

ENGAGEMENT REPORT



LAZARD
FRERES GESTION



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INTRODUCTION

As part of its active management philosophy, Lazard Frères Gestion encourages management analysts to engage in dialogue and commitment to encourage the implementation of ESG best practices.

The aim of this dialogue is above all to encourage companies to improve continuously and constructively on all ESG practices: transparency, integration of sustainable development issues, Sustainable Development Goals (SDGs), good governance practices, etc.

One-to-one meetings with management are therefore an essential part of the analysis and monitoring process. During these interviews, management analysts and ESG specialists discuss a wide range of ESG topics with management. Drawing on their expertise, they define the key points to be discussed at these meetings.

Dialogue and engagement actions are monitored via databases containing all the reports of meetings held by the analysts/managers and ESG specialists of the equity and bond portfolios. Bond portfolio issuers rated "Weak" by our partner Moody's ESG Solutions (rate ESG <30/100) are, since 2019,

systematically contacted by e-mail to ask them about their approach to ESG criteria.

In line with our collaborative commitment to the CDP¹ and TCFD² and our approach to supporting companies, we inform the issuers we contact of the importance of transparent communication on environmental, social and governance issues. Lazard Frères Gestion's experience shows that, all too often, the lack of information is detrimental to certain issuers, even if they are virtuous in terms of ESG or ready to make a commitment.

Lazard Frères Gestion is also in favor of active shareholding, which enables shareholders to influence companies' ESG strategies and practices. We apply our own policy when voting at General Meetings of issuers falling within the defined scope.

The number and reasons for disputed votes are recorded in a tool and form an integral part of the annual voting report.

¹ Carbon Disclosure Project.

² Task Force on Climate-Related Financial Disclosures.

EQUITY

MANAGEMENT



Overview of our engagement activity



1. ENGAGEMENT THROUGH DIALOGUE

Lazard Frères Gestion differentiates itself through conviction-based management, based on frequent interviews that the managers and Equity ESG specialists conduct with listed companies.

Our team, comprised of 12 analyst-managers and two ESG specialists, held more than 793 meetings in 2022.

	Number of meetings	Number of engagements	O/w ESG dialogues	O/w in-depth engagement
Large Caps Equity Team	438	257	128	129
Small Caps Equity Team	355	180	130	50
Total	793	437	258	179

The meetings are a special opportunity to encourage the company to improve its practices or to obtain a targeted response on a particular ESG topic. Lazard Frères Gestion has a greater impact as the analyst-managers deal directly with company executives. This means that changes are more easily implemented and sticking points are improved more quickly.

Lazard Frères Gestion engages in dialogue with all of the companies in the portfolio. During these interviews, engagement on ESG subjects may take place with varying degrees of intensity and varying regularity depending on the latest developments. This is why we distinguish between ESG dialogue and in-depth engagement.

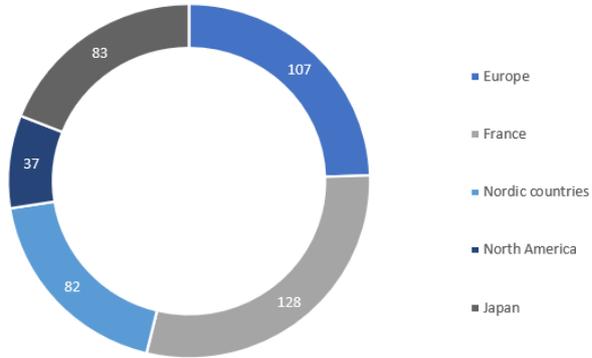
•**Dialogue takes the form of a discussion with the company about its ESG practices and policies. It provides an opportunity to demonstrate our interest and sensitivity to ESG themes and ensures that companies' non-financial performance is monitored over time.**

•**In-depth engagement can either take the form of concrete requests to companies or represent more in-depth dialogue with the company in which ESG is a significant component. In this case, the aim is to raise the company's awareness about one or more areas for improvement and about the consideration of their ESG rating in the investment decision. These areas are formulated by the analyst-managers in collaboration with the ESG specialists and are assessed over time in order to improve or downgrade the company's internal rating.**

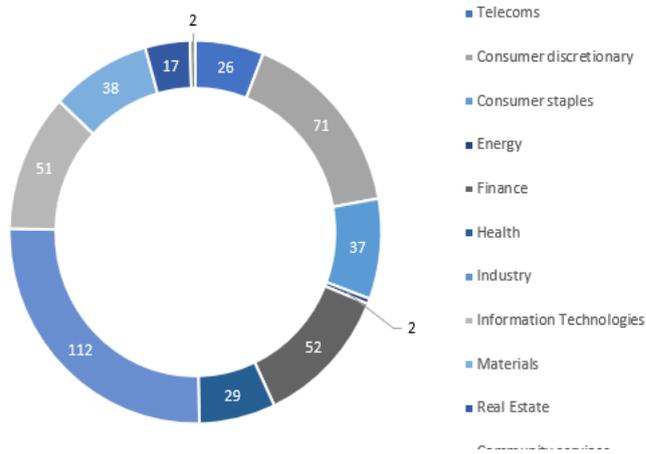
2. TARGETED ACTIONS

As mentioned above, 437 companies have been the subject of in-depth dialogue or engagement on the theme of the environment, social or governance practices and non-financial transparency.

