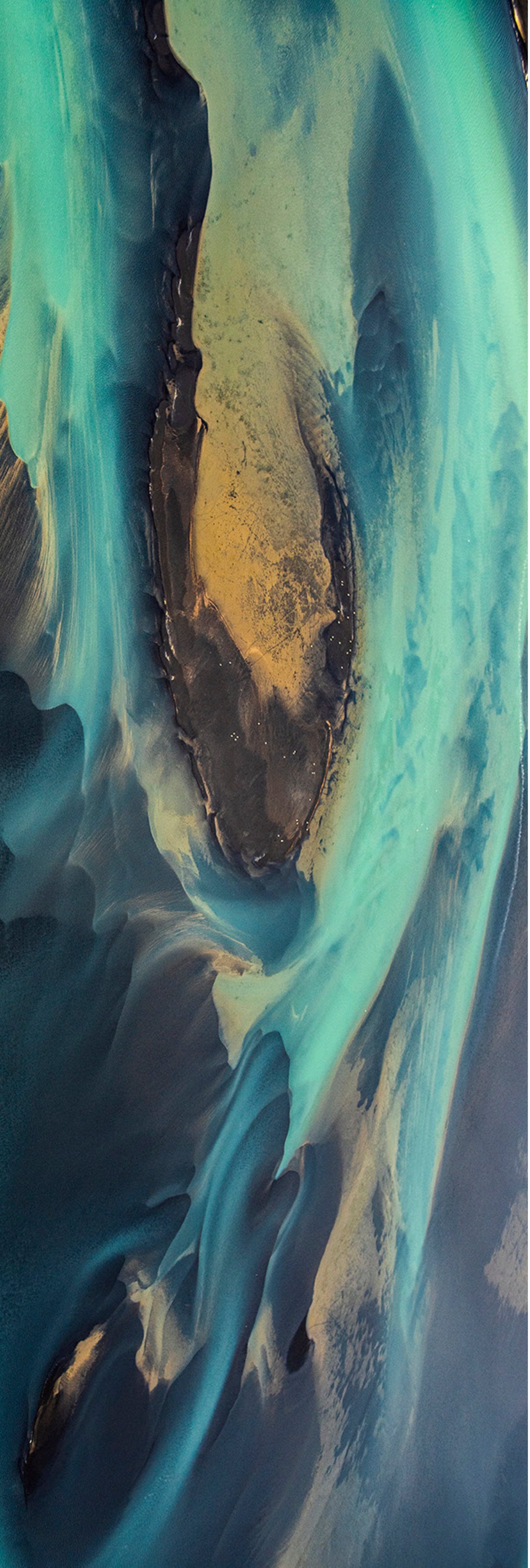


Lazard Active Ownership Report

Third Quarter 2024

LAZARD
ASSET MANAGEMENT

Our Sustainable Investment Principles

The Principles Driving Our ESG Integrated and Sustainability-Focused Portfolios

Principle One
Holistic Research

Our approach is founded upon deep fundamental research that integrates environmental and social issues as well as corporate governance practices across our investment portfolios. Our decisions are based on proprietary processes that draw on research from internal analysis and external data providers selected for their quality and relevance.

Principle Two
Active Owners

Regular interaction with companies held in our clients' portfolios is a vital part of our investment process. As stewards of our clients' capital, we emphasise engagement and exercising voting rights.

Principle Three
Transparency

We are committed to disclosing regularly on our investment processes and outcomes, as well as our active ownership efforts. We provide evidence of how environmental, social, and corporate governance considerations affect our investment analysis and decision-making.

Principle Four
Sustainability-Focused

For strategies with a sustainability objective, we allocate capital to companies that provide products and services that we believe can support the transition to a more sustainable world and can integrate ESG issues into their goals to offer better resilience and performance over the long term. We favour companies that are effectively managing their human and natural capital, as well as evidencing good governance practices.

