to managing natural and human capital-related risks and opportunities. This also acts as a signal to communicate our expectation of company management to consider ESG risks and opportunities	
	Interactions with Company Management 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. Our sector specialists have an average of 20 years of industry experience, which allows for a deep understanding of companies and strong relationships with management.	

Exhibit 16: Engagement Priorities



Implementing a New Collaborative Engagement Policy

We seek to participate in collaborative engagements where the achievement of engagement objectives will result in better management and oversight of financially material sustainability issues.

At the end of 2021 our Global Stewardship Committee developed and approved a formalized collaborative engagement policy to allow us to leverage the voice of industry peers where our engagement objectives and view of materiality are aligned.

In 2022, we implemented this new policy and participated in several collaborative engagement initiatives with both corporates and sovereigns to further progress our stewardship priorities and those of our clients.

Collaborative Engagement Initiatives

CDP

We signed up to three collaborative engagement initiatives run by non-profit organization CDP. We believe these initiatives will help us to better understand climate-related risks and opportunities across our holdings. CDP data is one of the key data sources that feeds into our Climate Alignment Assessment framework.

- FOCUS:** Non-disclosure equities: engaging with companies that have received the CDP disclosure request on behalf of investors but have not provided a response. The objective of the campaign is to drive further corporate transparency around climate change and emissions data, by encouraging companies to respond to CDP's disclosure request.

OUTCOME: We were encouraged to see that 22% of companies targeted have either submitted climate data to CDP, intend to disclose, or are considering a response.

- FOCUS:** Non-disclosure municipals: requesting disclosure on ESG-related issues relevant for municipalities to over 500 US and Canadian cities, counties, states, provinces, crown corporations, and public authorities on behalf of participating CDP Investor Signatories.

OUTCOME: 33% of municipal issuers responded to the request for disclosure via the CDP platform.

- FOCUS:** Science-based targets: to contribute to accelerating the adoption of science-based climate targets in the corporate sector, by collaboratively engaging with companies on this matter.

OUTCOME: Only 12% of companies targeted have targets set or are committed to the SBTi.

All outcome data provided as of December 2022. Source: CDP.

Climate Action 100+

Climate Action 100+ (CA 100+) is a collaborative engagement platform focused on 167 companies representing 80% of global greenhouse gas emissions that are critical to the net-zero transition. A summary of these collaborative engagement efforts is included below.



Corporate Engagement – Oil & Gas sector: Example 1

We participated in a collaborative engagement as part of Climate Action 100+ (CA 100+) with the management of this large emerging markets oil & gas company. We invest in both the debt and equity of the company and the engagement was led by our fixed income team along with several other CA 100+ investor participants. We have held several direct one-on-one meetings and collaborative engagement meetings with the company since joining CA 100+ in early 2022. The focus of our meetings has been the company's net-zero target and decarbonization capital expenditure, methane emission-reduction strategy, and interaction with the national government. We agreed to have a follow-up call within the next six months. Potential topics for discussion going forward include:

- Scope 3 reduction plans and challenges with setting targets in more detail
- Results of the planned scenario analysis and,
- How the company can be in line with the country's National Development strategy



Corporate Engagement – Oil & Gas sector: Example 2

This company is a state-owned integrated oil and gas company in an emerging market. We participated in a CA 100+ engagement call with the company that included investor engagement leads, two additional investors, two representatives from the UN PRI, and five representatives from the company's investor relations department.

The call focused on three topics: the company's ability to meet the targets set by the Transition Pathway Initiative and CA 100+, methane emissions, and its UNGC status.

The key finding from the call was that the company recognized the importance of improving its sustainability track record, as demonstrated by its commitment to these quarterly meetings, the recent publication of an English language version of its 2021 sustainability report, the establishment of a sustainability committee, and its commitment to improved disclosures on ESG metrics.

The next engagement call is expected to be scheduled for mid-2023 to review progress and potentially meet with members of the company's newly appointed sustainability committee.



Sovereign Engagement – National Treasury of South Africa

Lazard Asset Management took part in a collaborative engagement in August 2022 with the National Treasury of South Africa. Our emerging markets investment professionals and members of the Sustainable Investment and ESG team discussed the country's Integrated Resource Plan for meeting the country's energy needs, the implementation of a carbon tax, and the country's Climate Change Bill.

Representatives from seven asset management companies participated in the call, along with six representatives from the South African National Treasury.

South Africa implemented a carbon tax in 2019 that has stepped up gradually and, the country indicates, it is scheduled to significantly increase this by 2030. We have some outstanding concerns that the implementation of the second phase of the carbon tax could be further delayed.

The Emerging Markets Investors Alliance

The Emerging Markets Investors Alliance enables institutional emerging markets investors to support good governance, promote sustainable development, and improve investment performance in the governments and companies in which they invest. The Alliance seeks to raise awareness and advocate for these issues through the collaboration of investors, companies or governments, and public policy experts.

Through the Emerging Markets Investors Alliance, Lazard Asset Management's Emerging Markets Debt platform recently focused on three sovereign engagements related to South Africa, Indonesia, and Colombia.

- South Africa:** focusing on the country's climate policies, including its carbon tax scheme (case study included below).
- Indonesia:** understanding the progress of the transition away from coal.
- Colombia:** encouraging the country to adopt the Emerging Markets Investors Alliance's enhanced green bond principles, which will provide further transparency to investors on the green bonds they issue.

