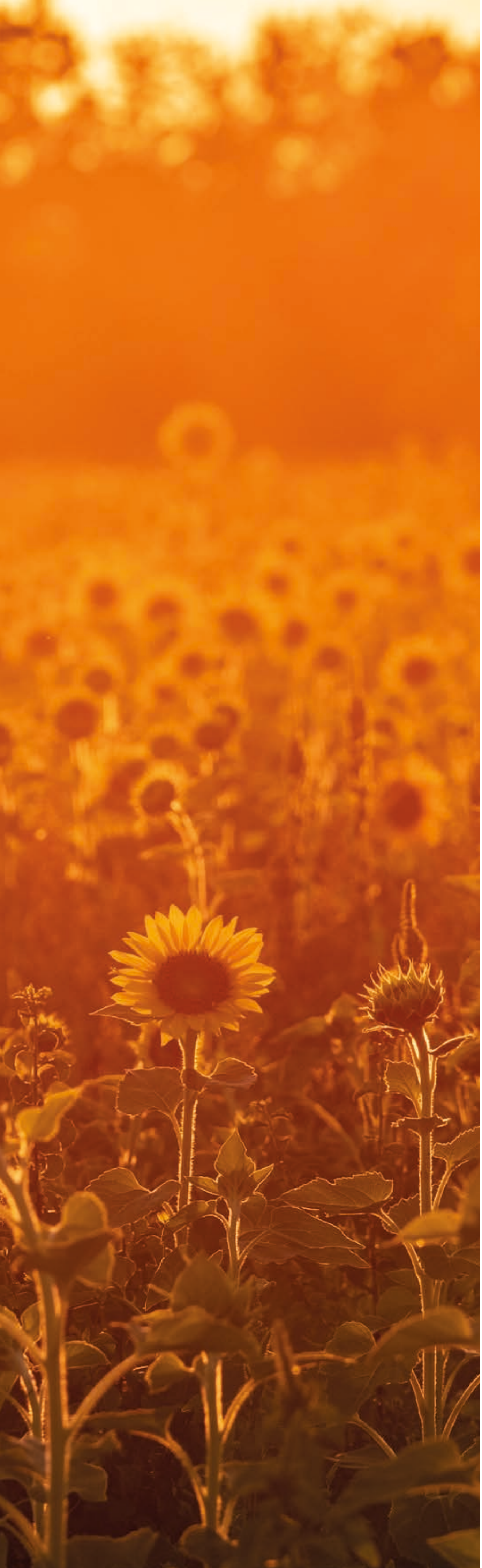


UK Stewardship Code Submission

Reporting Period:
1 January – 31 December 2022

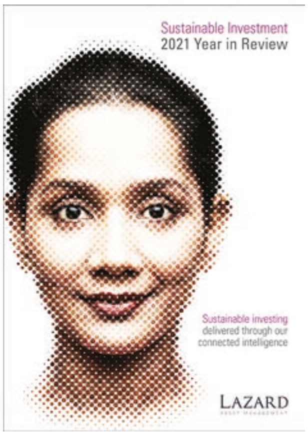
Submission Date:
April 2023

LAZARD
ASSET MANAGEMENT

What is the UK Stewardship Code?

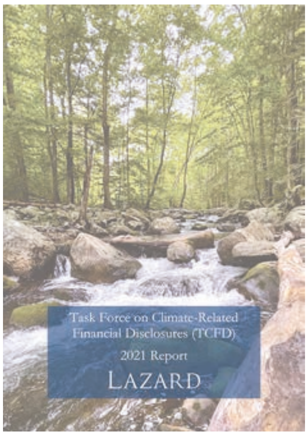
The UK Stewardship Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. The Financial Reporting Council (FRC), who developed the code, defines it as: "Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment, and society." In October 2019, a substantially revised and strengthened UK Stewardship Code was published and took effect on 1 January 2020. The Code comprises a set of 12 "apply and explain" Principles for asset managers and asset owners, and a separate set of six Principles for service providers. The 12 Principles covered in detail in this report capture four broad areas: purpose and governance, investment approach, engagement, and exercising rights and responsibilities. The FRC regulates auditors, accountants, and actuaries across the UK and sets the UK's Corporate Governance and Stewardship Codes. However, the scope of the stewardship code is global and covers all asset classes. All our sustainability policies, research insights, and reports, including our Annual Sustainable Investment Reports, TCFD, and PRI Transparency report are available on our website: Sustainable Investing at Lazard.

Examples of our Sustainability and Stewardship Reporting

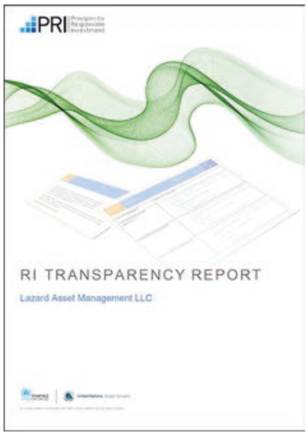


Sustainable Investment Report[1]

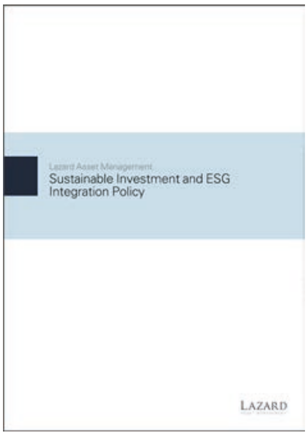
Corporate Sustainability Report



Firm-Wide TCFD Report



PRI Transparency Report



Sustainable Investment and ESG Integration Policy

Global Governance Principles

Sustainability Focus Report
Lazard Global Sustainable Equity

Sustainability Focus Report
Lazard US Sustainable Equity

1. The Sustainable Investment Report, CSR report, TCFD report, and ESG policy will all be available on the website in Q2 2023

Introduction

Lazard Asset Management (LAM) has served as a steward of clients' capital for decades. The global backdrop of our industry has undergone several structural changes during that time—but the pace of change has accelerated rapidly in recent years, requiring us to rethink what it means to be an active asset management firm in an increasingly complex world. This report indicates some of the ways that our relevant investment strategies have adapted to this new reality with stewardship in mind.

Our teams who manage our ESG Integrated and Sustainability Focused strategies share the conviction that superior investment outcomes require investors to understand the material environmental, social, and governance (ESG) factors impacting the companies in their portfolios. Ultimately, the personnel who manage these strategies do not see stewardship as separate from alpha generation. Our teams believe returns cannot be sustained over the long term if the companies in client portfolios are operating in ways that ignore the material ESG risks relating to their businesses.

Our fundamentally driven investment teams can further evidence this conviction through their ongoing engagement with companies after an investment is made. Our ESG professionals work alongside these investment personnel, and are not siloed or treated as third-party consultants. Once a relevant investment strategy owns a stake in a company, we interact with management on an ongoing basis to ensure that their activities and performance continue to align with our original investment thesis.

In the past year, our teams have attempted to ensure that our ESG-driven engagements with companies and sovereigns were generating tangible results, whether that meant an observable change to company practices or to our own decision-making about their fundamentals. For our ESG Integrated and Sustainability Focused strategies, this is arguably where the most important work lies, which is why we have started to measure the tangible results of our stewardship goals—including those related to workforce diversification, fair wages, and executive compensation—and keep an ongoing dialogue with portfolio holdings to assess progress. Our investment personnel take the lead on the majority of our engagements, and those same professionals make the final portfolio construction and proxy voting decisions for our clients. It is a true collaboration that ensures the issues we are engaging on are material to the investment case, and we believe this particular aspect of our stewardship efforts sets us apart from our peers.

We continue to remain active listeners when talking to clients with their own ESG goals and concerns. As a result of these efforts, two years ago, LAM became a signatory of the Net Zero Asset Management initiative, and a number of our investment strategies have made a commitment to achieving net zero greenhouse gas emissions by or before 2050. More broadly, we believe the energy transition has created significant uncharted territory—and many investment opportunities—for our industry. Understanding this new terrain—through ongoing dialogue with regulators and data providers—is a critical component of our stewardship efforts today.

We believe we have continued to strengthen our foundation of internal stewardship capabilities, and with the efforts of the Global Stewardship Committee we established two years ago, we are continually adapting our approach to ESG in line with broader changes to the financial, regulatory, and social worlds. This report describes our efforts in depth. It has been reviewed and approved by our Global Stewardship Committee and members of senior management.

Evan Russo
CEO, Lazard Asset Management

Contents

Principle 1: **Our purpose, strategy, and culture**

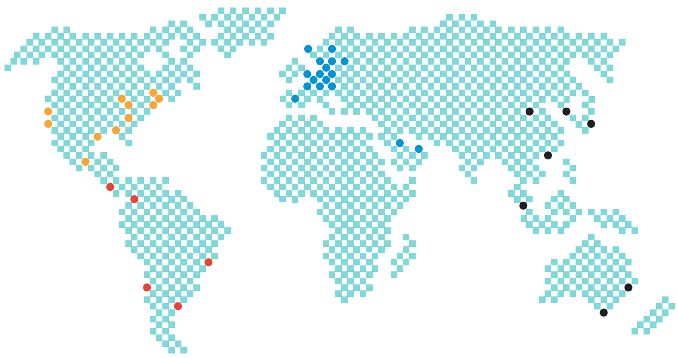
Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment, and society.

Our Firm

Our parent company, Lazard Ltd, owns two separate businesses operating under the same brand: Lazard Financial Advisory and Lazard Asset Management. Lazard Financial Advisory advises its clients around the world on strategic and financial matters including mergers and acquisitions, advisory, capital market advisory, shareholder advisory, restructuring and capital solutions, sovereign advisory, geopolitical advisory, capital raising and placement, and other strategic advisory matters. Lazard Asset Management offers a broad range of global investment solutions and investment and wealth management services in equity and fixed income strategies, asset allocation strategies, alternative investments and private equity funds to corporations, public funds, sovereign entities, endowments and foundations, labour funds, financial intermediaries, and private clients. Lazard Ltd is a listed company and our Corporate Sustainability reporting is done at the parent-entity level. The graphic below illustrates the combined global footprint of offices and employees.

This 2022 submission to the 2020 UK Stewardship Code is made by Lazard Asset Management (LAM), which has a 50-plus year history in asset stewardship. A significant portion of our 300 investment professionals, including a global network of more than 100 analysts, employ fundamental research and analysis to manage client portfolios. It is entirely an active manager—none of the assets are managed on a passive basis. The majority of the assets managed are in long-only equity strategies. However, there are also teams focused on fixed income (corporate, municipal, and sovereign), convertibles, multi-asset, and quantitative equity investment. The breakdown of LAM's assets is described in more detail in comments about Principle 6.

Our Firm at a Glance



NORTH AMERICA
New York
Austin
Boston
Charlotte
Chicago
Houston
Los Angeles
Mexico City
Minneapolis
Montreal
San Francisco
Toronto

CENTRAL AND SOUTH AMERICA
Bogotá
Buenos Aires
Panama City
Santiago
São Paulo

EUROPE
London
Paris
Amsterdam
Bordeaux
Brussels
Dublin
Frankfurt
Geneva
Hamburg
Luxembourg
Lyon
Madrid
Milan
Munich
Nantes
Stockholm
Zürich

ASIA PACIFIC
Beijing
Dubai
Hong Kong
Melbourne
Riyadh
Seoul
Singapore
Sydney
Tokyo

54% AMERICAS

5% ASIA PACIFIC

41% EUROPE/ MIDDLE EAST/ AFRICA

$2.8bn	$216bn	~3,400	175
Operating Revenue	Assets Under Management	Employees	Years Serving Clients
43	26	96	50
Cities	Countries	Nationalities	Languages

As at 31 December 2022. Includes Lazard Asset Management, Lazard and Co., Limited, and Lazard Frères Gestion
Source: Lazard

Our Purpose

Lazard Asset Management's purpose is to invest our clients' capital to provide positive risk-adjusted returns within the constraints of the strategies we have designed or that have been specified by clients. In general, we don't believe that the returns from an investment which generates a high cost to the environment, or to society are sustainable in the long term. Similarly, we assess and research how companies and sovereigns are managing their human and natural capital because we believe these externalities ultimately have a bearing on risk and return. We partner with our clients to achieve their goals.