Principle Five
Governance

The Lazard Asset Management (LAM) Executive Leadership Team defines and oversees the firm's ESG strategy, working closely with relevant internal committees and dedicated resources on the Sustainable Investment & ESG Team to ensure effective implementation.

Introduction from our Head of Sustainable Investment & ESG

Jennifer Anderson
Global Head
of Sustainable
Investment & ESG

In this Active Ownership Report, we highlight our latest voting and engagement, review significant developments in the world of sustainable investment and corporate governance, and provide a roundup of our recent activity.

In this quarter's report:

Infrastructure Investment Harnessing Global Mega Trends

The Lazard Sustainable Private Infrastructure Team discusses how targeted infrastructure investments can drive a sustainable future, and why investing in companies supporting the transition is increasingly urgent.

Under the Hood of the Carbon Border Adjustment Mechanism

The EU's new carbon pricing system, the Carbon Border Adjustment Mechanism, comes into effect in 2026. We examine its implications through a pair of corporate case studies and review how it may evolve.

Key Themes from Climate Week: Net Zero and AI's Energy Demands

Our Sustainable Investment & ESG team attended various events in New York for Climate Week. Our engagements with other investors, asset owners, corporates, and NGOs yielded valuable insights.

One of the overarching themes was the feasibility of achieving a 1.5°C net zero target by 2050, with consensus gradually shifting towards a 2060 or later timeline. Despite significant strides in renewable energy capacity additions, exemplified by China, we remain far off the US$5 trillion annual investment required to achieve the goals of the Paris Agreement.

Physical climate risks and adaptation investments are also gaining prominence as more assets become uninsurable. Extreme weather events such as the recent hurricanes in Florida underscore these challenges.

There is also growing uncertainty about AI's long-term impact on energy demand, potentially increasing consumption despite improvements in efficiency. This concern is fostering renewed interest in nuclear energy, highlighted by Constellation Energy's deal to restart a unit at Three Mile Island and Amazon's recent announcement that it is investing US$500m in small modular nuclear reactors.

Under the Hood of the Carbon Border Adjustment Mechanism

The EU's new carbon pricing system, the Carbon Border Adjustment Mechanism (CBAM), comes into effect in 2026. To keep European producers competitive, it will impose a tariff on certain carbon-heavy products imported into the EU. The main sectors affected include iron, steel, aluminium, cement, hydrogen, fertilisers, and electricity, with the biggest impacts likely to be felt in iron, steel, and aluminium as these goods are traded more internationally.

Although CBAM is still two years away from being fully implemented, the potential opportunities and risks are already unfolding. Companies producing greener products may gain market advantages or be able to charge higher prices. Conversely, companies that are not adapting their product range could face challenges but may adjust by shifting their exports to different markets.

Initially, Indian steel and iron companies could be the most affected by CBAM. The impact on aluminium depends on whether indirect (Scope 2) emissions are included. Some companies might try to avoid CBAM's effects by re-melting materials or resource shuffling. As we approach 2030, more sectors may come under the scope of CBAM, increasing policy risks, especially if similar measures are adopted by the US, Canada, or Australia, possibly leading to trade conflicts.

As part of our CBAM research, we have undertaken engagements to understand the implications for individual companies. Two examples of our interactions with companies in the metals and mining sector are profiled below.

Engagement Example: European Metals Company

The company is already investing in decarbonising its assets to be ready for low-carbon steel. In the US, it is using electric arc furnace (EAF) technology to be virtually fossil-free on Scope 1, although it relies on the grid for Scope 2 decarbonisation. Today the company produces 50k tonnes of carbon-free steel product in the US with EAF and renewable energy contracts, shipping the product to Europe using low-carbon shipping fuel. It aims to reach 100k tonnes by 2025 and believes that all its production (7–8 Mt) will be low carbon by 2030–2035.

The company's structural advantage in producing low-carbon steel in Europe is based on its ability to source cheap domestic hydro, wind, and nuclear power. Management shared with us how the firm is still benefiting from free emission allowances from the EU Emissions Trading System (ETS). But as these are phased out and CBAM kicks in gradually it will increasingly be exposed to carbon pricing.