Government officials acknowledged that the Integrated Resource Plan must be revised and the greenhouse gas emissions trajectory in the Climate Change Bill must be reviewed to reflect the revised nationally determined contributions, but a timeline has not yet been established for these actions.

The officials also outlined the government's carbon offset program, but the project approval process is lengthy, and it is unclear whether there is ongoing monitoring and auditing of projects to ensure they are meeting expectations.

We aim to follow up these discussions and encourage further disclosure on the inclusion of climate considerations in the budget process, as well as engaging with other entities such as the Johannesburg Stock Exchange and financial regulators about establishing mandatory climate-related disclosures for corporates.

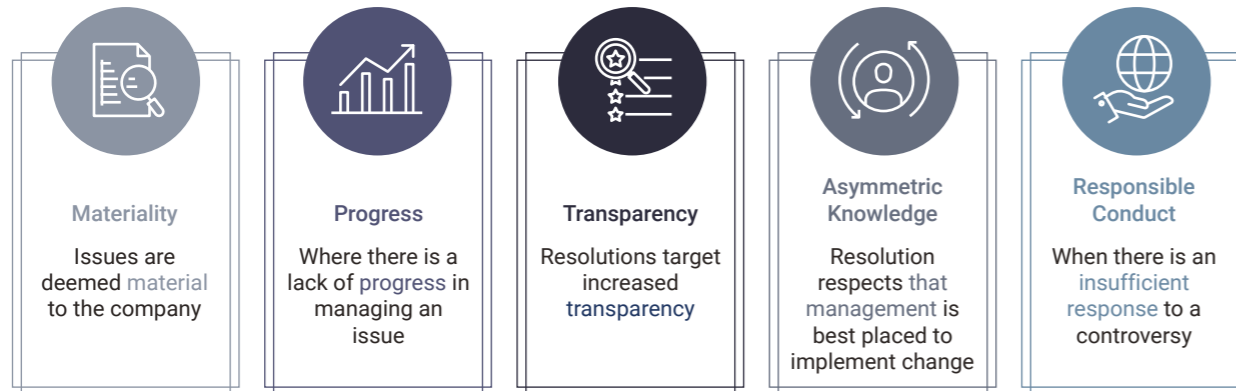
Launching a New Process for Reviewing ESG Shareholder Proposals

In 2022, we developed a new framework for ESG-related shareholder proposals that leverages the company knowledge of Lazard Asset Management's fundamental research analysts and the subject-matter expertise of the firm's Sustainable Investment and ESG team. Several principles are used to help guide voting on ESG-related shareholder proposals to ensure consistency in voting decisions (Exhibit 17).

The quality of shareholder proposals on environmental and social issues has improved in recent years, ensuring they are addressing the most material ESG issues. Shareholder proposals are also increasingly filed collaboratively by institutional investors to ensure they are more aligned with a company's business strategy. Lazard Asset Management's support for shareholder proposals on behalf of portfolios for which we have voting authority was 64% in 2022.

Exhibit 17: Our Framework for Voting on ESG Shareholder Proposals

More Likely to Support a Shareholder Proposal Based on:



Our Principles in Practice

Proxy Voting Trends in Asia

As an active, long-term member of the International Corporate Governance Network (ICGN), we participated at its annual conference in Seoul, South Korea, and at an ICGN event held in Tokyo, Japan—where the ICGN local corporate governance priorities were launched.

South Korea and Japan are important investment markets for our clients, and they have seen similar reforms in the field of corporate governance, investor stewardship, and corporate reporting in recent years. However, we have continued to engage on further progress in terms of capital efficiency and strengthening of minority shareholder rights at our investee companies in the region.

Examples of our engagement efforts in Japan in 2022 included financial company JAFECO Group and consumer goods company Shimano.

- At JAFECO, we advocated for the removal of anti-takeover measures, which the Board instituted following an approach by an activist investor. The Board was

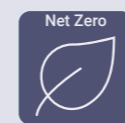
receptive and announced a new capital efficiency improvement policy at the end of 2022, while abolishing the anti-takeover measures.

- At Shimano, after an extensive engagement with the Board on capital efficiency and board effectiveness, we reduced our position and voted against the re-election of directors given the lack of progress.

Similarly, in South Korea we have been engaging with several banks, as well as with dental implant manufacturer Osstem in 2022.

- We supported an activist campaign to improve shareholder returns across the South Korean banking sector. One of the requests has been improved disclosures around the capital allocation framework of the banks.
- At Osstem, while we were supportive of governance changes made by the Board, we exited our position following a tender offer by a private-equity consortium and the persistent lack of minority shareholder rights.

ESG Engagement Case Studies



Industrial Gases Company

Objective:

We met with the company which supplies industrial gases and services to various industries to discuss the company's use of avoided emissions calculations.

Details of Engagement:

The company's views avoided emissions as a useful tool to help quantify progress on its emissions reductions. We emerged with increased confidence that the accelerating growth of its emissions-intensive products will not lead to an overshoot of the company's emission targets. Supporting decarbonization is a key driver of the company's growth and we aim to consider triangulating its claim of avoided emissions, annual growth rates, alongside its reported emissions.

Outcome and Next Steps:

The company submitted its climate plan to the Science Based Targets initiative. We will monitor this plan and the targets contained within as a way of externally validating the strategy the company has articulated.