Our Purpose: Investing for the Future

We invest institutional assets on behalf of company employees, government workers, teachers, and other members of our global community to help them prepare for retirement.

We invest assets on behalf of academic institutions, foundations, hospitals, and not-for-profit organisations, that strive to make our world smarter, healthier, and more sustainable.

We invest assets on behalf of families and individuals, directly and by partnering with financial institutions, who are looking to grow and preserve inter-generational wealth.

Our Principles and Values

To deliver on our purpose, we follow Lazard's three Guiding Principles: diversity of thought, empowerment of talent, and alignment of interests.

Principles

Diversity of thought remains a strategic advantage

- Capitalising on the benefits of having a multi disciplinary, multi cultural, global team
- Capturing the intellectual horsepower from our global team of exceptional individuals
- Making better decisions based on more comprehensive analysis incorporating diverse perspectives arising from life experiences

Empowerment of talent results in a motivated team of long-tenured professionals

- Cultivating talent at all levels around the globe
- Encouraging individual growth opportunities
- Fostering an environment of learning and mentorship

Alignment of interests is paramount to our success

- Providing valuable investment advice
- Delivering expected patterns of performance
- Embracing the highest ethical and governance standards
- Aligning the incentives of our team with those of our global client base

Our Culture

LAM's culture can be described as global in scope, but entrepreneurial, collaborative, and team-oriented in nature. Our strategies are managed by portfolio management teams, not individuals. Research for most long-only equity strategies is conducted or assisted by sector specialists working collaboratively with portfolio managers and colleagues in global sector teams and to ensure we evaluate multiple perspectives and leverage the cognitive diversity of our firm (see Principle 2 for further detail of our resource).

Our Strategy

We define success as meeting our clients' investment needs and objectives. We work in partnership with our clients, allowing them to employ our capabilities and resources to their best advantage.

What Differentiates Lazard?

Research is at the heart of what we do

- Depth of analytical expertise
- Creative sources of insight
- Outstanding access

Prudent risk management

- Evaluate intended versus unintended risk
- Independent risk team
- Detailed attribution

Size is an advantage

- Global breadth and depth
- Partnership between portfolio managers and research analysts

Disciplined approach to investing

- Diversified sources of alpha
- Accounting validation
- Focus on cash flow, return on capital, and valuation
- Seek to produce an expected pattern of returns

Robust management of our most important resource: people

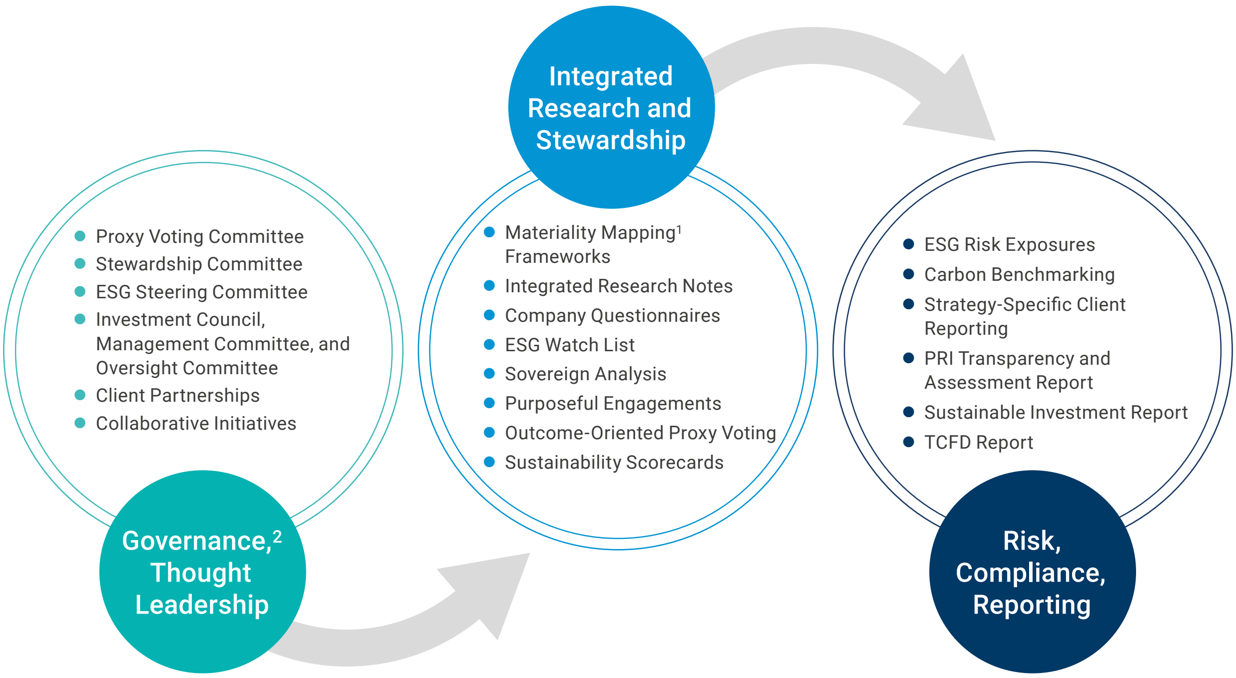
- Depth of analytical expertise
- Creative sources of insight
- Outstanding access

As a result, our investment platform has grown and evolved in response to emerging investment trends and our clients' diverse needs. LAM's goal is to grow through the delivery of investment success to our clients and through further diversification of our business by investment strategy and client type.

Investment Beliefs, ESG Integration, and Stewardship

We believe that stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries. For many reasons, our relevant strategies generally view investments that substantially detract from the economy, the environment, and society as unsustainable and therefore unlikely to create long-term value. Our relevant investment professionals have incorporated assessments of governance and human and natural capital into their research, investment, voting, and engagement processes for many years. These professionals believe that a company's governance and incentive structures, including its board composition and remuneration practices, determine shareholders' ability to drive accountability for corporate performance. Environmental issues, notably the risks and opportunities associated with climate change, can impact a company's financial performance and its long-term outlook. High employee engagement, diversity of background and perspectives, and a strong culture are often found in industry-leading businesses because they foster productivity, innovation, and client relationships. Our relevant investment personnel believe that the integration of these governance, human, and natural capital factors into investment decision-making and risk-management processes can generate superior investment outcomes. Accordingly, we have built research, stewardship, and reporting processes, and governance structures, to drive integration across our applicable investment processes. The graphic below illustrates how these processes fit together.

Layers of Integration



For illustrative purposes only.

1. LAM's proprietary sector-based approach to ESG integration is based on elements of SASB's Materiality Map™, ©2022. All rights reserved. Reprinted with permission from the SASB Foundation.
2. See Principle 2 for changes in Q4 2022.

"Our teams who manage our ESG Integrated and Sustainability Focused strategies share the conviction that superior investment outcomes require investors to understand the material environmental, social and governance ("ESG") factors impacting the companies in their portfolios. Ultimately, the personnel who manage these strategies do not see stewardship as separate from alpha generation. Our teams believe returns cannot be sustained over the long term if the companies in client portfolios are operating in ways that ignore the material ESG risks relating to their businesses."

Evan Russo CEO, Lazard Asset Management

Materiality Mapping

To ensure a systematic and firm-wide approach to governance, human, and natural capital research, LAM has adopted a dynamic, global proprietary process called Materiality Mapping, which is designed to capture 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. Each year, we hold workshops to provide a forum for analysts from various teams and locations to understand and debate how ESG considerations may create or destroy value in a particular industry over time and to contextualise the risks and opportunities most pertinent to a specific company given its operating activities. They are designed to facilitate discussions across our investment platforms.

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.

LAM has been utilising its Materiality Mapping process for several years now. In 2022 we structured discussions on a regional basis for the first time covering our three investment platforms; International (ex-US), US, and Emerging Markets. The result is a revised Materiality Map and a compilation of key frameworks needed for company- and industry-specific research, engagement, and idea generation. For a subset of the issues identified, analysts may conduct a more thorough analysis to understand the issue in more detail and may look to ascertain whether it is possible to link this to valuation of future cash-generation potential.

2022 Workshop Statistics

	Workshops	Analysts
US Platform	5	16
Emerging Markets Platform	8	15–20
International Platform	6	21

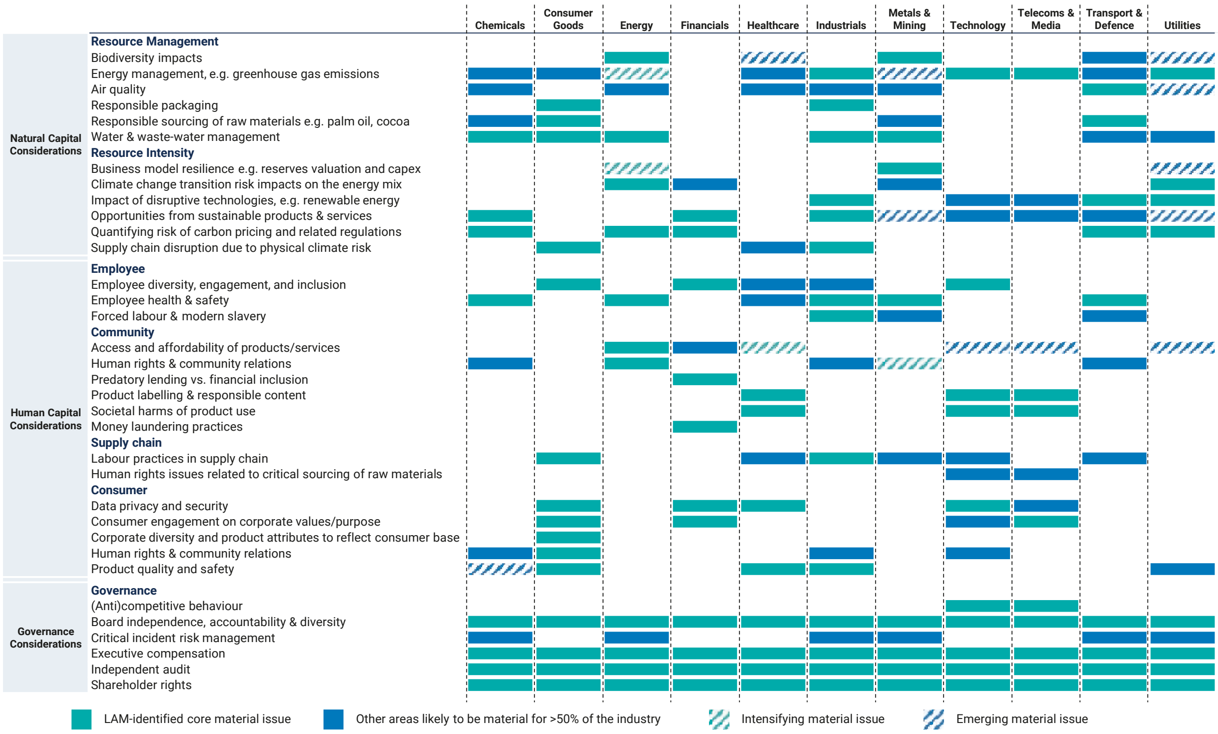
As at 31 December 2022
Source: Lazard

Materiality Mapping helps relevant investment professionals to:

1. Identify and prioritise the most material issues by both industry and region
   In 2022, we facilitated regional, rather than global sector workshops to discuss and debate insights shared by our sector specialists in both equity and fixed income research. We collated these insights to identify existing and emerging issues that are material to each sector.
2. Deconstruct and analyse the issues identified through the workshops
   After identifying the issues that we believe are most likely to be financially material for a sector, we conduct a more thorough analysis to understand both the issues and the transmission mechanisms by which it will translate into changes in financial performance and/or the market's perception of valuation or future cash generation potential. Examples of such transmission mechanisms include the expectation or manifestation of regulatory change, or changing cost of or access to capital.
3. Build proprietary and forward-looking frameworks
   To help quantify the issues, we identify appropriate metrics and potential sources of alternative data that can help inform our analysis of individual companies. We also harness our fundamental and quantitative analytical capabilities to generate new inputs that can be incorporated into our financial models and our assessment of the fair value of companies.
4. Engage
   We actively engage with companies to better understand the issues identified during our Materiality Mapping process and seek to incorporate the findings from these meetings into our investment research.