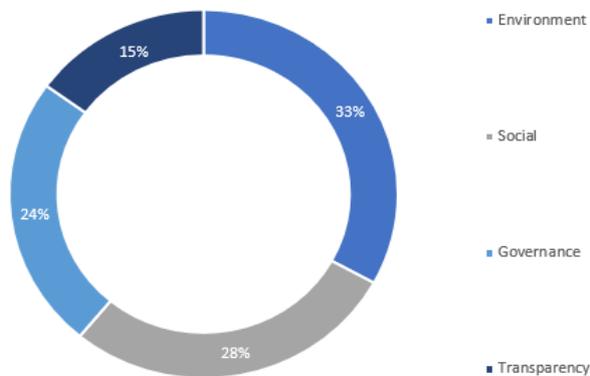
Geographical breakdown of engagements



Breakdown of engagements by sector



Thematic breakdown of engagements



Environment

During our 2021 engagement campaign, we entered into dialogue with **195 companies** on topics related to their environmental practices. With **93 of these companies**, this took place as part of in-depth engagement.

In particular, we discussed the themes of revenue and CAPEX alignment with the European Taxonomy, the definition of targets for scope 3, the calculation of avoided emissions, the validation of carbon emission reduction trajectories by SBTi, the financing of economy decarbonisation solutions and the biodiversity footprint.

Social

Social issues were discussed with **176 companies**. For the vast majority of them, these involved missing social data (staff turnover, training, gender equality, etc.) as part of an analysis conducted around an impact strategy. With **112 of these companies**, this took place as part of in-depth engagement.

In addition, themes such as access to medicine, diversity in recruitment and promotion processes, gender equality at all levels of the company, changes in the staff turnover rate and training staff in more sustainable activities were at the heart of these dialogues.

Governance

149 companies were contacted about Governance by Lazard Frères Gestion's Equity team. With 63 of these companies, this took place as part of in-depth engagement.

We engaged with six companies ahead of their General Meetings to make informed voting decisions or sometimes to explain to the company the reason for an "against" vote. More information on this is in our 2022 voting report ([Voting Report- Lazard Frères Gestion](#))

We discussed with the companies the agenda of General Meetings, the fight against corruption and money laundering, the separation of the roles of CEO/Chairman, the rate of independence and women on the Board of Directors, and the remuneration of executives and members of the Executive Committee.

Transparency

90 companies were educated by Lazard Frères Gestion's Equity team on communication with external providers of non-financial data. With 54 of these companies, this took place as part of in-depth engagement.

The primary purpose of these engagements is to obtain external ESG scores that are more reflective of companies' actual practices. In many cases, these ratings are adversely affected by a lack of information for service providers, which by default assign poor ratings to the companies.

3. ENGAGEMENT RESULT

The engagement approach is extremely important at Lazard Frères Gestion.

The analyst-managers, whose non-financial analysis is supplemented by ESG specialists, can improve or downgrade a company's internal rating following a meeting.

If an engagement proves fruitful, the improvement in the rating may result in the purchase of a security in an SRI fund, for example. Conversely, a security may be sold following a disappointing engagement.

In 2022, **14 engagements** resulted in the **improvement/downgrade** of an internal rating and/or **were followed by a management act** (purchase or sale of securities):

Internal rating improvements	11
Internal rating downgrades	3
Engagement resulting in a management act	20

B Examples of engagements

Engagement on the E, S and Human Rights pillars

Sector	Industrial goods and services
Geographical area	Nordic countries
Market cap	Large Caps
Theme	E: Water and energy management S: Employee satisfaction and diversity G: Respect for human rights

We questioned the company about one of its ambitious targets published in its sustainability report, the 100% recycling of the **water used in operations on sites where water is scarce** by 2030.

The company told us that it has decided to focus on areas where water is scarce, as they pose a risk to both the company and local communities. Between 2020 and 2021, its water withdrawals in areas of scarcity fell 14% and the company plans to post even better results for 2022. Although a priority is placed on areas of water scarcity, **the company is working to reduce water withdrawals in its global operations**. For example, it is currently working on implementing a water recirculation system in a plant in Sweden, even though the plant is not located in a water shortage area.

The company reports on its progress in this area each year in its annual and sustainable development report. From 2022 onwards, these data and the sustainability report will be subject to an external audit. For a more detailed report on its water management plan, the company invites us to refer to the **CDP questionnaire on water security**, which it completes attentively.

We also asked the company about its energy mix and the implementation of actions to “**continuously improve the energy efficiency of production services and products**”.

The company told us that 65% of the energy used to date comes from renewable sources and that its 2030 target is 100%.