Controversies Framework

In 2022, we developed a controversies framework focused on company responsibility, response, and remediation (exhibit below). When considering responsibility for a controversy, the framework prompts the relevant investment professional to consider how much responsibility sits with the company, whether the company has been involved in similar controversies in the past, and the associated level of risk.





Based on the level of materiality and responsibility, the investment professional then considers how the company has responded to the controversy (in public comments and internal reviews and changes), and the quality of the response.

If the response does not provide a high level of confidence that the issue was an isolated event, the investment professional proceeds to consider the actions the company has taken to ensure that similar controversies will not occur in the future.

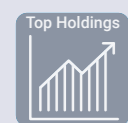
Finally, if the company has not taken immediate action to mitigate future risk, Lazard Asset Management may take additional steps including: purposeful engagement, a vote against management at the following annual general meeting, a reduction in exposure, or divestment.

Controversies Framework, Responsibility, Response, Remediation

Engagement by Key Marker

Responsibility 	If deemed not material and not the company's responsibility no further action is required. Otherwise continue to Response
Response 	If the company's response provides a high level of confidence that the issue was an isolated event no further action is required. otherwise continue to Remediation
Remediation 	If the company has taken immediate action to mitigate future risk, then no further action required. Otherwise continue to Action
Action 	Options include engagement to drive change within 12 months, vote against management at next AGM, reduce exposure or divest

Toromont Industries



Objective:

We contacted the company, which had been identified as an engagement target through our firm-level top holdings engagement priorities. A research analyst and stewardship specialist met with the company to discuss its approach to ESG and sustainability reporting, with a focus on climate, diversity, and safety and executive compensation alignment.

Details of Engagement:

While we acknowledge the challenges of implementing a sustainability strategy across a decentralized business model, we were pleased to learn about the firm's commitments and encouraged it to consider further steps to strengthen its risk management around transition risk.

We also encouraged the company to include more data on limited Scope 3 emissions in its 2023 sustainability report alongside more specific targets across all company-defined material areas. The engagement concluded with Toromont stating it is aiming for 2024 CDP reporting after disclosure standards from the International Sustainability Standards Board have been announced.

Outcome and Next Steps:

We are supportive of the plan to report to CDP next year and will monitor developments on the implementation of the company's sustainability strategy.



McDonald's

Objective:

The meeting objective was to discuss key topics ahead of the 2022 annual shareholder meeting including resolutions filed by an activist investor in response to concerns that McDonald's had failed to meet stated ESG commitments, including the end-of-use of gestation crates for sows.

Details of Engagement:

There was discussion around the strength of its three-year targets given mixed performance over the last few years, however, we determined incentives were appropriately set, and management is aligned with long-term shareholders. Overall, given the company's performance and effectiveness of the Board, we did not support the activist investor's suggestions for an alternative Board candidate.

Management outlined its updated commitment to phasing out the use of gestation stalls for housing pregnant sows in the US by the end of 2024 and how they have been working with industry experts since May 2012 to implement industry best practices and standards. We were encouraged by the consistent engagement of the senior team at McDonald's and progress on animal welfare standards.

Outcome and Next Steps:

We voted in line with management on the use of gestation stalls shareholder proposal but plan to monitor its progress on animal welfare as part of its reputation management with consumers.



Payment services company

Following a reported controversy within the payment services sector, portfolio managers, sector analysts, and members of the Sustainable Investment and ESG team, collaborated to assess the risk through research and engagement.

Objective:

We engaged with company management following reports of potential litigation. We applied our controversies framework as a guide. Our objective was to understand the rules that were in place already to prevent potential illegal activity from taking place, and then we wanted to understand how the company was enforcing those rules.

Details of Engagement:

The engagement indicated that the company could improve its approach to monitoring its client base and should limit the extent to which they were deferring some of that responsibility to their business partners. Our in-depth discussions helped us to understand the complexities resulting from the scale of its payment network but thought that there was opportunity to further enhance its oversight and the effectiveness of its internal controls.

Outcome and Next Steps:

We saw an opportunity for the company to strengthen the existing risk management framework to increase its ability to prevent these potential risks from coming to fruition. We have engaged with other companies in the sector that have so far avoided controversies such as this, to understand risk management practices, and help inform future engagements and recommendations for best practices.



We felt the existing risk management framework was not effective at preventing such risks from coming to fruition. We intend to engage with the company further and share some recommendations on best practices once we have reviewed the approach taken by industry peers.



Bret Miller, Research Analyst, Technology



Compass

Objective:

Following a more general ESG discussion at the company meeting, we subsequently set up a purposeful engagement meeting to share our thoughts on best practices for carbon emissions reduction and net-zero alignment.

Details of Engagement:

We shared our expectations with Compass, having reviewed its public disclosure in detail. Further, we provided guidance on Scope 3 reporting. Compass is at an early stage in its net-zero journey, with most of the progress made in its UK market. We understand the challenges that come with a decentralized business model and appreciate the time that is needed to better understand this.

We had a productive discussion where we were able to share our views on best practices and feed into Compass’s evolving net-zero strategy. Now that Compass has set a group-wide net-zero target, we will continue to monitor progress globally. We were pleased to hear the CEO refer to having a net-zero strategy as being a “commercial imperative” when bidding for government contracts in some key markets.