While the company does not see a premium for low-carbon steel in the long term, it believes being low carbon in Europe could lead to a lower operating cost base. Management is currently more focused on the ETS than CBAM, as the former will have direct impact on the company's profitability, although they continue to monitor CBAM developments.

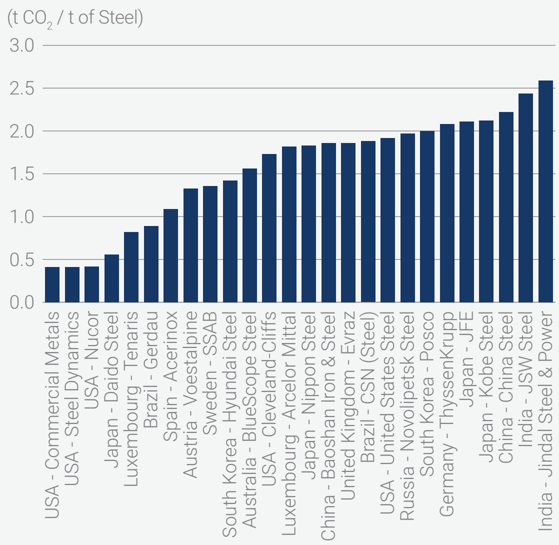
"The company's early investments in decarbonisation and strategic use of renewable energy should position it to benefit from the Carbon Border Adjustment Mechanism as it scales up low-carbon steel production."

Alistair Godrich, CFA
Research Analyst

Iron and Steel

The EU CBAM covers almost all iron and steel products as well as agglomerated iron ores and concentrates. It also includes downstream products, such as screws, bolts, washers, and similar. The [Transition Pathway Initiative](#) collects and cleans carbon intensity data for the major listed iron and steel producers (Scope 1 emissions only).

Steel Carbon Intensity (2022)



As at 31 December 2022
Source: Transition Pathway Initiative

> "This mining company might face risks under the EU's CBAM due to the high emissions exports from its South African asset compared to its Mozambique and Brazilian operations, both of which use renewable energy."

Tim Zhao
Portfolio Manager/Analyst

Engagement Example: Australian Metals and Mining Company

The company exports approximately 45% of its aluminium volumes to Europe, exposing the firm to the EU CBAM, especially if Scope 2 (indirect) emissions are covered at some stage, which is management's base case.

The firm produces 10 commodities, including aluminium. It has three major aluminium sites: Mozambique, Brazil and South Africa. Currently all of its production from Mozambique is sent to Europe. Operations here are fully powered by hydropower, provided by a South African electrical utility company from within Mozambique. Although the Mozambique government has announced its intention to stop selling hydropower to the South African utility, the mining company believes it will be able to work with the Mozambique government to secure its access to clean hydropower.

The Brazilian aluminium site also uses 100% renewable energy to power its operations. A sizeable portion of this product is currently used domestically, but there could be an opportunity for this product in the European market.

Lastly, the company's management team has concerns about its South African site. It uses energy from the South African grid, which is heavily dependent on coal. The firm is looking to procure power from third-party producers when its power contract expires in 2031, rather than relying on the existing provider, or it could use its own balance sheet to invest in solutions to decarbonise its asset. However, given that it is one of the utility company's largest local customers and a major local employer, the mining company hopes this will encourage the electric utility to make progress in decarbonising, thus maintaining its products' competitiveness even in light of the EU CBAM.

In view of the risks, we will continue to closely monitor the situation in South Africa. The company believes it can pivot its exports to other markets if needed. But the asset could be at risk if demand for this product dwindles.

Views from the Manager: Lazard Sustainable Private Infrastructure

In this Q&A, the Lazard Sustainable Private Infrastructure (SPI) Team discusses how targeted infrastructure investments can contribute towards a sustainable future, and why investing in companies supporting this transition is increasingly urgent. The team shares their insights on the mega trends reshaping the economy, their approach to defining and measuring sustainability KPIs, and the unique governance dynamics of private companies.