An overview of how we view materiality across each sector is illustrated below:

LAM Materiality Mapping – A Dynamic Assessment of Material Human, Natural Capital, and Governance Issues



As at 28 February 2023 and a point-in-time reflection of the assessed material issues. For illustrative purposes only. Size and connections are shown in a stylised and simplified way to demonstrate the inter-connectivity between factors within Natural Capital, Human Capital, and Financial Capital. Lazard Asset Management's proprietary sector-based approach to ESG integration is based on elements of SASB's Materiality Map™, © 2023. All rights reserved. Reprinted with permission from The SASB Foundation.

Materiality Mapping is inherently dynamic, built upon the foundational concepts of dynamic materiality as espoused by the World Economic Forum, leading academics, and the collaborative efforts of leading standard-setting institutions, including Climate Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB).

In 2022 we structured discussions on a regional basis for the first time. We concluded with a revised Materiality Map and a compilation of key frameworks needed for company- and industry-specific research, engagement, and idea generation.

Geopolitics emerged as a key theme across our workshops in 2022. 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 layered additional categories to capture geopolitical issues onto the LAM Materiality Map. Other issues that were most discussed included societal harms of certain product use, employee DEI practices, and data privacy and security. Some of the key research needs identified included purposeful brands, digital disruption and financial inclusion, the energy trilemma (energy security, affordability, and lower carbon), and product safety such as in the medical device/biopharma industry.

Serving the Best Interests of Our Clients

We believe our core investment processes, depth of resources, collective investment experience, and long-standing relationships with the companies that we invest in on behalf of our clients are all central to our success as active managers and stewards of our clients' capital. Our integrated approach to ESG has positioned us well for the shift from shareholder primacy to stakeholder optimisation. Furthermore, we recognise that to continue serving the needs of our clients and beneficiaries in a rapidly evolving field, we must also continue to innovate and collaborate both internally and with the wider investment industry.

The past year has seen both a backlash on ESG and greenwashing concerns. 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. It should hence be part and parcel of good disciplined fundamental investing. 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 behaviour, and technological disruptions.

We believe ESG is best suited for active management as it cannot be based on backward-looking data or trend analysis, 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. While the labels may be debated, the underlying trends of the energy transition, healthier living habits, greater scrutiny on worker rights, etc. remain strong, in addition to the continued growth of investor appetite for solutions that both help mitigate such risks and generate alpha.

We provide a more comprehensive assessment of our effectiveness in serving the best interests of our clients and beneficiaries under Principle 6.

Principle 2: **Governance, resources, and incentives**

Signatories' governance, resources, and incentives support stewardship.

Our governance structure helps ensure that LAM's commitment to Sustainable Investment is reflected in relevant policies and processes. LAM has historically maintained several key committees for governance and policy oversight, which included the Oversight Committee, Global Management Committee, ESG Steering Committee, Investment Council, Global Stewardship Committee, and Proxy Voting Committee. These groups provided oversight of the relevant business functions throughout the majority of 2022.

In November 2022, our leadership structure was streamlined with new management groups succeeding the various oversight committees, with the exception of the Global Stewardship Committee and Proxy Voting Committee which remained in the same format. The restructuring of these governance groups is explained in more detail below.

Governance Structure Changes in 2022

Evan Russo was appointed Chief Executive Officer (CEO) of Lazard's asset management business on 1 June 2022, succeeding Ashish Bhutani who made the decision to retire after nearly two decades of leading the business. Evan joined Lazard in 2007, and prior to becoming CEO of asset management, served as Chief Financial Officer of Lazard Ltd and Lazard Group.

At the end of November 2022, Evan announced a streamlined leadership structure for its asset management business, with dedicated management groups responsible for oversight of each key business areas as well as a new Executive Leadership Team. These changes were made with the goal of empowering our leaders to bring the best of the firm to our clients, while enhancing ownership and accountability across all areas of the business.

Lazard's Executive Leadership Team, which replaces the previous Global Management Committee, includes a dynamic group of senior leaders with a broad range of investment, distribution, and business skills and is responsible for oversight of the business and setting strategy, while facilitating coordination across Lazard's dedicated management groups responsible for oversight of our key business areas.

The vast majority of the members of the previous Global Management Committee are now part of the dedicated management groups for Investments, Sales and Marketing, and Infrastructure. We believe a more focused and specialised management group structure will enable us to provide more effective oversight and accountability over each business area and ultimately lead to better investment outcomes for our clients. The new Management Groups include:

1. Fundamental Equity, Fixed Income, and Quantitative/Multi-Asset/Alternatives (QMA) Investment Management Groups – organised by investment specialty, these groups are responsible for the oversight, day-to-day management and coordination of our investment teams, including regular review of investment strategies, investment processes, and risk controls, and seek to help ensure effectiveness of our research, ESG, and trading capabilities.
2. Sales and Marketing Management Group – responsible for the oversight and management of our global sales, client service and marketing businesses.
3. Infrastructure Management Group – responsible for oversight and coordination across our global trading, legal, compliance, technology, operations, and human capital management functions.
4. Strategic Growth Group – responsible for leading strategic growth initiatives, including acquisitions, and team lift-outs.

LAM's Co-heads of Sustainable Investment and ESG are members of both the Fundamental Equity and Fixed Income Investment Management Groups

In addition to these new management structures, the following committees will continue to provide governance and oversight of our policies and procedures:

Global Stewardship Committee

LAM's Stewardship Committee generally meets monthly and is responsible for coordinating and establishing policy related to the ways in which the firm practices stewardship on behalf of its clients, particularly where we use their votes and/or their economic influence to seek change. The Committee will also consider the reputational and business risk related to stewardship activities, not only through activities that we engage in or support but also those where we don't engage or support.

Committee membership is composed of senior representatives from each of our investment platforms and regional offices, as well as our Directors of Research, Co-heads of Sustainable Investment and ESG, our Director of Stewardship, General Counsel, and our Chief Operating Officer. The Committee is responsible for setting policy, oversight, and coordinating stewardship activities across our global business. Amongst other things, the Committee also reviews our policies to ensure they deal appropriately with high-profile shareholder resolutions, conflicts of interests, and the escalation of engagement.

The Global Stewardship Committee was established in November 2020. Oversight of our written engagements, and decision-making around our participation in industry groups and collective engagements used to be undertaken by the Investment Council, prior to the formation of this committee. As the volume of engagements grew, with the approval of our Management Committee, we created a separate body dedicated to stewardship issues. 2022 marked the second full year of the committee's operation, the key activities of the committee during the year were:

- Implementing the new collaborative engagement framework
- Exercising oversight of engagement letters and review of potential UNGC breaches identified by third-party data providers
- Formalising an escalation policy providing a range of options when initial engagement hasn't achieved the desired outcomes
- Reviewing all stewardship practices against the Stewardship Code, PRI assessment, and market best practice
- Updating Stewardship Strategy for 2023 including survey sent to all LAM investment professionals
- Re-defining engagement and supporting implementation across the firm, for more details see Principle 9

Proxy Voting Committee

LAM's Proxy Voting Committee oversees the implementation of the firm's global Proxy Voting Policy, including its ESG provisions. Our Proxy Voting Committee has been in existence for approximately 20 years, reflecting our commitment to exercise voting rights on behalf of our clients where they have delegated to us the responsibility for doing so. The Proxy Voting Committee meets regularly, generally on a quarterly basis, to review the global policy and other matters relating to the firm's proxy voting functions. Meetings may be convened more frequently (for example, to discuss a specific proxy agenda or proposal) as needed. Membership includes our Co-heads of Sustainable Investment and ESG, our Director of Stewardship, representatives of our Legal, Compliance, and Proxy Operations teams, and various investment professionals. The Proxy Voting Committee also reviews proxy voting recommendations from investment teams that conflict with LAM proxy voting guidelines. The key activities of the committee in 2022 were:

- Overseeing voting operations and monitoring implementation of Lazard's global policy
- Monitoring regulatory updates
- Reviewing regional governance and proxy voting trends
- Conducting due diligence of proxy research providers
- Ensuring compliance with the proxy voting policy, including the conflicts of interests policy
- Reviewing voting guidelines in consideration of changes or enhancements

Implementing Our Global Governance Principles

The firm's view on corporate governance and accountability has been set out clearly in our Global Governance Principles, which were developed by the Sustainable Investment and ESG Team and agreed to by the relevant committees. They provide a framework for stewardship, building on Lazard's four cornerstones of stewardship: fiduciary culture, responsibility, collaboration, and transparency (discussed further in Principle 9). These principles are founded on the belief that long-term shareholder value is enhanced through a more comprehensive assessment of stakeholder management. The Principles are highlighted below:

1. Board Independence: The primary job of the Board is to hire and evaluate the CEO, and to set corporate policies and objectives. In that regard the Board of a company should be sufficiently independent, diverse, and have an appropriate collective skill set to undertake its stewardship role: to hold executive management to account, including on the development and implementation of strategy.
2. Board Accountability: The Board is accountable to the owners of the company, namely its shareholders. Engagement with shareholders should be a priority for the Board.
3. Board Make-Up: The experience and skills that each non-executive and executive director bring to their role and to the Board should be transparent and further cognitive diversity. Nomination processes should be robust. Each board member should have sufficient time to fulfill their duties and should not be over-committed.
4. Audit Oversight: Shareholder capital is protected through independent and effective auditor oversight of company financials.
5. Shareholder Rights: Democratic shareholder rights, such as one share one vote, are favoured.
6. Disclosure: Accuracy and transparency in disclosure are key conditions for accountability.
7. Integration of Human and Natural Capital and Corporate Governance: The management of financial, governance, and reputational risks and opportunities should be key priorities. This includes those risks and opportunities related to a company's management of human and natural capital and corporate governance. We believe that this will enhance long-term financial returns.
8. Culture and Ethics: Corporations should strive to model integrity and impeccable standards of business ethics in their relations with all stakeholders. We believe that companies with a healthy corporate culture at their core will be more successful in the long term.
9. Fair and Transparent Remuneration: Remuneration should be fair and transparent. We believe that executives should earn rewards that are proportionate with the long-term value they generate for all stakeholders. In 2022, executive remuneration was identified as a key engagement objective to prioritise.
10. Sustainable Capital Allocation: In general, capital allocation decisions should prioritise the creation of long-term value. To the extent possible, these decisions should seek to minimise material negative social and environmental impacts. We believe the impacts of those decisions on stakeholders should be managed in a responsible way as we believe this can affect the value of a company.

We are committed to reviewing these principles on a regular basis and adapting them as appropriate to achieve the best outcomes for our clients.

LAM's Global Governance Principles

ESG Resources

As demonstrated in Principles 1 and 7, LAM has an integrated approach to ESG which requires relevant investment professionals to fully incorporate stewardship into their engagement and investment decision-making. We believe that engagement and proxy voting is most impactful when led by our analysts and portfolio managers attached to fundamental strategies, and linked to ultimate decisions to invest in or divest from a given security. Relevant investment professionals work closely with the firm's Sustainable Investment and ESG team, which is responsible for setting the firm's sustainable investment goals, conducting ESG training, educating investment professionals on relevant ESG issues and trends, facilitating ESG client reporting, and helping oversee overall development and implementation of our ESG policies. Further, the dedicated ESG research and stewardship specialists work collaboratively as an integrated part of the investment platforms. However, ultimately it is our relevant investment professionals, consisting of 74 sector specialists averaging 20 years of experience who are responsible for incorporating ESG into their fundamental research.