Outcome and Next Steps:

We plan to follow up with Compass to discuss its plant-forward diets and food waste initiatives in more detail. This prioritization is guided by the fact that these two programs contribute the most to the company’s Scope 3 emissions-reduction targets, given that 72% of the company’s Scope 3 emissions are from food products. We will continue to engage on emissions reporting and disclosure.



BP: Voting on Net-Zero Alignment Progress

Objective:

To discuss the implications for the company of the energy transition.

Details of Engagement:

In February 2022, we held a one-to-one meeting between BP’s CEO, and our sector analyst and the Sustainable Investment and ESG team in attendance. Prior to the call, Lazard Asset Management’s Oil & Gas analyst, portfolio managers, and analysts from the Sustainable Investment and ESG team actively debated the company’s transition plan on our internal messaging board “Dragonfly,” with nearly 30 investment professionals interacting with and sharing their views on this post. We also engaged with industry peers and considered additional third-party research from the Institutional Investors Group on Climate Change, our proxy advisors, and the CDP.

We met with the company for a second time in 2022 ahead of the annual general meeting to discuss management’s Say on Climate resolution and a shareholder resolution. Further, we applied our proprietary Climate Alignment Assessment tool to determine that BP is, by our assessment, aligning with a net-zero pathway.

Outcome and Next Steps:

After collaboration with the portfolio managers, energy analyst, and Sustainable Investment and ESG team, the Oil & Gas analyst reviewed the annual general meeting agenda and we voted to support the progress made on BP’s transition plan. Our peer analysis shows that this is one of the strongest transition plans within the sector in terms of targets. We will continue to monitor progress.



US Foods: Corporate Governance Proxy Contest

Objective:

To understand the governance changes being proposed by the Board.

Details of Engagements:

After Sysco’s attempt to purchase US Foods failed to gain federal approval in 2015, US Foods entered the public market via an initial public offering in 2016.

In 2022, activist investor Sachem Head—beneficial owner of 9% of US Foods’ common stock—initiated a proxy contest and initially nominated a slate of seven director candidates for election to the Board at the 2022 general meeting. As we agreed in principle with the significant opportunity for further capital allocation decisions, we entered an intensive engagement with the Board as well as the activist.

We engaged with the Chair and the audit committee Chair ahead of the annual general meeting. While acknowledging the positive governance changes being made by the Board in recent years, we remained concerned about the Board’s oversight of strategy, which lacked any specificity of further operational improvements to close the gap with its industry peers.

We also contacted the activist investor through a series of meetings. Although we agreed with most of what the activist was advocating, we expressed the view that we wanted to avoid draconian cost cutting and to minimize disruption.

Outcome and Next Steps:

Just one week ahead of the 2022 annual general meeting, the activist entered into a cooperation agreement with the company and withdrew its slate of nominees. The company agreed to increase the size of the Board to 13 directors, while the CEO decided not to stand for re-election. Two of the director nominees would be included in a five-member search committee to identify a new CEO.

We strongly supported the compromise reached with the Board and the activist. Acknowledging the short-term disruption of the CEO change, we remain positive on our longer-term investment thesis of market share gains among scaled players in this post-COVID recovery period.



An activist launched a proxy contest seeking to take control of the Board. We were strongly of the view that the Board did need a refresh but at the same time, we were concerned about the nominee’s CEO candidate given his reputation of cutting costs and stripping down businesses. We did not support significant cost-cutting that could be a detriment to long-term revenue growth and market share gains.



Janice Davies Portfolio Manager/Analyst, Lazard US Small-Mid Cap Equity

Stewardship Statistics

Direct Engagement

As a firm we have typically participated in around 4,000 company meetings globally per year. Below are the ESG engagement and meeting statistics from 2022.

4,250

Total company meetings

1,172

Information gathering

148

Purposeful engagements

31%

Meetings discussing ESG topics

30%

Environmental topics

12%

Social topics

22%

Governance topics

36%

Multiple topics

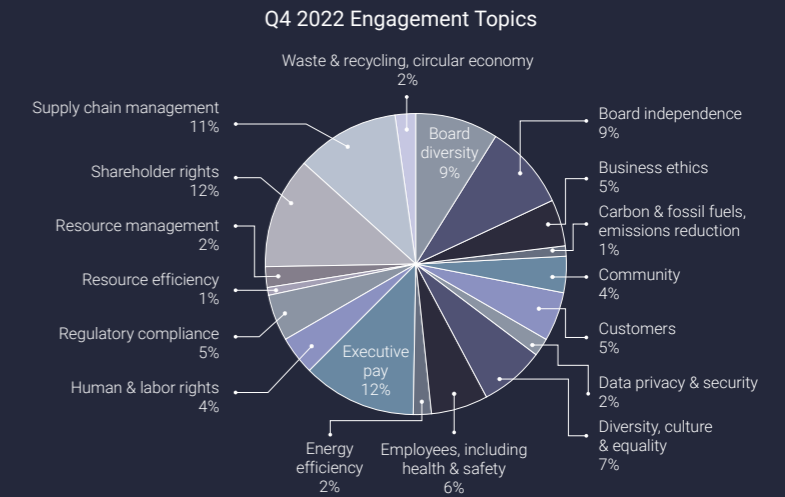
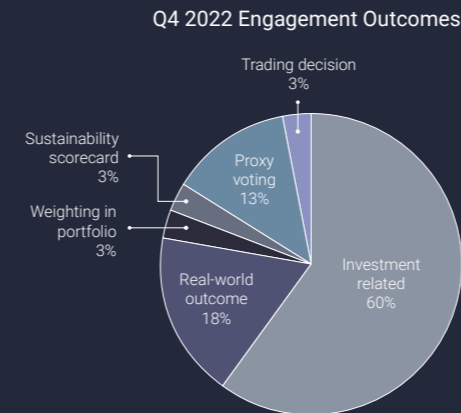
Purposeful engagements increased by 53% in 2022

Over the past few years, we have built additional functionality into our centralized research database so that any company meeting where an ESG topic has been raised and tagged can be better tracked as part of engagement monitoring.