The company is working to improve the **energy efficiency of its operations**, notably through:

- Improved energy efficiency in buildings and equipment;
- Reducing emissions from company cars by adopting hybrid and electric cars;
- A significant investment in recovering lost heat;
- The installation of solar panels at production sites and distribution centres.

In addition, its **R&D department focuses on developing new products** with increased efficiency. This involves the following actions:

- The development of new products that reduce the use of resources (e.g. products that consume less water and energy);
- The extension of the service life and the increase in the recycled materials content of products sold.

Regarding the company’s social aspect, we asked it about measuring employee well-being, as well as the steps to take diversity into account.

The company recently launched an engagement survey. This is an annual, digital and anonymous tool sent to all employees. The executives are convinced that by listening to their employees’ opinions, they will be able to make improvements and create a more inclusive and attractive workplace. Approximately 81% of the company’s employees responded to the survey and provided more than 10,000 written comments. The work environment has been described as free from harassment and discrimination to a very large extent.

We told them that we pay significant attention to respect for human rights in operations and to the mechanisms put in place to ensure the proper application of the principles of the United Nations Global Compact.

The company publishes reports on internal and external audits carried out to ensure compliance with its Business Conduct practices, which include human rights as stated in the International Bill of Human Rights and the main conventions of the International Labour Organisation (ILO).

Engagement on the E & S pillar

Sector	Technology
Geographical area	US
Market cap	Large Caps
Theme	E: Reduction of scope 1, 2 and 3 carbon emissions S: Diversity and welfare benefits

We shared with the company our interest in **SBTi’s validation** of the carbon emission reduction trajectories of the companies in which we invest. We were also looking for details on the plan implemented to reduce the company’s carbon footprint.

The company explained to us that since 2020, it has participated in a **working group** of industry peers to achieve a common approach that **best meets the needs of the semiconductor industry** and to establish stages in order to track progress. It expressed regret that the current methodologies only concern CO2 and not the other gases (such as PFCs and HFCs) used in the semiconductor manufacturing process.

In terms of direct emissions (**scope 1**), the company plans to eliminate non-essential fluorinated gases and use alternative gases and chemicals used in the treatment of semiconductors. For **scope 2**, the company will secure renewable energy sources worldwide and increase the energy efficiency of its manufacturing systems, buildings and tools. For **scope 3**, it will encourage suppliers to optimise their production and operational efficiency. These measures join those already taken to limit business travel to the extent possible, the establishment of charging stations for electric vehicles, shuttles and infrastructures for cyclists, and the subsidy for public transport or carpooling at certain sites.

We also asked them about the **policies on diversity and welfare benefits** for employees, which we feel are important factors in the management of human capital and essential to **talent retention**.

The company provided us with very concrete measures to reduce unconscious bias in the process of interviews with candidates, professional performance assessments and decisions on remuneration and advancement. The recruitment managers are obliged to attend **unconscious bias training**, which is also made available to all employees via the intranet.

The welfare benefits received by employees are in addition to competitive compensation. These include :

- Paid leave and 11 additional paid holidays.
- Four weeks of parental leave for fathers and mothers, including adoption.
- Rooms dedicated to breastfeeding mothers and the reimbursement of milk delivery costs for mothers who have to go abroad for work.
- Highly developed disability and life insurance benefits.
- Education assistance for employees wishing to pursue their professional development.
- Flexible working arrangements.
- Free or discounted fitness centres (depending on the site).
- Concierge services to plan holidays.
- Confidential psychological support sessions and tools to promote well-being.

Engagement on the S pillar

Sector	Automotive
Geographical area	Europe
Market cap	Large Caps
Theme	Just Transition and supplier relations

The transition to electric raises questions about both **respect for human rights** in countries where rare earths used for batteries are extracted, as well as about social aspects related to the **replacement of skilled labour** for the manufacture of internal combustion engines (known as the “just transition”).

We therefore questioned the company on these two points that we consider to be key and on which we found that the company’s public communication was not sufficiently explicit.

The company confirmed the existence of **mass training plans to enhance their employees’ skills** and therefore avoid redundancies. These training programmes will involve over 75,000 employees.

Regarding rare earths, aware of the issue about which it is often reminded by NGOs and investors, the company plans to join coalitions of automotive groups in order to **impose minimum standards on suppliers of rare earths**. It also assured us that no reputational risk would be taken and that in the event of proven controversies regarding a supplier, they would quickly part ways.

Pre-General Meeting engagement

Sector	Media
Geographical area	Europe
Market cap	Small Caps
Theme	Pre-General Meeting engagement

We spoke ahead of a general meeting about a resolution that drew our attention.

The resolution concerned the **appointment of an external director** as a non-coopted independent director. It was filed by minority shareholders, some of which had recently acquired a stake in the company. In particular, these shareholders felt that “the procedure for recruiting a Chief Executive Officer in 2021 [had] demonstrated the limitations of the current governance.”

We spoke to the Deputy Chief Financial Officer, who provided us with explanations on the above procedure, which we found very clear.