The ESG team is co-headed by Nikita Singhal and Jennifer Anderson who, combined, have 30 years plus of experience in roles spanning both asset management and asset owners. Nikita and Jennifer have respectively sat on industry standard-setting boards—the Chief Executives for Corporate Purpose (CECP) and the Institutional Investors Group on Climate Change (IIGCC). Lazard's ESG team has 12 other domain experts across Research, Stewardship, Data and Analytics, and Client Intelligence pillars.

We believe it is important to build a team with direct industry experience and technical expertise whilst balancing this with diverse skill sets that help us navigate the structural changes to which our companies are exposed. For example, during 2022, we hired an ESG research analyst to further enhance our ESG integration across the investment platform. We also hired an additional stewardship resource and a Director of ESG Data and Analytics.

At the end of 2022 the overall team consisted of 18 team members, with an average industry experience of 11 years. The structure of the team is illustrated overleaf.

In addition, our proxy voting activities are supported by a three-person Proxy Operations team. The head of this team also chairs LAM's Proxy Voting Committee. Please refer to Principle 12 for further detail.

Leadership Bios

Nikita Singhal

Managing Director, Co-Head of Sustainable Investment and ESG
Lazard Asset Management LLC (New York)

Nikita Singhal is the Co-Head of Sustainable Investment and ESG at Lazard Asset Management. She oversees the firm's Sustainable Investment and ESG integration strategy, co-chairs the firm's ESG Steering Committee, and sits on the firm's Stewardship and Proxy Voting Committees. She also leads client engagement and thought leadership on ESG topics. She began working in the investment field in 2005. Prior to joining Lazard in 2018, Nikita worked on the Sustainability Leaders Fund at ClearBridge Investments, was a Director at the Heron Foundation, and worked at IFC's (World Bank Group) infrastructure private equity group after starting her career in investment banking at Goldman Sachs. Nikita holds an MBA from Harvard Business School and is a board member of the Chief Executives for Corporate Purpose (CECP) Strategic Investor Initiative and Bloomberg's ESG Advisory group. She is also an emeritus board member of the Human Impacts Institute, a non-profit organisation aimed at using arts and culture to inspire environmental action for social good.

Jennifer Anderson

Managing Director, Co-Head of Sustainable Investment and ESG
Lazard Asset Management Limited (London)

Jennifer Anderson is the Co-Head of Sustainable Investment and ESG at Lazard Asset Management. She oversees the firm's Sustainable Investment and ESG integration strategy, co-chairs the firm's ESG Steering Committee, and sits on the firm's Stewardship and Proxy Voting Committees. She began working in the investment field in 2006. Prior to joining Lazard in 2019, Jennifer was an Investment Manager for TPT Retirement Solutions and during this time she also served on the Board of the Directors of the Institutional Investors Group on Climate Change (IIGCC). Her previous role was as an Equity Research Analyst in Sustainable Investment at Citigroup Global Capital Markets and she started her career as an SRI Analyst at Jupiter Asset Management. Jennifer has a B.A. in Economics and Economic History from the University of Leicester and an M.Sc. in Environment Technology from Imperial College London.

Elly Irving

Director of Stewardship and Chair of the Global Stewardship Committee, Sustainable Investment and ESG
Lazard Asset Management Limited (London)

Elly Irving is Director of Stewardship in the Sustainable Investment and ESG team. She is focused on developing our stewardship strategy, supporting our portfolio managers and analysts on their engagements, monitoring engagement impact, and aligning our proxy voting and engagement activities where possible. Prior to joining Lazard in 2021, she was Head of Engagement at Schroders where she developed the engagement framework and infrastructure for equity and credit investment teams globally and supporting ESG integration. Elly joined Schroders in 2014 as an ESG Sector Analyst covering the consumer sector, focused on publishing investment-focused thematic research on modern slavery, obesity trends, living wages, etc. Prior to Schroders Elly held ESG roles at Newton, where she focused on proxy voting and company-level ESG analysis and started her career at FandC (now BMO Asset Management). Elly holds a B.A. (Hons) in Business Studies with Accounting and Finance from Nottingham Trent University.

Sustainable Investment and ESG Resources

Co-heads of Sustainable Investment and ESG
Two Team Members

Research Analysts	Stewardship	ESG Data Analytics	Client Intelligence
Seven Team Members	Three Team Members	One Team Member	Five Team Members

As at 31 December 2022

Supporting Our Investment Professionals

LAM has a dedicated ESG team responsible for setting the firm's sustainable investment goals, conducting ESG training, educating investment professionals on relevant ESG issues and trends, facilitating ESG client reporting, and helping oversee overall development and implementation of our ESG policies.

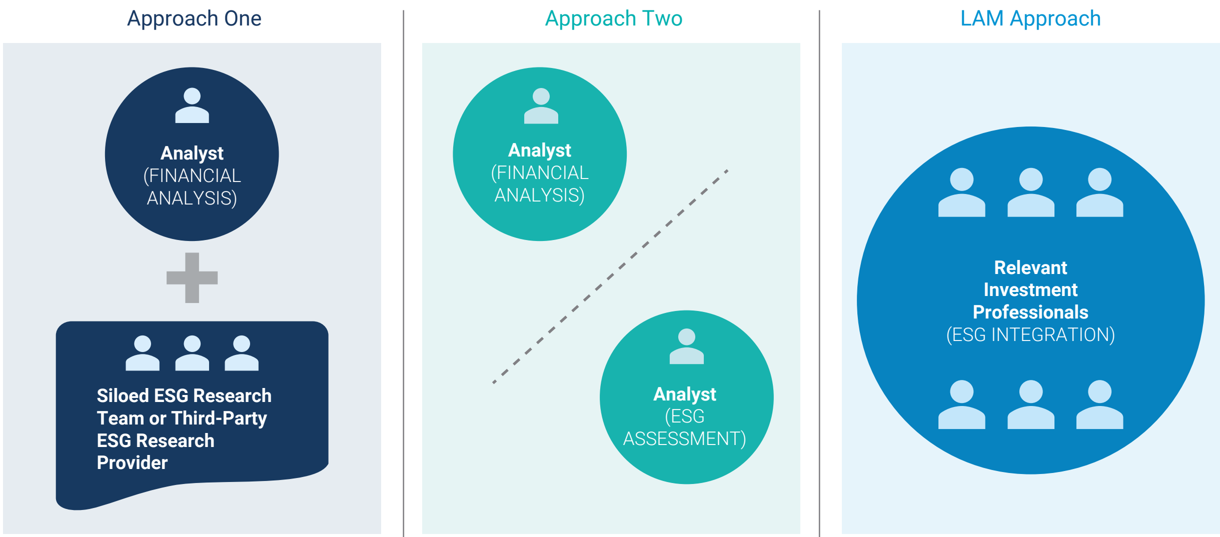
However, our relevant investment professionals are fully responsible for conducting ESG research.

Our ESG process is directly linked to financial analysis. We believe genuine ESG integration cannot separate ESG analysis from fundamental analysis, but rather must make ESG central to the financial analysis. This means our relevant analysts are best placed to contextualise various ESG considerations, and they must deconstruct and understand where and how ESG considerations may impact a company's financial productivity or valuation.

We also do not rely exclusively on external ratings. External ESG ratings may be based on backward-looking data, can fail to contextualise financial materiality, and often disagree with ratings from other firms due to differences in imputation and benchmarking techniques.

At LAM, we believe thinking and operating through a sustainability lens should be everyone's job, and related insights are incorporated into multiple aspects of our investment decision-making and client solutions. All relevant investment professionals, including a global network of more than 100 analysts and sector specialists, are responsible for conducting research on sustainable investment related to their sectors, stocks, and portfolios. It is not conducted by a separate team. We believe our sector specialists are in the best position to understand the material ESG risks and opportunities within their sectors, and integrate them into investment decisions. Our process is illustrated below:

Our Sustainability Research Is Proprietary and Forward Looking, Differentiating Us from Firms That Rely on External Ratings and Research Providers



- The "day-one" approach to ESG integration

- A step forward but not true integration

- ESG integration across the investment process
- Sustainability as a core component of financial analysis

ESG Training

LAM's Sustainable Investment and ESG team conducts periodic sessions on material and emerging ESG issues. The goal is to increase internal expertise and share insights through knowledge initiatives. During 2022, the Sustainable Investment and ESG team offered a series of workshops to support investment analysts and portfolio managers to ensure a consistent firm-wide process for ESG integration. More information can be found under Principle 7. Other examples of training in 2022 included:

Stewardship: Proxy Voting and Outcome-Oriented Engagement

We hosted several stewardship roundtable discussions on corporate governance practices and guidance on best practice ahead of the of the 2022 proxy season. These roundtables were offered to each of our regional investment platforms: Emerging Markets, International (ex-US), and US. In addition to these discussions our Proxy Operations team also offered two refresher training sessions for analysts and portfolio managers on the software interface used to make and justify proxy voting decisions. Training sessions were offered to investment professionals based in London and New York.

In the second half of 2022 we hosted roundtables with the investment platforms again to focus on our new engagement definitions, for more detail see Principle 9. Training is just one channel we use to educate our relevant professionals in stewardship matters. In addition to these focused training sessions, we provide informal training through routine daily investment calls hosted by regional Heads of Research, weekly thematic research calls hosted by our Global Thematic team, as well as one-on-one interactions with our investment professionals. The team also continues to host periodic ESG update meetings with our sales teams to update them on changes to our ESG integration, voting and engagement, and regulatory changes while also attaining their feedback on client views.

Training on European Regulation

In 2022, LAM's Sustainable Investment and ESG team offered training on the European Union's Sustainable Finance Disclosure Regulation (SFDR). In anticipation of the implementation of its second phase on 1 January 2023, the team hosted a firm-wide teach-in session for relevant investment professionals and other relevant functions across the business. The training included speaker sessions from an external consultant focused on regulation and internal subject matter experts. The session covered key aspects of the SFDR and how the firm was implementing processes to meet the incoming regulation.

Communicating Research and Resources

During 2022, we identified the need to communicate relevant research and resources more effectively to our investment professionals outside of these meetings. We sought to achieve this through:

- Enhancing our intranet pages to include resources such as thought leadership articles, engagement templates, and examples of engagement best practice and industry trends
- Launching a Monthly Stewardship Snapshot Newsletter sharing examples of recent engagements and resources available to investment professionals
- Launching a weekly ESG newsletter including examples of relevant sell-side or NGO research, examples of ESG integration within investment analysis and engagements undertaken during the week
- Conducting a survey to understand where our stewardship resources are helpful to investment professionals and identify where gaps still remain. This was an important input into our Stewardship strategy review for 2023.

Service Providers

To complement our proprietary fundamental research efforts, LAM utilises third-party data and ratings providers that provide a wide variety of environmental, social, and governance data points. These service providers act as a useful starting point to research companies' ESG performance as well as identify controversies and industry trends. While these service providers do not always cover every company in our investment universe, they provide a comprehensive tool to enhance and supplement fundamental research and analysis. LAM's Sustainable Investment and ESG team is responsible for meeting with and monitoring data providers to ensure that the firm's investment teams have access to the most robust and credible data sets. During 2022, we appointed a Director of ESG Data and Analytics, who conducted a review of all existing ESG data vendors. A summary of the data providers we utilise as at the end of 2022 are listed below:

ESG/Stewardship Service Providers

Stewardship Service Providers

LAM currently subscribes to proxy voting services provided by Institutional Shareholder Services Inc. (ISS) as well as additional proxy research from Glass, Lewis and Co. (Glass Lewis) who provide both proxy voting research and vote execution. However, our voting decisions are driven by a combination of our LAM Global Proxy Voting Policy and case-by-case analysis conducted by our investment professionals. Members of the Proxy Committee, along with members of the Sustainable Investment and ESG team and Legal and Compliance, conduct regular due diligence of ISS and Glass Lewis as well as an annual due diligence meeting.