We recently enhanced our tracking as part of implementing the new engagement definitions discussed above. These changes were implemented in Q4 2022 and we believe they will allow us to track outcomes more effectively.

The categories are designed to facilitate greater insight into the value created through our engagements and distinguish between ESG due diligence and engagements with a tangible outcome; either an investment outcome or real-world outcome. An example of the additional insight we are able to capture is shown by the Q4 2022 snapshot below, which allows us to track the range of issues discussed at a more granular level and track the outcomes.

New Insights Collected in Q4 2022



Voting

2022	Emerging Markets	Europe	Other	United Kingdom	United States	Total
Total number of meetings	1912	695	1026	322	1678	5633
Meetings voted	1882	620	1024	322	1667	5515
Meetings voted 100% with management	1068	315	622	258	841	3104
Meetings with one or more against management	814	305	402	64	826	2411
Meetings not voted (share blocking)	30	75	2	0	11	118
Meetings with one or more abstentions	62	5	7	2	3	79

64%

Shareholder resolutions supported in 2022

44%

Meetings where we voted against management in one or more proposals

Wider Influence

Industry Involvement



Client Roundtable: Applying Net Zero Frameworks to Emerging Markets Portfolios, London

Ahead of COP27, we assembled a roundtable event for our clients and relevant industry stakeholders to debate ideas about net zero implementation in emerging markets portfolios, and to exchange perspectives on current and future issues impacting asset allocation and investment decisions in this space.

Some of the considerations discussed included how climate is changing the way investors think about portfolios, from the perspectives of long-term impacts on financial performance and evolving client expectations. We also discussed the potential perverse implications of a one-size-fits-all approach that may lead to portfolio decarbonization but perhaps no real-world changes.

Our view continues to be that a differentiated approach for emerging markets is required that employs a deep appreciation of regional issues as well as sector-specific issues. Engagement across relevant portfolios is key and can help uncover how these relate to both financial outcomes and real-world environmental and social issues.



Global Sustainability Speaker Series, New York

In September 2022, Lazard Asset Management hosted its first Global Sustainability Speaker Series event at our headquarters in New York. We invited Judy Samuelson, Founder & Executive Director of the Aspen Institute Business & Society Program, and author of The Six New Rules of Business: Creating Real Value in a Changing World, to discuss the principles of her book, the implications for investors, and the increasing politicization of ESG.



Industry Podcast: Financing the Energy Transition

In November 2022, Nikita Singhal, Co-Head of Sustainable Investment and ESG at Lazard Asset Management, spoke on the SmarterMarkets' Financing the Energy Transition podcast series. She discussed Lazard's approach to ESG investing and building investment strategies in public equities, in addition to beneficiaries of the energy transition and the resulting alpha generation opportunities for active fundamental investors. Click [here](#) to listen to here the podcast.



Institutional Investors Group on Climate Change AGM, Barcelona

Lazard Asset Management co-sponsored the IIGC AGM, an event that brings together a broad range of asset owners and asset managers that collectively represent €60 trillion in assets. Jennifer Anderson, Lazard Asset Management's Co-Head of Sustainable Investment and ESG, took part in a panel discussion alongside representatives from the UK government, a national investing body, and peers from the investment

community to share perspectives on how to remove barriers to net-zero aligned investing in emerging markets. The discussion focused on how to encourage capital flows into emerging markets and close the climate finance gap, and the role of policy and public bodies in supporting developing countries' transition to net zero.

Anderson highlighted a series of challenges currently facing investors in emerging markets in respect to aligning to net-zero targets while putting forward some potential solutions.



UN Climate Change Conference, COP27, Egypt

Jennifer Anderson, Co-Head of Sustainable Investment and ESG, traveled to Egypt for COP27—an event that brought together world leaders, policymakers, climate change experts, non-government organizations, the financial and investment community, and other related stakeholders.

COP27 built on the work of previous climate summits and shifted the focus from ambition setting to

implementation. There was much discussion on how to mobilize capital towards emerging markets and which finance initiatives and partnerships to fund projects were starting to take root. Anderson shared her insights about developments at the conference, which can be found here: [Postcards from COP27](#).

Also noticeable was the greater industry participation beyond just the financial sector, including the oil and gas industry and agriculture sectors. These sectors have a complex role in decarbonization, and our investment professionals have given much thought to these topics, including the challenges and opportunities that the climate transition brings to both.