Please explain the mega trends reshaping the economy that are pivotal to the SPI strategy.

In our view, the scale of investment needed to enable society to mitigate the impacts of climate change, to adopt transformational technologies, and improve essential services infrastructure can be compared to the industrial revolution of the 19th century. It is expected that approximately US$5 trillion a year will be needed to maintain global GDP and meet sustainable development criteria by 2040.[1]

We identify five mega trends:

- **Decarbonisation** of the broader economy, including industrial output, transport, and trade routes.
- **Decentralisation** of supply chains
- **Demographic changes**, particularly in the western world, which reduce the workforce size and shift social needs
- **Efficient resource management** and the maturation of the circular economy
- **Continued digitalisation** of the economy, leading to increased demand for data generation, communication, and storage

These mega trends are supported by national policies, geopolitical dynamics, and demographic shifts. Addressing these issues will require substantial capital, presenting investment opportunities we believe we are well positioned to capitalise on.

How do you define sustainability KPIs at the asset level?

Our goal is to acquire infrastructure companies that contribute to a sustainable economy, whether through their end products (like renewable energy) or their core purpose (such as resource recycling). We aim to grow these companies and implement governance structures that ensure long-term performance, believing that operational success and sustainable performance are strongly correlated.

Before acquiring a company, we conduct thorough due diligence to identify specific KPIs related to sustainability and assess how our involvement—as controlling shareholders—can improve these metrics. These KPIs are set in collaboration with technical and commercial advisers, and with the management team and co-shareholders, if any. We commit to reporting under the framework of Article 9 of the EU Sustainable Finance Disclosure Regulation to provide evidence to our stakeholders of our portfolio's management.

Post-acquisition, we influence KPI improvement at both the board and working levels. This includes mentoring management teams, providing expertise in growth strategies, and investing in relationships with broader stakeholders.

Five Mega Trends

For illustrative purposes only

How does governance differ in private markets compared to large-cap listed companies where Lazard Asset Management exercises voting rights?

In principle, the governance responsibilities are the same. In our portfolio, we appoint statutory directors responsible for acting in the company's best interests, ensuring appropriate governance, and complying with regional legal and regulatory duties.

In practice, private companies, especially small and medium-sized ones, benefit from shorter communication lines between stakeholders, including the board and shareholders, allowing for faster and more transparent interactions. This enhances responsiveness and flexibility, leading to better information and data sharing in decision-making processes.

Given the differences in disclosure requirements between private and listed companies, we have governance procedures to ensure proper checks and balances on management teams, including adequate reporting processes. This is crucial since we take controlling ownership interests in our portfolio companies.

What are the strengths and weaknesses of founder-led businesses from a governance perspective?

Several of our investments are founder-led businesses. As a long-term investor partnering with management teams of small and medium-sized infrastructure companies, we have extensive experience in this area.

Founders often bring genuine passion and commitment to their businesses, prioritising sustainable agendas alongside financial success. A key strength of founder-led businesses is their long-term vision and dedication, which can foster a strong company culture and values. Founders and early-stage management teams maintain close relationships with stakeholders and communities, including employees, which can help to retain key personnel.

With our support, the management teams of our portfolio companies benefit from an agile decision-making process, crucial for emerging companies in the energy transition sector. However, centralised decision-making can be a challenge. To address this, we empower each board with clear authority over strategic decisions, ensuring balanced governance. We also hold regular discussions at various levels, from monthly meetings to weekly calls, providing comprehensive support and avoiding over-reliance on a few individuals.

A significant challenge—and opportunity—is establishing a fair and achievable long-term alignment framework between Lazard SPI and the founders/management teams. Before any acquisition, we collaborate with management teams to develop a long-term business plan and a clear path to achieve it, in a bid to meet mutual goals and deliver sustainable growth.