LAM does not leverage external providers for engagement activities. The responsibility for all company engagement and voting decisions rests directly with our investment professionals. We believe that our relevant investment professionals are in the best position to evaluate the impact that ESG issues or the outcome of a given proposal will have on long-term shareholder value.

Sustainability Incentives

To support the firm's approach to ESG Integration the assessment and compensation of fundamental equity analysts on the US, International, and Emerging Markets platforms is linked in part to the integration of sustainability-related considerations into their research. These compensation factors include:

- Quality of overall fundamental analysis
- Integration of ESG analysis into investment analysis and decision-making
- Approach to stewardship based on the quality and outcomes of engagement with company management
- Teamwork, leadership, and commitment, including thought leadership on key investment topics
- Mentoring, recruiting, and sharing best practices

We continue to consider opportunities to formalise ESG-related performance assessments beyond the research functions.

Effectiveness of Our Governance Structures and Processes

Both the Global Stewardship Committee and Proxy Voting Committee have been effective in their oversight and implementation of stewardship efforts during 2022. For example:

- **Adding a further resource to our ESG capabilities –** we believe that stewardship is about creating a transparent chain of accountability between the asset owners whose capital we invest and the investments we make on their behalf. To enhance long-term value for all our stakeholders, we continue to invest in resources and capabilities to develop our stewardship activities. We added a stewardship resource, one who brought over 25 years of industry experience and in-depth corporate governance knowledge to further support our investment professionals in their engagements with boards and assessing governance risk and proxy voting decisions.
- **Tracking engagements –** An area that the Stewardship Committee highlighted for further improvement in 2021 was the opportunity to improve systematic tracking of engagement activity and related outcomes. Towards the end of 2021 we trialled a number of third-party providers and reached the conclusion that building a solution in-house will allow for greater integration with our research. During 2022 the committee established a working group to develop new engagement definitions that were outcome focused. This helped to more clearly differentiate between ESG due diligence and engagement with tangible outcomes that either influence the investment process or drive real-world outcomes. New processes and technology were developed along with training for all investment professionals, which enabled the new process to be rolled out in Q4 2022. For more detail see Principle 9.
- **Collaborative engagement –** The Stewardship Committee identified the need to formalise a policy to help assess collaborative engagement opportunities. A draft was presented to the committee at the end of 2021 and was successfully implemented in 2022 as LAM participated in a number of new collaborations. See Principle 10 for more detail.
- **Enhanced shareholder proposal process –** Acknowledging client feedback and having built more stewardship resources in 2022 we were able to strengthen our processes to better leverage the ESG subject matter expertise in our voting process for shareholder proposals. This new process was implemented in 2022 prior to the annual proxy season. See Principle 12 for more detail.
- **Review global proxy voting policy and consideration of developing regional policies –** Following the 2021 proxy season we reviewed our proxy voting processes and activity and started to explore the possibility of further strengthening our custom policy to account for regional differences in governance best practice. We started to review two of our key markets, US and Japan, ahead of 2023.
- **Exploring opportunities to improve our transparency on voting activity –** During 2022 the topic of evolving stakeholder expectations around vote reporting was discussed at both the Stewardship and Proxy Committees. During 2022, several meetings were held with third parties to assess different reporting solutions. This is an area of focus for 2023.
- **Enhanced UNGC and watchlist monitoring and oversight –** During the year the ESG watchlist process was enhanced and the Stewardship Committee committed to reviewing and enhancing the process for monitoring potential UN Global Compact (UNGC) breaches in early 2023.

Bringing all these factors together we were able to measure effectiveness in two ways; first a significant increase in the number of in-depth, purposeful engagements in 2022 compared to last year, and secondly, an increase in the analysis and engagement conducted ahead of company AGMs as measured by the absolute number of governance-focused engagements recorded on our proprietary research database, LAMR.

Principle 3: **Conflicts of interests**

Signatories manage conflicts of interests to put the best interests of clients and beneficiaries first.

As described in Principle 1, Lazard Asset Management is a subsidiary of Lazard Ltd, a publicly traded company (NYSE: LAZ) which also operates an independent Financial Advisory business that serves corporate and government clients, and is completely separate from the Asset Management business from a functional perspective. As highlighted in our parent company's 2022 annual report, potential conflicts of interests for LAM may arise because of our parent company's business structure. LAM also will encounter the potential conflicts that other asset managers experience when actively managing client portfolios with discretion, including where interests of one client conflicts with those of our other clients.

LAM's Conflict Mitigation Policies and Procedures

In addition to publicly disclosing key potential conflicts, as a manager with fiduciary duties to its investors, LAM has adopted numerous policies and procedures designed to help the firm consistently place our clients' interests ahead of other interests. Our fiduciary culture positions us well to undertake stewardship activities on behalf of those clients. Without limitation, our conflicts controls include:

- LAM does not use its discretion to buy securities issued by Lazard Ltd for our client accounts, and has coded its internal restricted list accordingly
- Where we engage in discretionary trading for multiple accounts in the same investment strategy, generally we ensure that those accounts transact in the same securities at the same time on a pari passu basis regardless of the fees they pay to LAM
- We maintain a strict, global information barrier designed to ensure that LAM's investment activities operate independently from the financial advisory and investment banking activities conducted by Lazard's Financial Advisory business
- Whether or not it is mandated by local laws, all of LAM's global employees must seek Compliance pre-approval to transact in their personal accounts
- Our portfolios in the aggregate will not own more than twenty percent (20%) of an issuer's outstanding listed equity without approval by our Compliance
- All LAM personnel must seek Compliance pre-approval before engaging in outside business activities
- In particular, LAM discourages its personnel from serving on the boards of publicly traded companies, and will restrict client trading in a security under the rare case where an employee is approved to join the board

We have adopted particular controls to avoid conflicts when LAM is exercising proxy voting rights on behalf of our client accounts, which are detailed in both our Sustainable Investment and ESG Integration Policy and our Proxy Voting Policy Overview. Both are publicly available on our website. Our conflict policy outlines the following requirements:

- Pursuant to our global Proxy Voting Policy, all votes are cast by our investment personnel with oversight from our Proxy Committee and Proxy Operations team—no LAM sales personnel and no Lazard Ltd financial advisory personnel are permitted to influence LAM's proxy voting
- Where our Proxy Operations team has identified a potential conflict relating to a proxy vote in the categories set forth in the Policy, the vote will be cast according to our written voting guidelines
- Where our Proxy Operations team has identified a potential conflict relating to a vote and where guidelines are to generally vote on a case-by-case basis, LAM will vote according to the majority recommendation of the independent proxy services to which we subscribe, or we will abstain
- Exceptions to the Policy's guidelines must be approved by the Proxy Committee or the firm's Chief Compliance Officer

How We Applied Our Conflicts Policy in 2022

During 2022, there were 94 meetings (out of over 5,000 meetings voted) where it was determined that a potential conflict of interest may be present. All of these were reviewed by the Proxy Voting Committee and it was agreed that all should either be deferred to our proxy advisor or that we should register an abstention based on the conflicts category. The chart below provides a breakdown by type of conflict during the period:

Conflicts of Interests

Conflict Reason	# of Meetings
A Lazard personnel sits on this company's Board of Directors	11
Echo Vote/Lazard funds voted in accord with other Shareholders' voting	2
LAM manages the company's assets/pension plan	46
Lazard serves as a financial advisor or provides other IB advisory services	8
The Proponent of one or more of this meeting's agenda is a LAM client	17
This company is a LAM Online Broker	10
Grand total	94

Both the Proxy Voting and Stewardship Committees have committed to reviewing our existing policy on a regular basis. As an area of improvement, we aim to formalise additional policy provisions to capture potential conflicts that may arise through the firm's engagement activities.

Principle 4: **Promoting well-functioning markets**

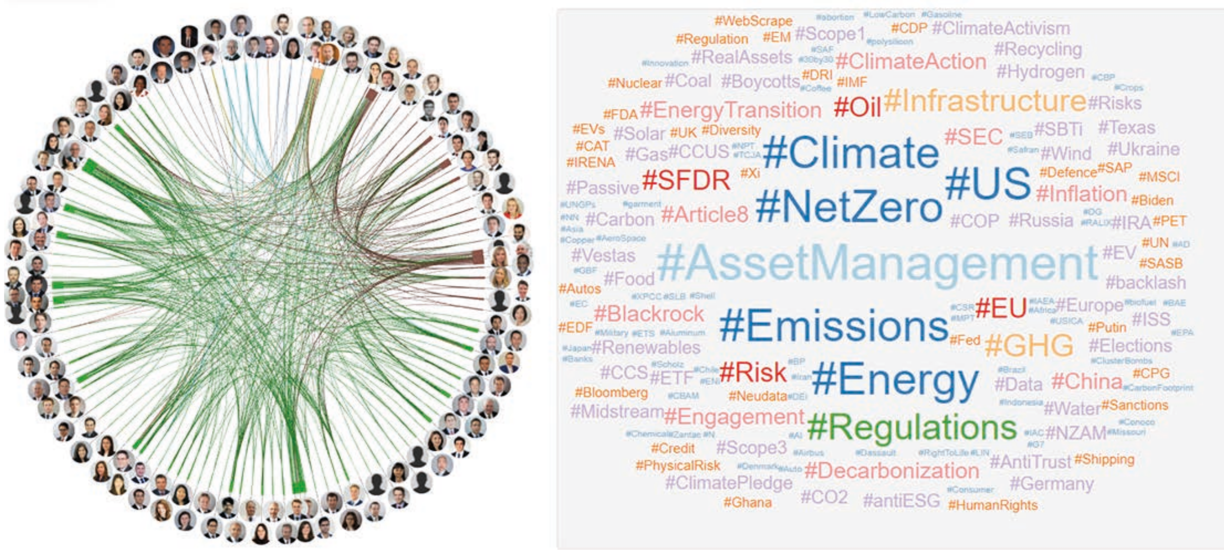
Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Market-Wide Risks

Market-wide risks are those that lead to financial loss or negatively impact overall performance of the market. LAM does not have a Chief Investment Officer; instead the firm seeks to identify market-wide and systemic risks through the following channels:

1. LAM has a dedicated risk management team that reports directly to the CEO and management groups while also engaging with portfolio management teams through risk meetings. The risk team uses a variety of external tools to assess market-relative risk and statistically measured exposures to commodity prices, exchange rates, etc.
2. Ronald Temple, Lazard's Chief Market Strategist, serves as a thought leader and market strategist for Lazard's Asset Management and Financial Advisory businesses and will work closely with Lazard's Geopolitical Advisory group. Since joining Lazard in 2001, Ron has leveraged his financial sector, macroeconomic, and policy expertise to deliver differentiated insights and engages extensively with a wide range of Lazard's investment professionals across the equity and debt arenas to leverage the firm's insight broadly.
3. The Investment Council hosts investment outlook calls as well as periodic presentations by individual investment teams. This forum allows for discussions about risks and opportunities perceived by investment professionals around the firm. This brings together quantitative equity investors who assess factor exposures, fixed income investors focused on credit risk and inflation, and regionally specific teams with deep insights about the regions in which they invest. The Investment Council will often respond to emerging events by coordinating the timely presentation of insights from internal domain experts. LAM's Global Co-Heads of Sustainable Investment and ESG regularly participate in these meetings. In Q3 our Director of Stewardship provided an update to the Council on stewardship activities.
4. The Global Thematic Equity team hosts a weekly call open to all investment professionals globally as a forum for discussion and debate on the latest macro trends and risks. The call is often attended by over 100 investment professionals.
5. We discuss market risks through an internally developed digital message board system known as "Dragonfly," which has been used widely since its launch in 2010. It has over 235 active users and is a forum to express and debate macro views. As of 31 December 2022, we had over 7,300 threads and over 9,800 unique topics. As demonstrated by the word cloud overleaf, climate change and net zero remained key topics of our discussions during the year.