UN Biodiversity Conference, COP15, Montreal

Olivia Tidd, Research Analyst, Sustainable Investment and ESG, headed to Montreal in December 2022 for COP15. The summit had the potential to be a landmark event, in much the same way the Paris Agreement was a historic moment for climate change. The conversation around biodiversity loss moved from theoretical to actionable, as world leaders came to an agreement on

the Global Biodiversity Framework, setting out ambitious 2030 targets as part of a roadmap to achieving the four overarching 2050 goals for living in harmony with nature. We look forward to seeing how these targets get translated into financial frameworks over the coming year, leveraging new disclosure frameworks such as the Taskforce on Nature-related Financial Disclosures.

Months before the conference, Olivia Tidd had shared her thoughts on the topic of biodiversity loss and the investment risks and opportunities that could emerge from addressing this issue, as set out in [Why Biodiversity Is Moving to Top of Mind for Investors](#).



ESG Investing against the Backdrop of COP27, Bloomberg Daybreak Asia

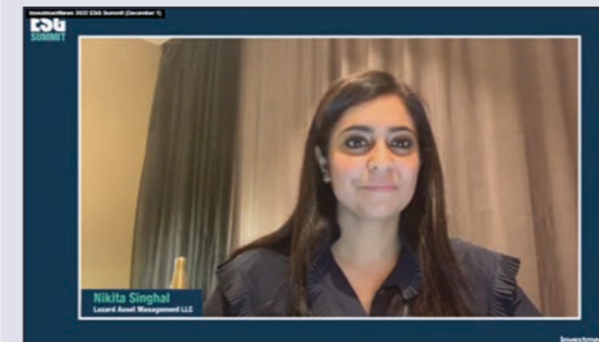
Nikita Singhal, Co-Head of Sustainable Investment and ESG at Lazard Asset Management, discusses her takeaways from COP27 and where she sees opportunities in sustainable investment. She speaks with Bloomberg Daybreak Asia about the uncertainties post COP27, four seminal events leading up to COP27 including Australia's landmark climate deal, the election

of President Lula in Brazil that may significantly impact the fate of the Amazon, and the Inflation Reduction Act—arguably the largest piece of climate legislation globally.

She also discussed how we, as investors, remain most focused on trying to estimate what the policy response is going to be to this climate agreement across the world, how we continue to estimate the change in pace of the energy transition, and how that then translates into risks and opportunities for us across regions, asset classes, and sectors.

She shared her excitement for 2023 and beyond in terms of our ability to find investment opportunities in the clean energy space, in market-leading technologies—whether related to energy efficiency, electric vehicles, renewable energy, or battery storage, etc. While investors often talk about the risks related to climate change, Singhal delved into the significant investment opportunities the current macro-political environment and recent market volatility provides.

Watch the Bloomberg Daybreak Asia footage [here](#).



Investment News ESG Summit, New York

What exactly is ESG and why are some equating it to being “woke” or “ideological?” At this keynote session for Investment News' ESG Summit, Nikita Singhal, Co-Head of Sustainable Investment & ESG explores the history and evolution of ESG and the cause for conflation of various terms in this space. She also attempts to debunk key myths that have perhaps led to some of the anti-ESG sentiment in the current market and political environment.



Inflation & Climate Change on Bloomberg Surveillance, Global

Ronald Temple, Lazard's Chief Market Strategist, joined Bloomberg Surveillance to discuss the economy and markets, specifically how investors need to focus on the long-term story which is one of structurally higher inflation as global supply chains are recalibrated and climate change forces economies to spend trillions of dollars on adaptation and mitigation strategies.



International Corporate Governance Network Conference, Seoul

Lazard Asset Management has been a supporter of the International Corporate Governance Network (ICGN) since 1999. The ICGN sets and promotes standards for corporate governance across the industry and our investment professionals regularly participate in ICGN events to share insights and to engage with peers in the industry.

In 2022, a member of the Sustainable Investment and ESG team, together with our Japanese equity team, attended the ICGN Seoul Conference hosted by Korea Exchange and the Korea Institute of Corporate Governance and Sustainability. Key topics from the conference included:

- Governance of geopolitics in a new world order
- ICGN UN-supported Global Investors for Sustainable Development Alliance Model Mandate
- Controlling shareholders, corporate value, and minority shareholder rights
- Diversity, equity, and inclusion
- Corporate capital allocation efficiency and resilience
- Investor engagement
- Assessing board quality and effectiveness of CEO oversight



Putting a Price on Climate Risk: S&P Global Conference, Climate Week, New York

Nikita Singhal, Co-Head of Sustainable Investment and ESG, spoke with the Chief Operating Officer of The Climate Service, a S&P Global company, as part of Climate Week NYC, about the growing catalysts that are pricing in externalities such as carbon emissions and other climate-related considerations.



The Energy Gang Podcast

Shanu Mathew, Portfolio Manager/Analyst, US Sustainable Equity, spoke alongside Dr. Melissa C. Lott, Director of Research at Columbia University's Center on Global Energy Policy, to analyze the implications for clean energy as the economic clouds gather. Rising interest rates are a big contributor to the pressure on the banking system, and also have implications for renewables. Mathew shares his views on the ESG backlash and what it means for investors and for clean energy companies that need capital to transition. The