As we pointed out to the company, while **we generally support the presence of independent members** on boards of directors, we chose to vote against this resolution submitted by some minority shareholders since we did not know the proposed candidate, are unaware of all the purposes and did not wish to create a conflict situation on the board of directors, with the company’s economic performance having proven excellent in recent years.

FIXED INCOME MANAGEMENT

A Presentation of our engagement activity

1. ENGAGEMENT THROUGH DIALOGUE

A systematic annual engagement campaign for all issuers rated “weak” or less than 2 out of 5 in our internal analysis charts

We therefore contact all portfolio companies rated “weak” (rating below 30/100) by our non-financial partner Moody’s ESG Solutions and certain issuers with an internal ESG rating of less than 2 out of 5 with the aim of guiding them towards improving their ESG practices, transparency and communication.

A more comprehensive description of our internal ESG analysis chart is presented in our ESG Approach ([ESG Approach - Lazard Frères Gestion](#))



The standard message is as follows:

- **We are currently bondholders**
- Poor ESG ratings may force us to restrict our investments
- Your main weaknesses and areas for improvement are...
- **Could you comment on this data and provide us with your ESG objectives?**

Engagement statements in case of market events: occurrence of a controversy, issue by an issuer with too low a rating, significant decline in practices

We aim to be very responsive to market events. If a controversy occurs regarding a significant issuer in our investment universe, we place it on a watch list, contact it as soon as possible and, depending on the answers provided, potentially exclude it.

Similarly, when a low-rated company issues on the markets, we take advantage of this good opportunity to highlight the importance of increasing its level of ESG practice and communication.

On several occasions during 2022, we were required to abandon issues in line with our internal ESG constraints, as the issuer’s rating was too low.

An ongoing engagement campaign to enrich our information on issuer practices

There is now a section dedicated to ESG issues during meetings with company management. We address their weaknesses, their areas for improvement and our expectations.

We also specifically engage issuers on which we have too little information or that are substantially behind their sector peers. This provides us with input for our internal analysis charts and gives us a more accurate view of the issuer’s actual practices.

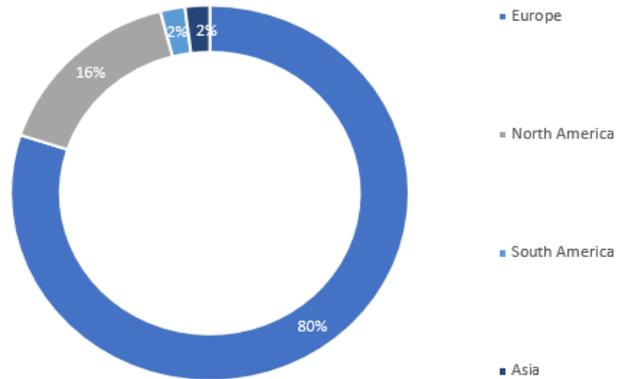
2. TARGETED ACTIONS

During their meetings with companies, the fixed income analyst-managers discuss the ESG issues in their plurality. The three ESG pillars are addressed almost routinely during discussions with the aim of advancing the issuer.

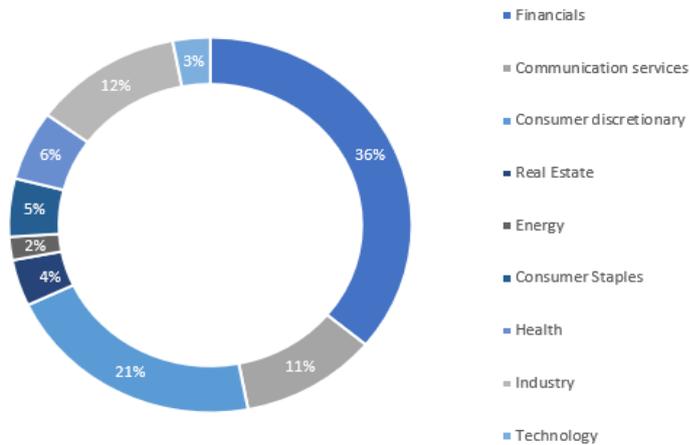
In 2022, the team engaged in discussions on improving ESG practices with 45 companies.

The lack of communication by issuers can partly explain a low ESG score.

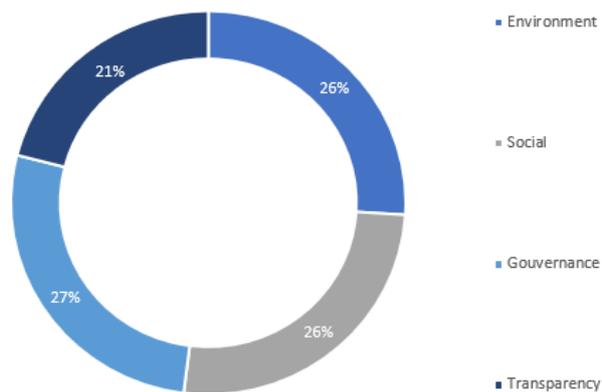
Geographical breakdown of engagements



Breakdown of engagements by sector



Thematic breakdown of engagements



Non-financial communication of companies

Lazard Frères Gestion's bond team drew the attention of **45 issuers** to the importance of communication with non-financial data providers.