Network Graph on Climate Change and Net Zero from 2022



As at 31 December 2022
Source: Lazard Asset Management

Systemic Risks

The personnel who manage our fundamentally driven strategies generally attempt to identify, analyse, and monitor systemic risks through their research activities and related meetings. For systemic risks related to social and environmental trends, most notably including climate change, we draw insights from Materiality Mapping exercises. The level of interaction between investment professionals through materiality-mapping workshops allows us to identify emerging environmental, social, and governance issues, which can also inform our corporate engagement. Climate change provides a relevant example to demonstrate this:

Case Study: Climate Change

We continue to strengthen our research and stewardship capabilities relating to climate change and assessing the potential transition risk (or opportunities).

2020

In 2020, LAM published and implemented our Climate Change Investment Policy, which seeks to incorporate climate change into relevant investment research and decision-making. The key points addressed are as follows: 1. Climate-Integrated Research 2. Climate-Focused Engagement with Key Stakeholders 3. Transparency, Disclosure and Reporting on Climate Issues

2021

In 2021, when Lazard Asset Management joined the Net Zero Asset Manager initiative, we took the following steps to crystallise this commitment into action:

- We conducted a review of third-party climate data providers and frameworks to assess the quality of the data and analysis and the credibility of third-party scenario analysis tools
- We offered net zero training to relevant investment professionals and hired additional resources to build expertise across areas such as climate science, carbon accounting, and corporate climate practices

- At a firm level, LAM must meet its commitments made under the Net Zero Asset Managers initiative. This means selecting an initial portion of AUM that will be managed as Net Zero strategies from May 2022, as well as ascertaining from certain clients how they would like to reflect their own commitments in the mandates we manage on their behalf. At a portfolio level, net zero implementation means understanding how existing mandates, keeping in mind specific investment objectives and parameters, can be combined with emissions-reductions targets without compromising the overall objective of delivering strong investment performance and maximising long-term shareholder value. Underpinning these layers is the requirement to understand the idiosyncratic decarbonisation that needs to be delivered by each asset in a net zero portfolio. Again, this will differ across the sovereign and corporate assets we manage and by region
- We developed company-level carbon models for a sub-set of high emitting companies, bringing in both our views on industry-level pathways and sector analysts' views on growth rates out to 2030 and beyond to model emissions trajectories from a bottom-up perspective
- We developed our proprietary Climate Alignment Assessment (CAA) model following the 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. This helps us and our clients address these challenges by diving into how portfolio assets are positioned today and over the long term, using a systematic analytical approach. 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 current on an improving disclosure environment

2022

In 2022, 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 has 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%.

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.

Approach to net zero for select portfolios

With this evolving landscape, we continued to adapt our approach to help our investors better understand transition-related risks and opportunities. In particular, we achieved the following:

- Made our first commitment under the Net Zero Asset Managers initiative (NZAM), which requires us to set an interim target for 2030, consistent with a fair share of the 50% global reduction in C_{O2}. LAM committed 9% of its total AUM* to be managed in line with a net zero trajectory in its first disclosure, consisting of client mandates that already have climate as a part of the mandate requirements and strategies for which the portfolio manager sees net zero as being aligned with the existing investment philosophy and process. Our commitment can be found in the NZAM Initial Target Disclosure Report.

* as disclosed as of May 2022 on the NZAMI signatory website

- We published two white papers: first a paper explaining our approach to net zero, then a second paper to address the challenges of decarbonisation within emerging markets. We hosted an event for clients to discuss these papers. See Principle 6 for more detail
- Created a proprietary framework to assess both the ability and willingness of different countries to transition to help us assess climate risk and opportunity across our sovereign debt strategies. In particular we participated in two climate change-focused initiatives. For more detail see Principle 7
- Implemented our new collaborative engagement policy, which aimed to improve transparency on transition plans across multiple asset classes including corporate, sovereign, and municipal debt. See Principle 10 for more detail

LAM's Approach to Net Zero Portfolios

The Challenges of Emerging Markets Net Zero Investing

- Continued with the development of a proprietary Net Zero dashboard built into our research platform, which is designed to measure, track, and report on historical and forward-looking portfolios' carbon performance and provide greater visibility and accessibility of climate-related data to investment professionals.

Collaboration to Promote Improved Financial Markets

As appropriate, we engage with regulatory bodies, industry initiatives, and policymakers in efforts to improve the environment for investor stewardship in the markets in which we operate.

Engaging with Accounting Standard Setters

Certain of LAM's fundamental sector research analysts have engaged with standard setters on the development of accounting standards. LAM has been a member of the IASB's Investors in Financial Reporting Programme since 2016. Consumer Goods analyst, Dennis Neveling, was added to FASB's Investor Advisory Committee in 2021 and continued to participate through 2022. Topics on which we have engaged include the accounting presentation of factoring and reverse factoring.

Engaging with Policymakers

LAM has the ability to engage with policymakers where appropriate to improve standards in the markets in which we operate. For example, In 2020 and 2021 LAM had previously filed two open letters with the US Department of Labor (DOL) regarding its proposal to amend the Investment Duties rule under Title I of the Employee Retirement Income Security Act of 1974 (ERISA). We believed this rule change would impose unnecessary restrictions and burdens on plan fiduciaries wanting to provide ESG investment options to ERISA-regulated retirement plans. In 2022, we participated in an event with the Secretariat Lead and Head of Public Policy,Transition Plan Taskforce (TPT), the Technical Specialist, Sustainable Finance and Stewardship, FCA, and Sustainability Disclosure Requirements (SDR) and investment labels lead, FCA. The objective was to have an exchange of views around the aims, ambitions, and interconnectivity with both the TPT and the SDR with the TCFD and ISSB. In another example from 2022, our Co-Head of Sustainable Investment and ESG, our Co-Director of Research, and representatives from the Sustainable Investment and ESG team had a consultation meeting with the International Sustainability Standards Board (ISSB) to share our views that the proposed Sustainability Disclosure Standards would not improve disclosure where it is most needed.

Engaging with Industry Initiatives

We support several industry and sustainability initiatives, including those relating to issues around our stewardship priorities, corporate governance, diversity, and climate change (see Principle 10 for further information). Collaboration with industry initiatives is used to advance our own thinking, help set strategic priorities and improve outcomes, or further sustainability standards and disclosures that will we believe broaden the adoption of sustainable investment. Some key initiatives and examples of where we have a long history of involvement are highlighted below:

- Principles for Responsible Investment (PRI) – we have been a member since 2014. We received an overall 4-star rating in 2021, and our latest PRI Transparency Report can be found on our website. We are an active signatory participating in webinars and events. Yvette Klevan, Managing Director and Portfolio Manager, is a member of the PRI's Fixed Income Advisory committee. During 2022, she continued to participate in the quarterly committee meetings to discuss how third-party ESG ratings providers assess ESG risks for both corporate and sovereign issuers. Looking across all asset classes, our support of the PRI helps promote improved financial markets, specifically through the implementation of Principle 1, and integrating ESG into our own investment decisions, Principles 2 and 3 through actively engaging with our holdings and promoting transparency, and Principles 4 and 5 through industry collaboration
- Other Stewardship Codes – LAM supports better industry standards of investor engagement and corporate governance across listed companies through our support of the UK, Japanese, and Korean Stewardship codes. LAM was previously a Tier 1 signatory to the 2012 Stewardship Code and has a long history of engaging with the FRC and participating in consultations. The Code has helped us to shape our practices, and in 2022 in particular, we worked to strengthen our processes related to collaborative engagements (Principle 10), escalation (Principle 11), and measuring engagement outcomes (Principle 9). Lazard Japan Asset Management, K.K. has been a signatory to Japan's Stewardship Code since 2014. During 2022, we took active steps to enhance our transparency of our proxy voting activity and rationales across our Japanese equity holdings to further align with the Japan Stewardship Code. Lazard Korea Asset Management Co., Ltd. has been a signatory for the Korea Stewardship Code in the Korea Corporate Governance Service (KCGS) since 2019
- Institutional Investors Group on Climate Change (IIGCC) – LAM's Co-Head of Sustainable Investment and ESG, Jennifer Anderson, was on the board of the IIGCC prior to joining Lazard. She has been a strategic and active member of the IIGCC for more than 7 years and helped initially form and develop the strategy of the Investor Practices Group. In 2022, LAM co-sponsored the IIGCC AGM, an event that brings together a broad range of asset owners and asset managers that collectively represent €60 trillion in assets. Jennifer Anderson also 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
- International Corporate Governance Network (ICGN) – LAM has been a supporter of 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 in South Korea. Participating in this initiative has helped us to monitor emerging governance trends and adapt our engagement priorities accordingly. For example, we have seen governance reforms in both Japan and Korea 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
- Task Force on Climate-Related Financial Disclosures (TCFD) – LAM has been a supporter of the TCFD since 2019. Supporting the TCFD aids financial markets through helping to standardise reporting and disclosures on climate across the market to address systemic risk as well as promoting the markets' ability to price carbon risk. Climate-related issues are an important component of our stewardship responsibilities via engagements and proxy voting. For further information, please refer to our TCFD Report 2021 on our website (2022 report to be published later in 2023)

- Chief Executives for Corporate Purpose (CECP) – LAM's Co-Head of Sustainable Investment and ESG, Nikita Singhal, is a board member of the Chief Executives for Corporate Purpose (CECP) Strategic Investor Initiative
- Net Zero Asset Manager Initiative – In March 2021, LAM announced that we had joined the Net Zero Asset Managers initiative, making the commitment to support the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C. This initiative, is an extension of our efforts to embed sustainability analysis into investment decisions and is consistent with our Climate Change Investment Policy
- Taskforce on Nature-Related Financial Disclosures (TNFD) – In December 2021, LAM joined the newly formed TNFD forum, which leveraged expertise from its task force members to develop a risk management and disclosure framework for organisations to report and act on biodiversity-related risks. In 2022, we actively participated in regular events hosted by TNFD as well as engaged with them directly at UN Biodiversity Conference and COP15 to help evolve our own knowledge on biodiversity-related risks and opportunities and start to build our own biodiversity framework for LAM investors

New Initiatives in 2022

As detailed in Principle 10, we implemented our new collaborative engagement policy in 2022, which helps guide our approach to engaging collaboratively with industry initiatives and peers.

In 2022, as a long-term supporter of CDP, we participated in an initiative to accelerate the adoption of science-based climate targets by collaboratively engaging with companies alongside 318 other investors. This initiative was supported by LAM as an effective way to engage across multiple high carbon-impact companies and sectors. Through this collaborative engagement, we targeted companies that were included in CDP's universe that have not yet committed to developing a science-based target and also those which were not disclosing via the CDP. We deem these initiatives to be effective as we saw increased disclosure from both listed equities and municipal issuers. This increased disclosure via CDP feeds directly into several research tools used by our relevant investment professionals including but not limited to our Climate Alignment Assessment, Net Zero dashboard, and ESG model developed by our quantitative equity strategies.

Over the period LAM also joined the Emerging Markets Investors Alliance (EMIA), an organization focused on engaging with governments and companies in emerging markets to support good governance, promote sustainable development, and improve investment performance. Participation in the EMIA has been effective in helping us understand emerging trends and help inform the development of our EM Net Zero white paper as well as facilitating engagements with sovereign issuers that would have been more challenging as an individual investor. Please see our case studies of EMIA engagements in Principle 10.

LAM also joined the PRI Advance Initiative, a collaborative stewardship initiative for investors to work together to act on human rights and social issues within the metals and mining and renewables industries, coordinated by the UN PRI.

Further details on LAM's participating in collaborative initiatives are provided in Principle 10.

Principle 5: **Review and assurance**

Signatories review their policies, assure their processes, and assess the effectiveness of their activities.