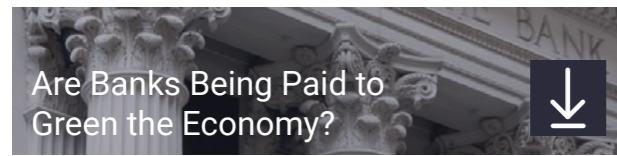
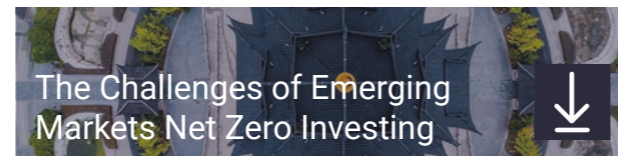
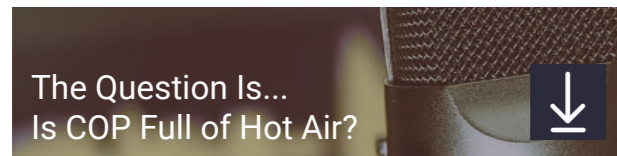
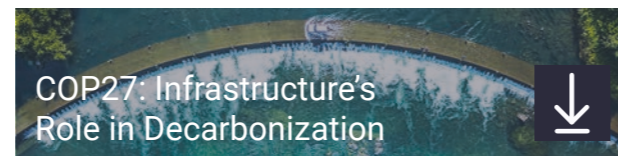
discussion also included a review of the IPCC report, including the challenges presented by it and some possible solutions.



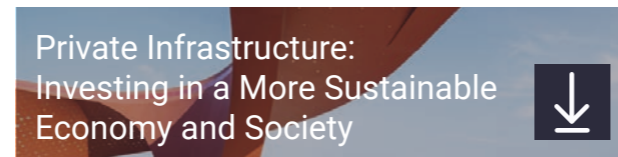
Thought Leadership

In 2022, we published a selection of thought leadership on topics including net-zero, sustainable infrastructure, and biodiversity.

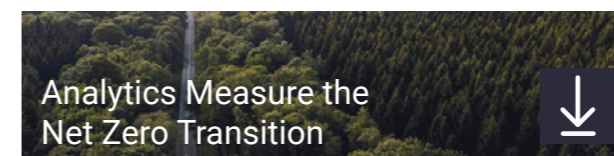
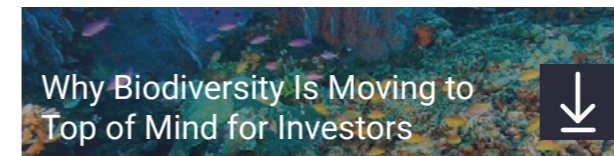
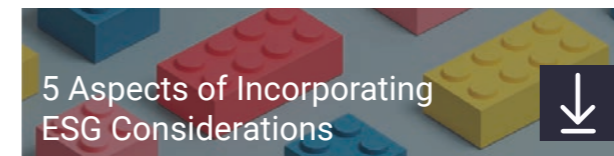
Examples



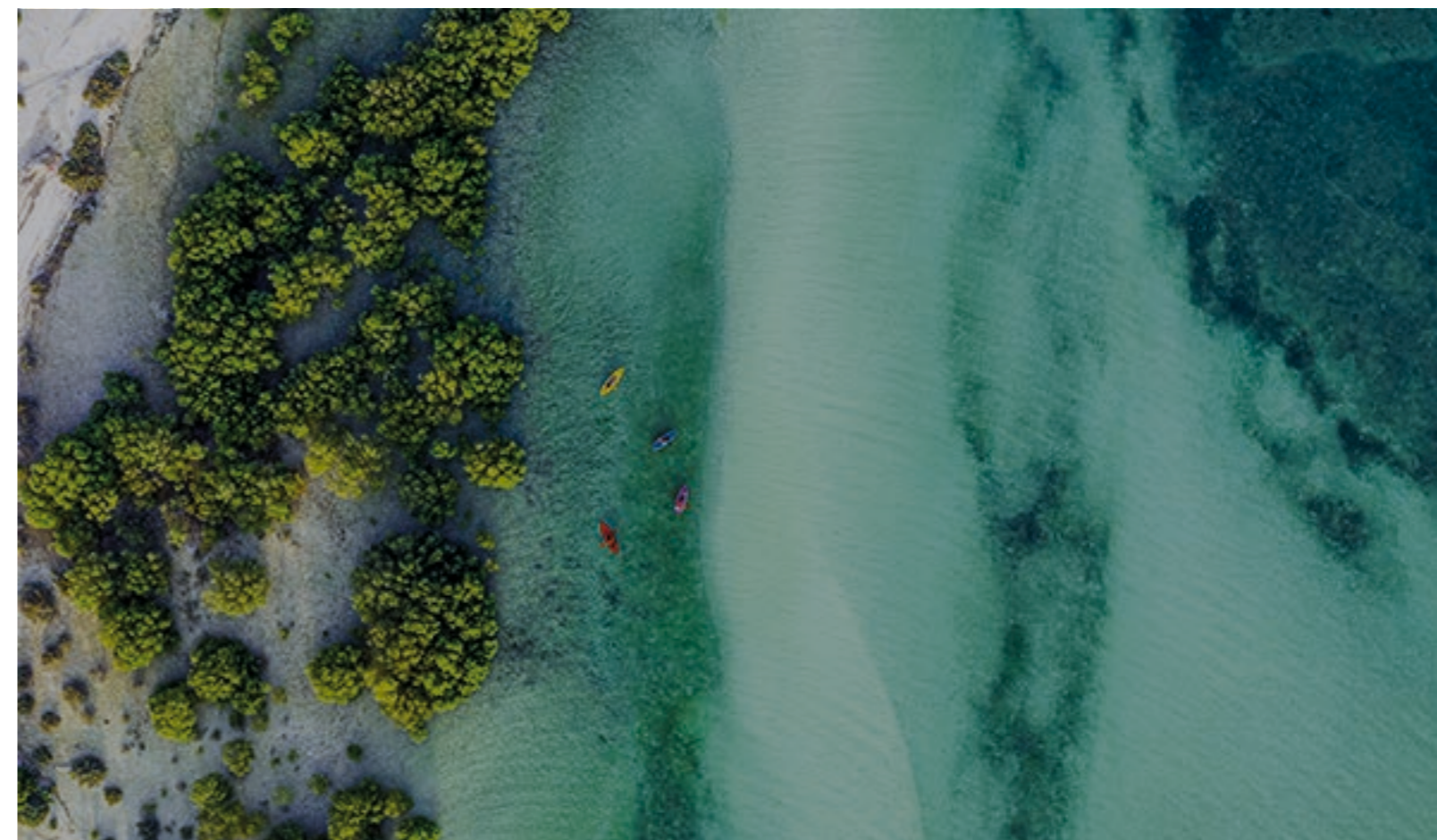
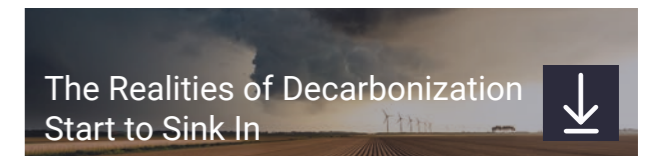
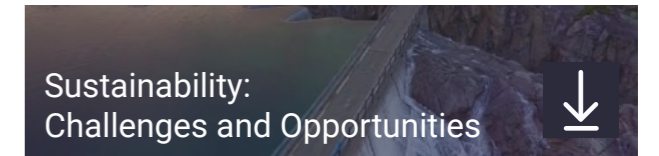
Strategy Related Thought Leadership