This initiative aims to obtain more accurate external ESG scores that reflect companies' actual practices. Often, ratings are inaccurate due to the lack of information for providers, which assign negative ratings by default. We encourage companies to formalise their CSR strategies over the long term in order to set themselves ambitious and credible targets.

Environnement

We engaged with **56 issuers** on their environmental policies.

The main topics discussed were the implementation of scope 3 emission reduction targets, the commitment to the Science Based Targets initiative for carbon emission reduction trajectories, product life cycle analysis, the environmental impact of the value chain and the implementation of consistent, quantified and dated environmental policies.

Social

During the 2022 engagement campaign, social issues were discussed with 55 issuers on topics such as health and safety, lobbying practices, accessibility of goods and services and customer satisfaction. We have observed that the social pillar is becoming increasingly important in companies' CSR policies.

Governance

During our 2022 engagement campaign, 59 issuers were the subject of an engagement on governance by Lazard Frères Gestion's bond team.

Topics discussed included the quality of management, the integration of environmental and social criteria into executive compensation, effective countervailing powers and the identification of ESG risks, in addition to the composition and independence of boards of directors.

3. RESULT OF ENGAGEMENTS

As part of our engagement activities, Lazard Frères Gestion's bond management teams contacted 94 issuers in 2022, most of which are located in Europe. The detailed responses we received from issuers concern their practices, the objectives they have set and the resources they invest in. This enables us to present our engagement activities as follows:

Companies contacted	94
Detailed responses received	44
Telephone interviews	11

In 2022, the result of our engagement led to an improvement/maintenance/downgrade of an internal rating and/or the purchase/non-participation in certain issues:

Improvement of internal ESG ratings	31
Continuation of internal ESG ratings	32
Downgrade of internal ESG ratings	20

The general impression that emerges from this campaign is as follows:

- We are seeing continuous improvement in practices and improved communication from issuers of all sizes.
- Many issuers are telling us that some practices are already in place but are suffering from poor communication often seen as a lack of transparency.
- Issuers are setting increasingly precise non-financial targets and increasing their participation in marketplace initiatives.

B Examples of our engagement activities

Engagement to improve the S pillar

Sector	Business services
Geographical Area	Europe
Market Cap	High Yield
Theme	Enhancement of the external ESG rating

The company was rated 12/100 by Moody's ESG Solutions in 2021.

Lazard Frères Gestion engaged with the company by sending it areas for improvement that we identified, particularly related to human resources management, diversity and transparency in order to improve its ESG positioning. We focused on the need to get in touch with our ESG rating provider to help the company update its analysis by providing additional information to reflect the new policies put in place by the group.

In December 2022, the issuer contacted our non-financial partner, Moody's ESG Solutions, and saw its overall rating increase from 12 to 43 out of 100.

Engagement on the E, S, G and CSR pillars and downgrade of the internal rating

Sector	Industry
Geographical Area	Europe
Market Cap	High Yield
Theme	E: Implementation of an ambitious environmental strategy S: Communication on human resources management G: Inclusion of women and independence of the board of directors

In October, the fixed income team contacted the company for more information to gain a better understanding of its ESG strategy.

The response received in December 2022 did not meet our expectations, so we requested a telephone interview to further explore the subject.

During a telephone interview, we noticed poor communication on societal and governance issues, little engagement with ESG rating agencies and a lack of interest in ESG-related matters.

Lazard Frères Gestion alerted the issuer to the need to develop its practices so that we can support it in the future. The efforts made by the issuer were not sufficient to address our concerns and this was therefore followed by an internal rating downgrade in December 2022 from 2.91 to 2.58 out of 5.

Engagement on non-financial communication and increase in the internal rating

Sector	Financial
Geographical Area	Europe
Market Cap	Investment Grade
Theme	CSR: Clarifications on the group's new sustainability strategy.

In September 2022 we undertook an approach with the group to obtain more information on its new sustainability strategy, as it was ranked 72nd out of 82 among its peers in terms of its ESG rating by our non-financial data provider Moody's ESG.

We sent it our questions as well as our expectations on the issues we believe are the most material for the sector, such as SRI products and strategies, the environmental strategy, the promotion of financial inclusion and the integrity of business practices.

In December 2022, we received a detailed response from the issuer in which it shared with us its 2022-2026 sustainability strategy. The issuer also shared its active communication with certain non-financial rating agencies.

Following this engagement, we increased the internal rating from 3.09 to 3.23 to reflect its new sustainability strategy and our data provider improved its ranking to 51st out of 98 while increasing its coverage of peers.