Internal Assurance

Oversight, Policies, and Reporting

LAM's governance structure helps to ensure that LAM's commitment to Sustainable Investment and Stewardship is reflected in relevant policies and processes, which are reviewed at least annually by the relevant internal teams and committees. Over the last 12 months specifically LAM has:

- Reviewed the Sustainable Investing and ESG Integration Policy
- To strengthen governance and oversight of ESG within portfolio management, we developed internal definitions for ESG integration and sustainability-focused strategies using objective criteria. The definitions provide internal guardrails for both (1) strategies that integrate ESG into investment decision-making and (2) for our range of sustainability-focused strategies
  - All portfolio management teams are required to to describe in writing the ESG integration or sustainability focus related philosophy, process and proof (evidence of ESG considerations or achieved objectives) for the relevant portfolio or strategy
  - Lazard considers an ESG integrated strategy as one that is managed in a way to consistently assess the impact that material environmental, social, or governance considerations may have on the long-term financial performance of an issuer. Portfolio management teams are required to provide periodic evidence to the legal and compliance team of how these underlying criteria are being met
  - Lazard considers a sustainability-focused portfolio or strategy as one that is designed with the investment belief that the world is moving to a sustainable future and that investors can benefit from this transition by actively including issuers that have (or plan to have) sustainable products, services, and operations. Relevant portfolios complete an internal ESG questionnaire. Portfolio management teams of sustainability-focused strategies are required to provide periodic evidence to the legal and compliance team of how the criteria are being met
- As part of our focus on governance and oversight, in 4Q2022 we initiated the first review of a sample of Lazard's largest strategies against the objective criteria. We plan to expand these oversight efforts in 2023
- We further developed criteria for SFDR Article 8 and 9 products consistent with emerging best practices and strengthened data, risk, and reporting processes to meet SFDR requirements
- Strengthened oversight of LAM's engagement efforts and helped drive improvement and evolution in our stewardship activities and policies through the work of our Global Stewardship Committee

Internal Controls

External reporting: All of the reporting for LAM's ESG integration and stewardship activities, including the Annual Sustainable Investment Report, PRI Assessment, and TCFD report, are reviewed and signed off by the Co-Heads of ESG and Sustainable Investment, marketing and compliance teams, and senior management, including the General Counsel, Chief Business Officer, and the Heads of the Investment Platforms. In 2022, we published the first iteration of sustainability-focused Reports for a selection of sustainable equity strategies. We aim to expand this strategy reporting effort in 2023.

Proxy Voting: To ensure the successful execution of proxy voting, LAM has controls in place designed to ensure that no upcoming meetings are missed, to check for missing ballots, and set up new accounts correctly as well as a monthly audit report to review any rejected ballots. The process and controls are reviewed by an external auditor annually as part of the SSAE-18. The quarterly Proxy Voting Committee meetings also add an additional layer of oversight.

Continuous Improvement

In the last year, improving the effectiveness of LAM's stewardship activities has been a focus area. Examples of these activities include, but are not limited to:

- Continued review of LAM's global proxy voting guidelines and voting records
- Exercising oversight of engagement letters and review of potential UNGC breaches identified by third-party data providers
- Formalising LAM's escalation process as part of the updated LAM ESG policy to have a clear process when engagements with companies are generating unsuccessful or sub-optimal outcomes (further detail in Principle 11)
- Enhancing systematic process to record and track engagement objectives using in-house research tools
- Formalising a shareholder proposal process that leverages the expertise of both sector analysts and the Sustainable Investment and ESG team
- Reviewing all stewardship practices against the Stewardship Code, PRI assessment, and market best practices
- Finalising a Collaborative Engagement policy to increase engagements conducted alongside industry peers. This includes clear criteria for participation based on the engagement initiative's objectives and situations where we believe financially material issues can be better addressed by working alongside others (further detail in Principle 10)
- Progress plans to enhance transparency with regards to global proxy voting records (further detail in Principle 12)
- Managing potential conflicts that may arise through our engagement efforts

Principle 6: **Client and beneficiary needs**

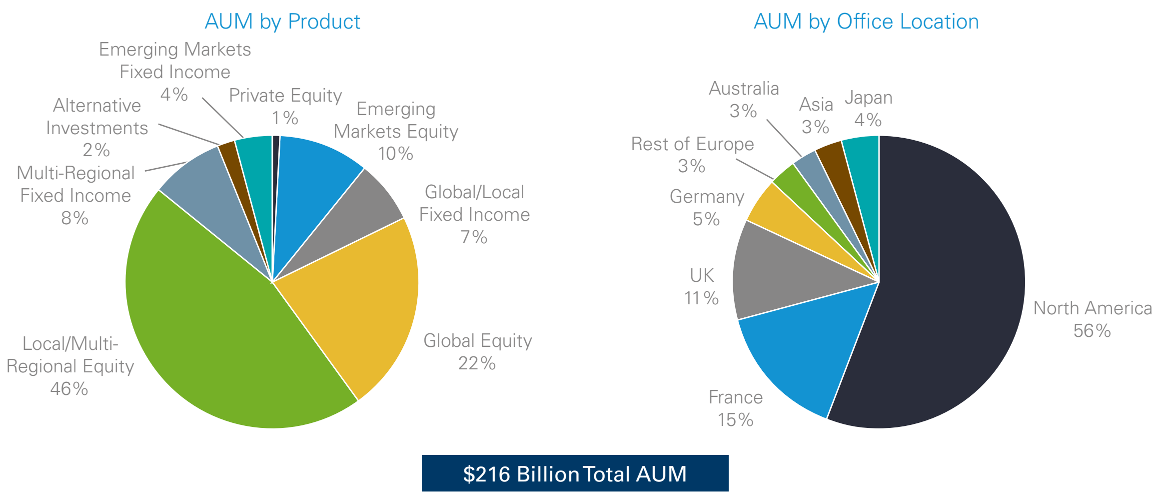
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Breakdown of Our Client Base

As disclosed in Lazard Ltd's annual report, approximately 85% of assets under management ("AUM") as of 31 December 2022 are managed on behalf of institutional clients, which include corporations, labour unions, public pension funds, insurance companies, and banks, and through sub-advisory relationships, the sponsors of retail funds, and other products offered by registered advisors. 15% of AUM is managed on behalf of individual clients, which principally represents family offices and high net worth individuals. The top ten clients accounted for 27% of total AUM for the year ended 31 December 2022 with no client individually contributing more than 10% of Asset Management segment net revenue.

The charts below illustrate the mix of AUM as of 31 December 2022, measured by broad product strategy and by office location (the way data is collated on geography is by office location where client service occurs, rather than where the underlying assets are managed). Total AUM at 31 December 2022 was $216 billion. The number of investment professionals and regional offices is broken down further in Principle 1.

Assets under Management



As of 31 December 2022
Source: Lazard 2022 Annual Report

Investment Time Horizons

The investment time horizons vary by strategy and client. Fundamental, long-only equity and listed infrastructure investment strategies tend to have a longer-term horizon than our quantitative equity and fixed income arbitrage products, for example. This is a reflection of the asset class characteristics as well as clients' preferences. With the majority of assets being managed in fundamental bottom-up strategies, the regular interaction with company management is an integral part of the investment process. As a result, many of LAM's investment professionals have a an in-depth knowledge of individual companies and long-standing relationships with company management teams that can help to support constructive engagement and dialogue with companies.

Collecting Client Feedback

LAM has an ongoing dialogue with clients, which contributes to an the in-depth understanding of their investment objectives, including their interest and expectations on stewardship activities, especially as they relate to voting and engagement. Client feedback is also sought through industry events, which are discussed in more detail later in this section. In order to meet client reporting expectations, we continue to push for system upgrades, designed to record clients views more systematically.

Aligning with Client Stewardship and Investment Policies

Products

Client collaboration has allowed for the development of products and adaptation of investment management agreements to improve alignment with client's sustainability objectives and priorities, for example by launching carbon neutral quantitative equity strategies, a gender diversity strategy, and sustainability-focused equity strategies.

Engagement

While engagement is a regular feature of our fundamental research process, from time to time, clients' own engagement priorities have also been accommodated for certain mandates. For example, one Nordic client provides a quarterly list of engagement priorities, which is reviewed by the Sustainable Investment and ESG team.

Voting

In general, investment personnel for fundamentally driven strategies believe that disaggregating engagement and voting from the investment process prevents insights from engagement being fully incorporated into the investment decision-making process, and it limits the scope for a failed engagement to result in escalation. It is also acknowledged that some clients in these strategies may want to retain the voting rights across different funds to maintain consistency. All clients invested in our equity products are offered the ability to delegate voting authority, which is used to vote in line with our Global Proxy Voting Policy, available on the website. Clients are also offered the ability to implement their own proxy policy through LAM's platform as an additional service.

Communicating with Clients

LAM publicly discloses ESG and proxy voting policies on the LAM website, along with the annual Sustainable Investment Report, which provides details on ESG processes, research, engagement, and voting activities (see examples of these reports on page 2). Strategy-level reporting is provided directly to clients covering voting activities, research and engagement examples, and outcomes on a quarterly and ad hoc basis as well as through regular client meetings. LAM's investment professionals routinely participate in industry and client events. This provides an additional channel to both communicate stewardship activities and gather feedback from the clients that are in attendance. Several examples from 2022 are provided below:

- Client Roundtable Series: Net Zero in Emerging markets — Members of the firm's Sustainable Investment and ESG team and EM investment platform hosted a client roundtable discussion in the UK on the challenges of net zero investing in emerging markets. The roundtable also included several external keynote speakers from initiatives such as Transition Pathway Initiative (TPI) and Emerging Markets Investors Alliance (EMIA). The platform provided an opportunityfor our clients and relevant industry stakeholders to debate ideas and exchange perspectives on current and future issues impacting asset allocation and investment decision-making. The event also served as a useful environment to gather client feedback on the topic as well as forge stronger partnerships with clients and better understand product positioning and development

- In addition to participating in industry events, colleagues also participate in industry podcasts that are publicly available and shared with clients. Podcast topics in 2022 included views on the energy transition, biodiversity considerations, and evolving ESG regulation. Finally, regular Demystifying Sustainability blogs are created that are available to clients on our website
- Stewardship and engagement reporting has been dedicated to meeting the needs of clients. Publicly reporting on engagement activities, especially whilst engagements were ongoing, has not been prioritised. However, we appreciate that the expectations of standard setters like the FRC, and NGOs interested in the voting and engagement activities of asset managers would like further publication of what is undertaken, including within reports like this one

As detailed in Principle 2, in 2022 we undertook a project to re-define our engagements to better capture engagement objectives and outcomes, in part to meet the evolving reporting requirements of our clients. See Principle 9 for our engagement definitions and how these have evolved

Actioning Feedback Received

Client feedback on reporting and communication is constantly sought through the regular interactions conducted by sales, client servicing, and investment teams. In response to both UK pension regulation and Shareholder Rights Directive (SRD II), an in-house client reporting solution has been built to identify “significant votes” across their portfolios and report in line with the PLSA reporting template. Separately, we have also developed and published sustainability focus reports to present ESG integration and stewardship-related information and data points specifically for LAM’s US and Global sustainable equity products.

Principle 7: **Stewardship, investment, and ESG integration**

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfill their responsibilities.