What lessons can you share about managing climate transition risks and opportunities that could benefit those engaging with listed corporates?

Our focus on mid-sized and small companies with physical infrastructure assets gives us first-hand experience with changing weather patterns and extreme events affecting our portfolio companies' profitability. While this poses risks, it also presents significant investment opportunities to strengthen local infrastructure networks, making them more reliable and resilient.

Through direct engagement at the board and working group levels, we stay informed about significant events at individual sites and across our portfolio. This insight allows us to better assess the investment returns associated with resilience-enhancing capital projects or emerging revenue streams.

By moving from broad assessments of "climate risk" and "sustainability reporting" to focusing on specific operational risks and opportunities, boards can take more effective action to manage climate physical risks.


Lazard Asset Management
Sustainable Private Infrastructure
OCT 2024
Water Infrastructure Investment in a Climate-Challenged World
Executive Summary
Competition for Water Usage
Changing Weather Patterns
LAZARD

Further reading:

[Water Infrastructure Investment in a Climate-Challenged World]

Water infrastructure and adaptation projects launched in response to climate change can present diverse investment opportunities for private capital.

Sustainable Private Infrastructure Team


Robert Wall
Managing Director


Vitaly Filipskiy
Senior Vice President


Alexis Agabriel
Vice President


John Cresswell
Operating Advisor

As of 30 September 2024

Our Approach to Active Ownership

LAM has a long history of engaging with companies. With over 20 years' average industry experience, 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 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 & ESG Team works in collaboration with our relevant investment professionals, providing additional subject-matter expertise.

Our overarching active ownership objectives are to:

1. **Demonstrate the value of fundamental research and its influence on voting decisions.**
2. **Evidence high-quality, outcome-oriented engagements that influence our investment decision-making and/or drive real-world outcomes.**
3. **Meet evolving stakeholder expectations and provide transparency on our stewardship activities.**

For further information about our stewardship policies and processes, several reports are available on our website.

Meetings

Company Meetings

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.

Monitoring

ESG Due Diligence

Objective:

Meetings with company management that allow us to gain a better understanding of a company's approach to managing natural and human capital-related risks and opportunities.

Engagement

Engagements with a Tangible Outcome

Objectives:

1. Investment outcome where there can be a change to our investment view, including valuation, or voting decision.
2. Observable change/improvement in company or issuer practices that support real-world outcomes.

Our Global Governance Principles

Our view on corporate governance and accountability are set out clearly in our Global Governance Principles.

The principles provide a framework for engagement and voting, aligning with our overarching sustainable investment principles. They are founded on the belief that long-term shareholder value is enhanced through a more comprehensive assessment of stakeholder management.

Active Ownership Statistics – Q3 2024

Direct Engagement

As a firm, we typically conduct around 4,000 company meetings globally per year. Below are the engagement and voting statistics from the last quarter.