PORTFOLIO STATISTICS

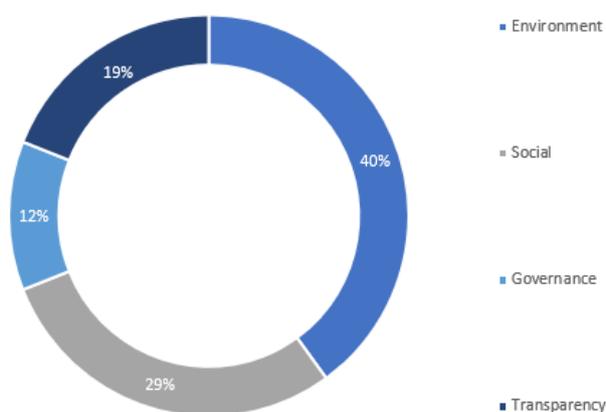
A Equities Management

Lazard Alpha Euro SRI

Below are the statistics obtained on a portfolio of 39 companies :

	By number of occurrences	By number of companies	As a % of the portfolio
Meetings	106	38	97%
Engagements	65	35	90%
O/w in-depth engagement	35	27	69%
O/w ESG dialogues	30	19	49%

Breakdown of engagements by theme



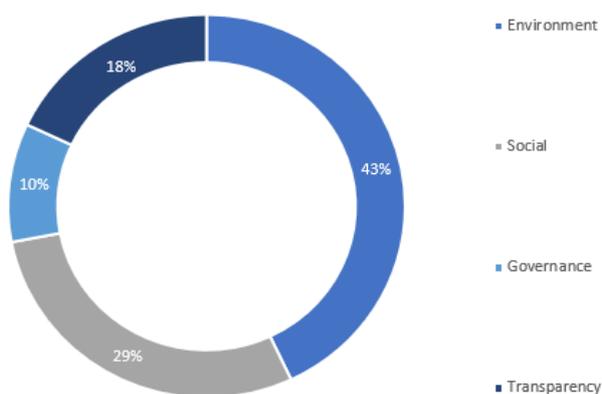
Lazard Equity SRI



Below are the statistics obtained on a portfolio of **41 companies** :

	By number of occurrences	By number of companies	As a % of the portfolio
Meetings	100	40	98%
Engagements	62	36	88%
O/w in-depth engagement	34	26	63%
O/w ESG dialogues	28	21	51%

Breakdown of engagements by theme



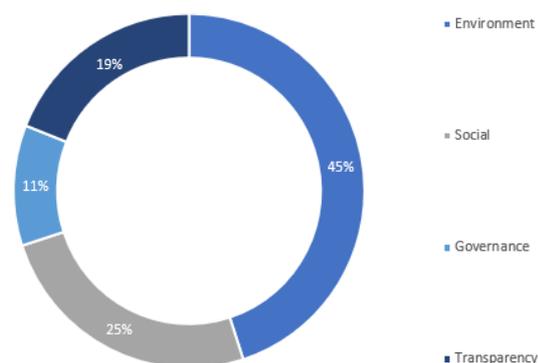
Norden SRI



Below are the statistics obtained on a portfolio of **33 companies** :

	By number of occurrences	By number of companies	As a % of the portfolio
Meetings	59	31	94%
Engagements	45	31	94%
O/w in-depth engagement	30	25	76%
O/w ESG dialogues	15	10	30%

Breakdown of engagements by theme



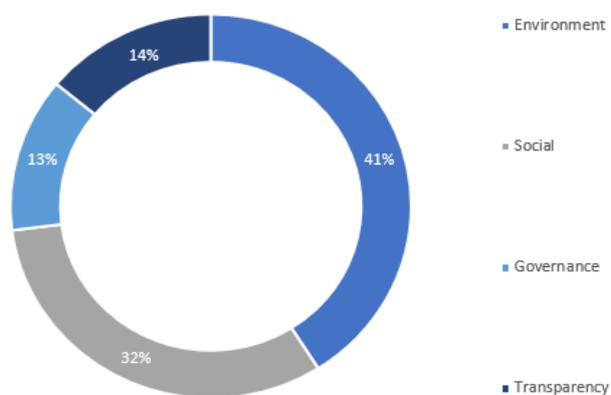
Lazard Dividend LowVol SRI



Below are the statistics obtained on a portfolio of **38 companies** :

	By number of occurrences	By number of companies	As a % of the portfolio
Meetings	59	32	84%
Engagements	45	30	79%
O/w in-depth engagement	31	22	58%
O/w ESG dialogues	14	12	32%

Breakdown of engagements by theme



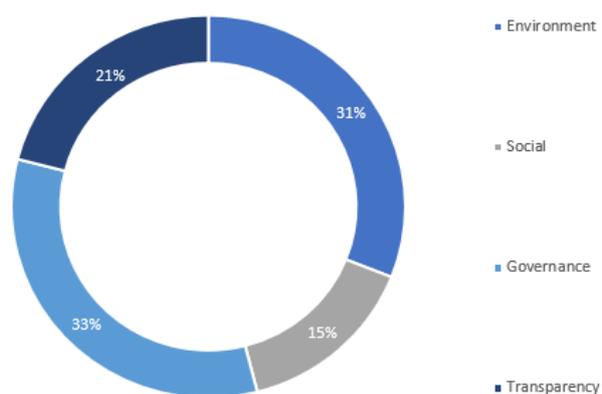
Lazard Small Caps Euro SRI



Below are the statistics obtained on a portfolio of **39 companies** :