Sustainability Blogs



Structural Themes



The Road Ahead



Jennifer Anderson
Co-Head of Sustainable Investment and ESG



Nikita Singhal
Co-Head of Sustainable Investment and ESG

A Message from Our Co-Heads of Sustainable Investment and ESG

Sustainable Investing and ESG are not monolithic. As this report details, it covers a vast collection of societal challenges, from climate change to socio-economic inequities. It can also cover a variety of approaches—exclusions, integration, sustainability-themed, and impact—and different methodologies to manage and mitigate risk and invest in associated opportunities.

The past year has seen both a backlash on ESG in the US and greenwashing concerns in Europe. We believe that both concerns, albeit on either end of a spectrum, stem from a lack of understanding of what ESG really is.

We believe that ESG is about discovering and pricing environmental, social, and governance risks and opportunities, rather than about taking a moral or political stance or saving the planet. It should be part and parcel of good, disciplined fundamental investing. Our primary focus remains to generate alpha for our clients and their beneficiaries. This is true even more so today as we see several sustainability-related structural shifts in society that are driving regional regulations, changes in consumer behavior, and technological disruptions.

ESG is best suited for active management as we believe it cannot be solely based on backward-looking data or third-party ESG ratings, but rather forward-looking views on how specific sustainability trends are impacting the financial productivity or valuation of the enterprises in which we look to invest.

Looking ahead, we remain excited about the opportunities for sustainable investment across the globe, although asset managers and asset owners will continue to face

greater scrutiny from a range of stakeholders on the credibility of their approach to sustainable investment and ESG integration, as well as the robustness of governance and process around it. The emergence of regulatory frameworks for sustainable investment—mostly related to standardization of definitions and better disclosure—have gathered at pace, which places greater emphasis on the quality of ESG data, compliance, and reporting.

This trend has so far been most notable in Europe, where the EU Commission has implemented a prescriptive regime for sustainable investment through the Sustainable Finance Disclosure Regulation, but the UK's Financial Conduct Authority and the US Securities and Exchange Commission are among other regulators looking at disclosure regimes for climate change and sustainable investment. Momentum is also building that could support similar policy frameworks from financial regulators in Asia and the Middle East.

The road ahead will continue to present more twists and turns for asset managers as the industry strives for clearer standards and definitions for sustainable investment. While the labels may still be debated, the underlying trends such as the energy transition, healthier living habits, and greater scrutiny on worker rights, remain strong. We believe these trends will continue to fuel the growth of investor appetite for solutions that help to mitigate risk while generating alpha.

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: <https://www.iea.org/reports/world-energy-investment-2022/overview-and-key-findings>
- 2 Source: <https://www.bp.com/en/global/corporate/news-and-insights/press-releases/bp-update-on-strategic-progress.html>
- 3 Source: [Net Zero Tracker](#)
- 4 Source: Company filings, FactSet
- 5 Source: The Intergovernmental Panel on Climate Change (IPCC) is the United Nations body for assessing the science related to climate change. The IPCC prepares comprehensive Assessment Reports about the state of scientific, technical, and socio-economic knowledge on climate change, its impacts and future risks, and options for reducing the rate at which climate change is taking place. It also produces Special Reports on topics agreed to by its member governments, as well as Methodology Reports that provide guidelines for the preparation of greenhouse gas inventories. The latest reports are available here: <https://www.ipcc.ch/>
- 6 Based on our revised engagement tracking system

Important Information

Published on 6 June 2023.

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