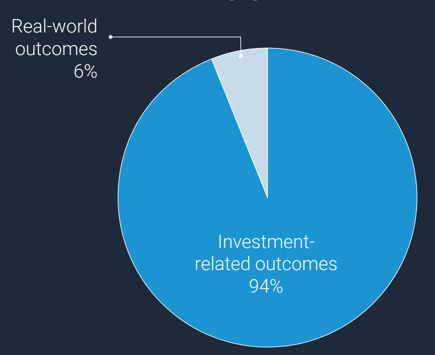
1,248
Total company meetings

313
ESG due diligence meetings

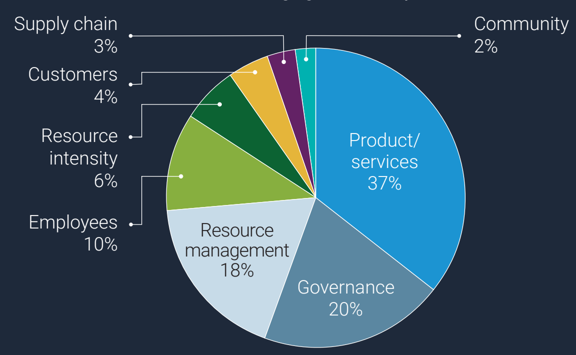
32
Engagements with tangible outcomes

Engagement Highlights

Q3 2024 Engagement Outcomes



Q3 2024 Engagement Topics



Voting Summary

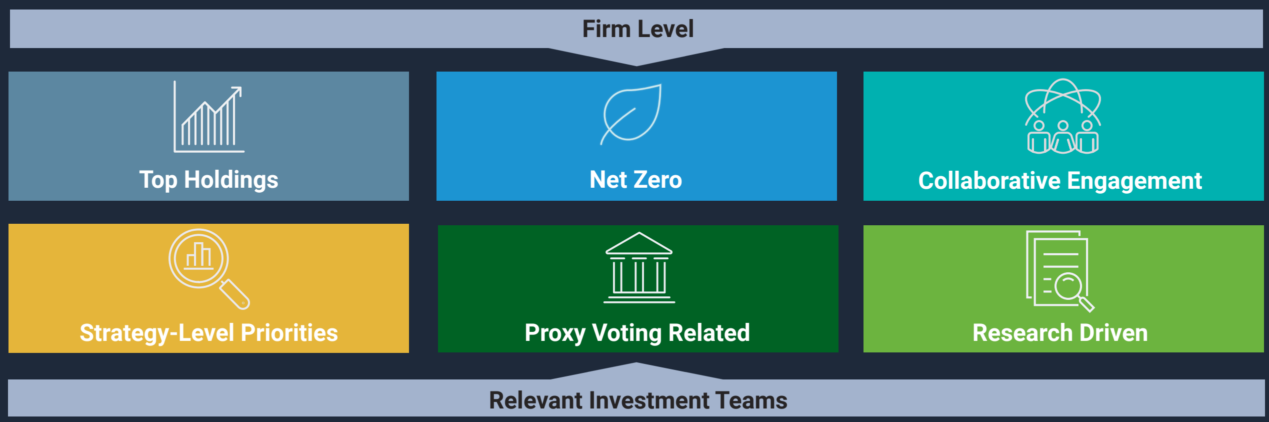
Q3 2024	Emerging Markets	Europe	Other	United Kingdom	United States	Total
Total number of meetings	522	52	100	80	108	862
Meetings voted	519	52	100	80	102	853
Meetings voted 100% with management	316	28	59	68	42	513
Meetings with one or more vote against management	200	23	40	10	60	333
Meetings not voted (share blocking)	3	0	0	0	6	9
Meetings with one or more abstentions	3	1	1	2	0	7
Percentage voted with management (%)	61	54	59	85	41	60
Percentage voted with one or more against management (%)	39	46	41	15	59	40

75%
Shareholder resolutions supported in Q3 2024

40%
Meetings where we voted against management in one or more proposals

Our Active Ownership Priorities

Prioritising engagement objectives is a key element of our approach to active ownership. Our engagement priorities guide our approach across key sustainability topics and investment-led conversations:



Stewardship Highlights

Below we present some engagement highlights from the quarter and how this supported our investment view.

Strategy-Level Priorities

A Strategy-Level Engagement

Company/Exposure:	UK data analytics and consumer credit reporting company, held in International Equity, Minerva Gender Diversity, European Equity, and Global Thematic Equity.
Objective:	We sought to understand the company's approach to AI ethics, given the extensive use of AI in its business model and products. As outlined in our previous quarterly report, we see increasing regulatory focus on the responsible use of AI. The meeting also gave us the opportunity to get an update on the company's diversity, equity, and inclusion (DE&I) practices.
Engagement details:	We learned that the company is seeking to build on its strong ethics, robust compliance, and product frameworks as part of its AI risk management strategy. Further, the company has shown a strong commitment to financial inclusion through targeted product development. The company's extensive recruitment programmes, such as a hackathon in emerging markets, have resulted in many diverse hires. We discussed the extent to which diversity is reflected within executive compensation.
What we learned:	Whilst lacking a formal AI ethics policy and dedicated board advisor, its "Fairness as a Service" capability demonstrates efforts to address indirect biases. Management is cautious about tying social metrics to executive compensation, preferring cultural integration over forced compliance. The company's annual DE&I updates reflect evolving best practices, but it faces challenges meeting DE&I targets due to lower employee turnover.
Outcome:	The engagement gave us confidence in the company's AI ethics risk management, but highlighted areas for improvement. These included enhancing AI ethics governance and extending its global data principles to strengthen its position as a responsible leader.