	By number of occurrences	By number of companies	As a % of the portfolio
Meetings	72	34	87%
Engagements	34	21	54%
O/w in-depth engagement	12	9	23%
O/w ESG dialogues	22	16	41%

Breakdown of engagements by theme



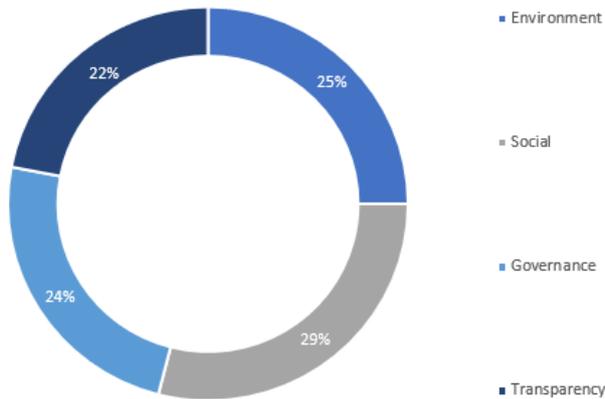
B / Fixed Income Management

Lazard Capital Fi SRI

Below are the statistics obtained on a portfolio of **55 companies** :

	By number of occurrences	By number of companies	As a % of the portfolio
Engagements	41	21	38%
O/w telephone interviews	1	1	2%

Breakdown of engagements by theme

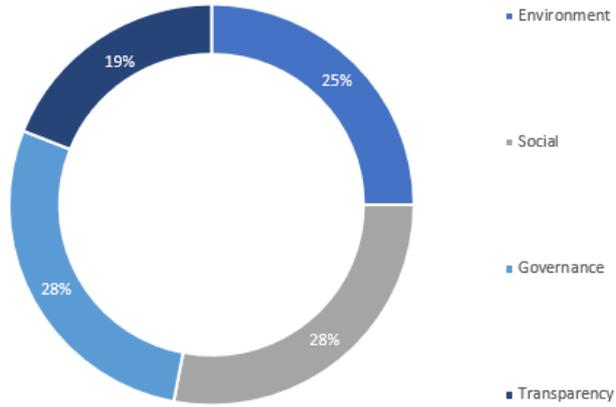


Lazard Crédit Fi SRI

Below are the statistics obtained on a portfolio of **75 companies** :

	By number of occurrences	By number of companies	As a % of the portfolio
Engagements	43	20	39%
O/w telephone interviews	1	1	5%

Breakdown of engagements by theme



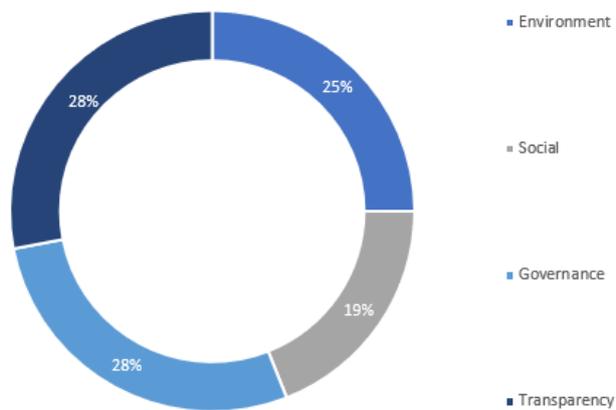
Lazard Euro Short Duration High Yield SRI



Below are the statistics obtained on a portfolio of **98 companies** :

	By number of occurrences	By number of companies	As a % of the portfolio
Engagements	53	20	18%
O/w telephone inter-views	4	4	5%

Breakdown of engagements by theme



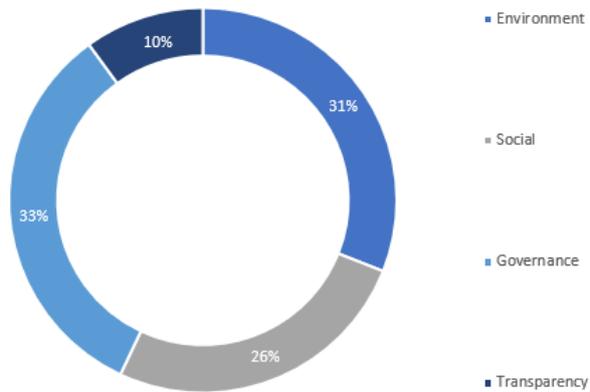
Lazard Euro Short Duration SRI



Below are the statistics obtained on a portfolio of **123 companies** :

	By number of occurrences	By number of companies	As a % of the portfolio
Engagements	39	17	16%
O/w telephone interviews	4	4	4%

Breakdown of engagements by theme



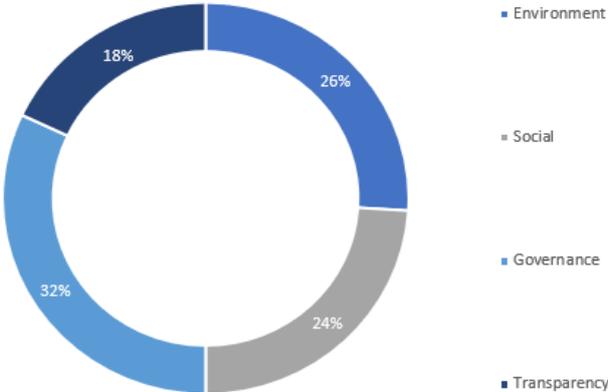
Lazard Euro Crédit SRI



Below are the statistics obtained on a portfolio of **107 companies** :

	By number of occurrences	By number of companies	As a % of the portfolio
Engagements	34	13	13%
O/w telephone interviews	4	4	4%

Breakdown of engagements by theme



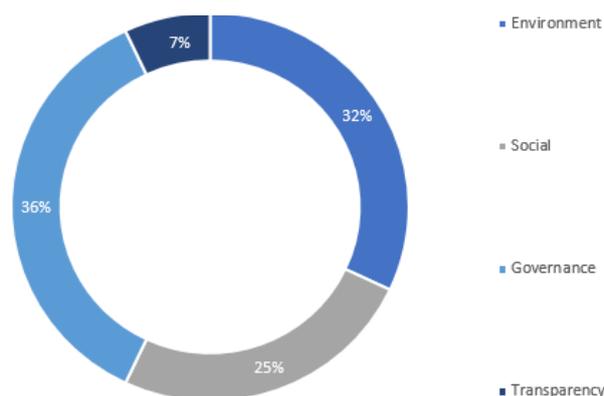
Lazard Patrimoine SRI – Fixed Income segment

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Below are the statistics obtained on a portfolio of **129 companies** :

	By number of occurrences	By number of companies	As a % of the portfolio
Engagements	28	14	10%
O/w telephone inter-views	3	3	2%

Breakdown of engagements by theme



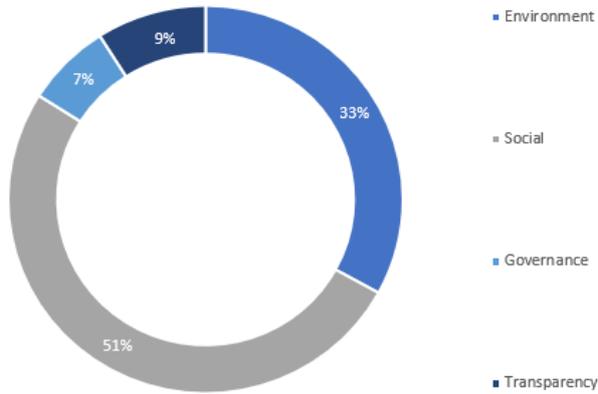
Lazard Patrimoine SRI - Equity segment

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Below are the statistics obtained on a portfolio of **46 companies** :

	By number of occurrences	By number of companies	As a % of the portfolio
Meetings	72	40	87%
Engagements	47	37	80%
O/w in-depth engagement	37	33	72%
O/w ESG dialogues	10	8	17%

Breakdown of engagements by theme

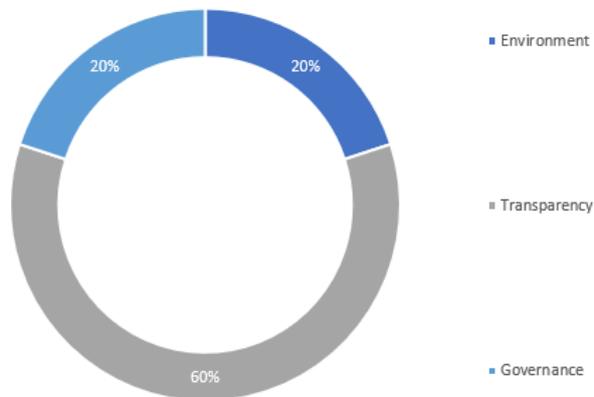


Lazard Patrimoine Opportunities SRI – Fixed Income segment

Below are the statistics obtained on a portfolio of **66 companies** :

	By number of occurrences	By number of companies	As a % of the portfolio
Engagements	5	5	7%
O/w telephone inter-views	4	4	6%

Breakdown of engagements by theme



Lazard Patrimoine Opportunities SRI - Equity segment



Below are the statistics obtained on a portfolio of **46 companies** :

	By number of occurrences	By number of companies	As a % of the portfolio
Meetings	72	40	87%
Engagements	47	37	80%
O/w in-depth engagement	37	33	72%
O/w ESG dialogues	10	8	17%

Breakdown of engagements by theme