Research Driven

A Research-Driven Engagement

Company:	US skincare and fragrance company, held in Global Thematic Equity/Focus, US Equity Select/ Focus and US Sustainable Equity strategies.
Objective:	Our engagement sought to understand allegations of the company's involvement with modern slavery several tiers down the perfume ingredients supply chain in Egypt. This potentially puts the company at risk from reputational risk and failure to align with European supply chain regulations.
Engagement details:	We learned that in response to the allegations the company joined the Fair Labor Association's (FLA) "Harvesting the Future" initiative, teaming up with market players to investigate the perfume supply chain. We will continue our dialogue directly with the company, as well as with fragrance partners and the FLA, to gain further insights into the project.
What we learned:	The FLA initiative confirmed that the producers and purchasers of jasmine and jasmine derivatives (a key ingredient in perfumery) are collaborating to promote child protection and decent working conditions in Egypt's jasmine sector. We discovered that cosmetics companies meaningfully lag those in the food and apparel sectors in supply chain risk mapping.
Outcome:	Following our research, we wrote to the company with recommendations to enhance supply chain transparency by: ▪ Conducting baseline mapping of supply chains to identify potential child labour hotspots. ▪ Strengthening reporting to demonstrate continuous supply chain management improvements. ▪ Deepening commitment to industry-wide solutions. The company stated that it will consider our recommendations for future strategy and will provide an update in its next impact and sustainability report.

Research Driven

A Research-Driven Engagement

Company:	Emerging markets industrials company held in Emerging Markets Equity and Emerging Markets Small Cap.
Objective:	We sought to understand the impact of the company's complex restructuring announcement, which involved a planned merger and share swap with an affiliated group company.
Engagement details:	As long-term investors, we raised concerns about the proposed transaction in a meeting with company executives. We specifically questioned the terms and structure of the transaction, noting that the pre-determined share swap significantly undervalued minority shareholders' equity stakes.
What we learned:	We emphasised that the transaction is divergent from South Korea's wider corporate governance reforms, including the "Corporate Value-up Plan," which aims to align controlling and minority shareholders' interests, enhance transparency, and unlock shareholder value.
Outcome:	In response to concerns from LAM and other institutional investors, the company withdrew its proposed share swap and de-listing. Although proceeding with the restructuring, the company has been responsive to market pressure.

Proxy Voting/Significant Votes

We define "significant" votes as those that meet one or more of the following criteria:

1. **Votes against management** – indicating where we have identified poor governance practices and we are using our vote to hold companies to account for higher governance standards.
2. **Shareholder proposals** – addressing human and natural capital considerations, as well as management-proposed Say on Climate votes.
3. **Meetings marked as significant by LAM's investment professionals** – for example, companies where they have actively engaged on governance, or their analysis has identified a material issue such as a significant board change, controversy, or relevance to an investment thesis.

Proxy Voting Examples

Below we present some significant votes from the quarter and how this supported our investment view.

Reviewing Shareholder Proposals Case-by-Case

Company/Exposure:	US apparel company held in US Equity Select, US Sustainable Equity, Global Thematic, and multiple Global Quality Growth strategies.
Background:	We engaged with the company prior to its annual general meeting and attended an event organised by the proponents who filed shareholder proposals at the meeting. Following separate engagements with the company and the proponent, we voted against shareholder proposals on median gender pay gap reporting, as we believe the company has a sufficiently transparent pay equity programme. We also voted against proposals for enhanced reporting on the company's supply chain management and worker-driven social responsibility and binding agreements, as we believe the company already provides adequate disclosures on its human rights policies, procedures, and commitments. However, we supported the shareholder proposal for more comprehensive reporting on environmental targets due to the company's insufficient disclosure demonstrating how it will meet its past targets. Lastly, we voted against the election of a director due to multi-class capital structures, as there are no plans to remove the arrangement.
Why it is significant:	We believe ESG shareholder proposals require a case-by-case evaluation. Our principles of Materiality, Progress, Transparency, Asymmetric Knowledge, and Responsible Conduct, guide our assessment of proposals, supported by in-depth analysis that informs investment decision-making. Voting against the director was a significant issue, as dual class share structures can pose risks to minority shareholders, in our view.
Outcome:	Whilst we voted against median gender pay gap reporting, 26% of shareholders chose to support the proposal. Additionally, 27% of shareholders voted for the report on environmental targets. The resolution concerning the director vote on multi-class capital structures failed at the annual general meeting, with 40% against. This may serve as a signal to the company and act as a catalyst for change.

Engagement with Remuneration Chair Following a Vote Against Remuneration

Company/Exposure:	UK facilities company, held in European Small Cap Equity, UK Equity Diversified, and UK Equity Income strategies.
Background:	Prior to the company's annual general meeting, we met with the Remuneration Committee Chair to discuss the long-term incentive plan. While recognising the earnings growth and returns of the company, we viewed the plan's structure as divergent from UK best practice. The company believed that the plan was necessary to retain and incentivise the CEO over the medium term. While we acknowledged the design of the remuneration policy appeared to be a unique situation and with some merit in terms of recognition of the CEO's contribution to the profit recovery and growth at the company, we were concerned it could set a harmful precedent. We emphasised the need for active succession planning as a key part of the Board's fiduciary duty. Combining all these factors, we decided to vote against the remuneration policy. We proposed maintaining dialogue in the coming months to remain updated on succession planning and sustainability topics.
Why it is significant:	Our Global Governance Principles include board composition and shareholder-aligned executive compensation, which influence the company's long-term financial returns.
Outcome:	17% rejected the remuneration policy by voting against the one-off award to the CEO. Whilst not significant, these numbers may signal to the company to engage more extensively with shareholders.

Engagement to Help Inform Our Voting Decision for the Upcoming AGM

Company/Exposure:	Global technology company held in our International Strategic, International Equity, and Global Quantitative strategies.
Background:	Ahead of the company's annual general meeting, we requested a discussion to understand the Board structure and views on shareholder rights. Our research showed the company did not disclose the results of previous AGMs, leading proxy advisors to recommend votes against the Chair of the Governance Committee. We believe there is merit to shareholders seeing the voting percentage splits. We raised this with the company, and will continue to do so as this is a conventional practice in the domestic market. The rationale for amending the articles of association was also discussed. Whilst the changes could potentially constrain shareholder litigation powers, further discussions led us to think this was not a cause for concern. We also discussed executive compensation. Unlike other markets, local regulation requires a binding vote on CEO compensation, which requires approval from a special majority, that is, a majority of voting shareholders that do not have a "personal interest" (i.e. the CEO themself, or their family, or directors, etc.). The vote takes place every three years, and we will review the compensation plan ahead of the binding vote in 2025.
Why it is significant:	Our Global Governance Principles includes board composition and shareholder rights, which influence long-term financial returns of the company.
Outcome:	We voted for the re-election of Board directors and amendments to the articles. Whilst we do not know the vote outcomes, we encouraged the company to provide transparency on future results.

Notes

1. Source: AFI Research: Informe Tematico, Infraestructura Privada Sostenible, October 2022

Important Information

Published on 19 November 2024.

This content represents the views of the author(s) at the time of writing, 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.

Research and views from engagement may change and examples here reflect views at the time of the engagement or proxy vote.

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