Integrating Stewardship and Investment

LAM is committed to understanding the companies invested in through ongoing fundamental research and quantitative analysis. Fundamental research activities seek to build relationships over time, to be constructive in our approach, and to support companies undertaking positive changes. As active managers, incorporating the insights from our stewardship activities into investment decisions is a process that can support the creation of long-term value for clients and their beneficiaries. Stewardship is an integrated part of relevant investment processes and is conducted by fundamental analysts and portfolio managers. This approach seeks to have both voting and engagement decisions consistent with investment rationales. We see this as an important differentiator, believing that shareholder and bondholder engagement is more effective when it is undertaken directly by the analysts and portfolio managers that own the companies or sovereign bonds in their portfolios. It is also acknowledged that the approach to stewardship varies by asset class and investment strategy, as highlighted in the detailed case studies in the response to Principle 9. LAM's firmwide philosophy toward stewardship is based on four cornerstones:

1. FIDUCIARY CULTURE

LAM manages client accounts with discretion and owes its investors fiduciary duties. We act on behalf of our clients and the ultimate beneficiaries of the assets that we manage. Protecting and serving their long-term financial interests is our foremost priority. That culture is engrained in our global approach to investing and positions the firm to undertake genuine and valuable stewardship activities

2. RESPONSIBILITY

Stewardship is our clients' right, especially where we invest in voting shares on their behalf, but it is also a responsibility. We commit to undertake stewardship thoughtfully and purposefully. We will escalate issues if and when we deem it appropriate and use the combined influence of the assets that we manage to seek changes that we believe will benefit our clients

3. COLLABORATION

Boards of directors share the responsibility of stewardship with shareholders. Stewardship is collaborative and benefits from relationships built over time and on interactions that are constructive and ongoing. We believe that successful stewardship is through an unbroken chain of trust and understanding between corporates, asset managers, and asset owners

4. TRANSPARENCY

In addition to reporting directly to our clients, we will publicly report on our stewardship activities once a year. Where there are conflicts of interests resulting from the different time horizons and objectives of our various investment strategies, these will be reviewed by our Stewardship Committee. We will assess the interests of our clients based on the value of their investment in the relevant securities, not the fees that they pay to us or the totality of their assets under our management

Monitoring ESG Risks and Opportunities through the Ownership Life Cycle

As referenced in Principle 1, proprietary Materiality Mapping supports ESG integration and is designed to provide a consistent framework across our investment platforms. Materiality Mapping helps identify and monitor ESG risks and opportunities through the ownership life cycle. This process informs the research agenda on sustainability issues and engagements on ESG issues with companies. The research agenda cuts across sectors, industries, and geographies. For example, Materiality Mapping workshops with relevant investment professionals have identified the physical impacts of climate change as being a material risk to several sectors and their supply chains, particularly those with significant physical infrastructure and fixed long-life assets, which led to research methods to layer several climate- and weather-related risks on asset-level data sets.

ESG Watchlist

To create a check for internal assessment, a watchlist of listed companies rates poorly in absolute and/or sector-relative terms using third-party ESG data on a monthly basis. Where strategies' own securities that appear on the list, this creates an opportunity to check whether the risks identified are adequately reflected in the assessment.

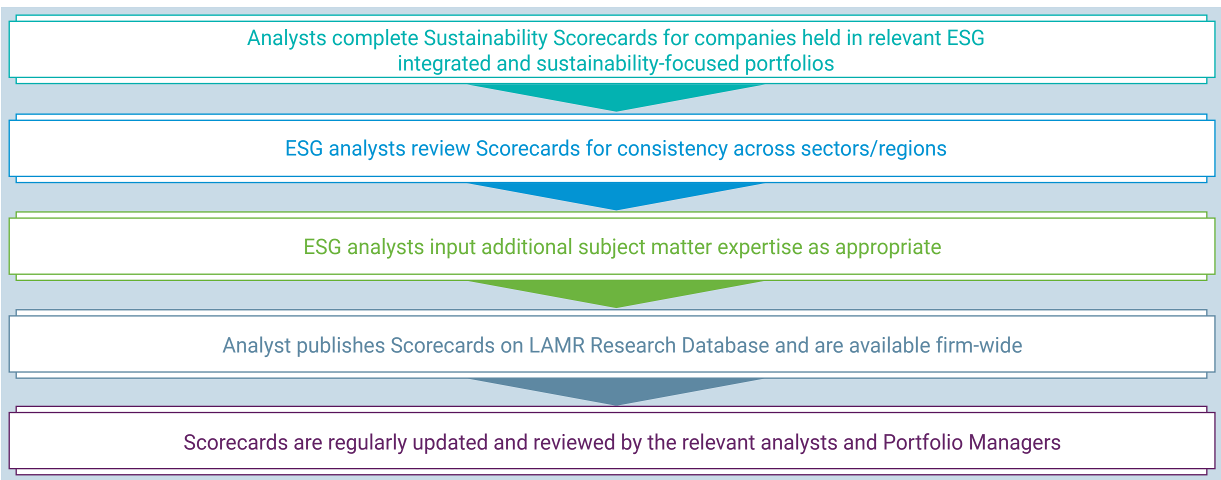
Integration of ESG Data into Assessment by Internal Risk Team

ESG parameters, such as carbon metrics and ESG risk scores, are built into the assessment of portfolio risk undertaken by the risk team and shared with relevant portfolio teams, typically on a monthly basis during risk meetings.

Sustainability Scorecards

In addition to the Materiality Mapping process, company level sustainability assessments were formalised in 2020 through LAM's proprietary Sustainability Scorecards. For those professionals and teams that employ them, the scorecards provide a framework for assessing the materiality and company response to sustainability risks and opportunities concerning their products and operations. Scorecards are updated on an ongoing basis as new risks and opportunities are identified through our global Materiality Mapping workshops and through analyst research and interactions with the company. In 2022, we conducted a detailed review of current Sustainability Scorecards for relevant portfolios. This process included sharing updated guidance for the scorecards across the investment platform and sector focused discussion on utilities, mining, and commodities, which was published on LAMR. Finally, we created a report to ensure consistency and recency of scorecard that is now overseen by legal and compliance in line with our ESG governance process. The revised process for the Sustainability Scorecards is illustrated below.

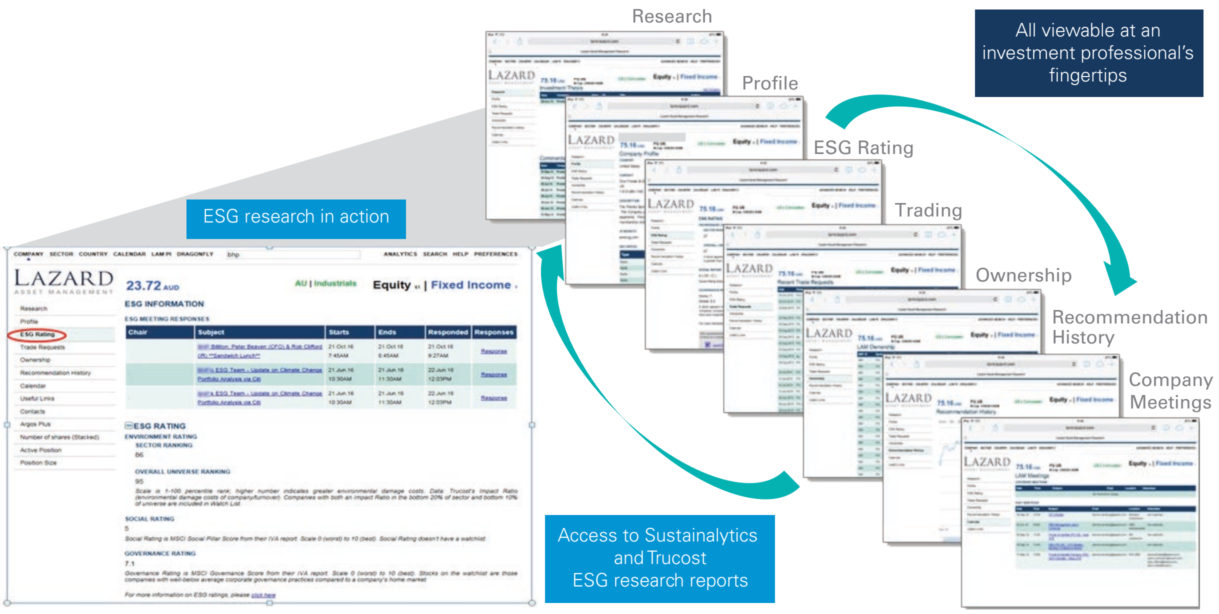
Sustainability Scorecard Process



LAMR

The LAMR database houses company meetings records, research notes, and engagement templates alongside the scorecards, which can be found in the ESG profile. The graphic below provides an overview of this internal research database:

ESG Research Shared Worldwide



For illustrative purposes only.

Applying ESG Integration across Asset Classes and Geographies

Investment professionals understand that human and natural capital considerations, such as climate change and societal inequalities, can present risks and opportunities for all strategies. The degree of financial impact and the drivers of financial materiality may vary among asset classes, individual strategies, and investment time horizons. Our approach is tailored according to the asset class and style with the awareness that sustainability considerations impact risk, return, liquidity, and other investment objectives in many ways. In 2022, we initiated a new process to define quarterly engagement priorities with a selected number of our equity strategies to better reflect their investment process and ESG integration with their engagement priorities. See Principle 9 for more detail. Several ESG examples are provided below that illustrate the differences in ESG integration across strategies and asset classes:

Equity Strategies

US Large Cap Equity

As referenced in Principle 4, the Net Zero Framework was developed by our ESG team to help the portfolio management teams better understand alignment with a 1.5 degrees pathway across individual portfolios. A comprehensive bottom-up net zero analysis of holdings in our US Select and US Sustainable portfolios was continued in 2022 as a basis for engagement and identifying opportunities linked with the energy transition. Using proprietary tools, the team can also model future ambition trajectories, of both companies and the overall portfolio.

An example of ESG integration was undertaken by LAM's technology research analyst, who conducted a bottom-up dynamic analysis of a manufacturer of semiconductors for the automotives and industrial markets. The assessment considered how the company's products support progress on net zero through the development of key technologies needed to decarbonise the heavy-emitting transportation and industrial sectors. A summary of this assessment is provided on the next page.

Net Zero Company Example: US Sustainable Equity

Sustainability Challenge

Electric vehicles ("EVs") are a key technology needed to decarbonise transportation, an industry that accounts for around 16% of global emissions. Recent years have seen an exponential growth in the sale of EVs with improved range, wider model availability, and increased performance.

Energy density and EV weight are important factors affecting range with automakers attempting to maximise energy density while minimising the mass of vehicles. Battery prices have decreased tenfold in the last decade. Silicon carbide is a material that can be used in power semiconductors in EVs to achieve greater efficiency, boost range, and reduce battery size which helps lower costs for consumers.

Sustainable Product/Service

ON Semiconductor designs and produces semiconductors for fast-growing end-markets, including automotives and industrial markets. The company has a leadership position in Intelligent Power and Sensing solutions, which are key inputs for EVs, advanced driver assistance programs, and vehicle power applications.

A key driver of the company's growth in auto is its leading silicon carbide technologies. ON's advantage in these technologies continues to accelerate, driven by acquisitions and strategic investments ahead of peers. In our view, the company is positioned to benefit from the growing and quickly advancing EV industry with products that contribute directly to global efforts to reduce emissions and boost efficiency.

International (Global ex-US) Equity

The International Equities team believes that stock returns over time are driven by the sustainability and direction of financial productivity, balanced by valuation. The objective of their approach to ESG integration is to ensure that material ESG risks and opportunities that may impact the long-term financial productivity and valuation of companies are fully assessed. This ESG integration process plays an increasingly important role in generating alpha for client portfolios. While ESG integration is not a new conversation among professional investors, we believe its importance across relevant long-term investment strategy has accelerated in the last several years. Fundamental research analysts are responsible for integrating material ESG considerations into their stock analysis, supported by the Sustainable Investment and ESG team. Together, they identify material issues through a proprietary Materiality Mapping exercise, evaluating the key issues facing specific industry groups. Below is an example of how this ESG integration process and how engagement efforts by the firm help feed into investment decision-making for relevant international equity teams.

ESG Integration Company Example: International (Global ex-US) Equity

Osstem is a global leader in dental implant solutions based in South Korea.

In January and February 2022, analysts, PMs and the Sustainable Investment and ESG team engaged with Osstem following a suspension of the shares relating to an embezzlement scandal. Our engagement focused on understanding the weaknesses in internal controls and oversight that allowed for the embezzlement scandal to occur and requests for changes to the Board and investor communications going forward. For example, we requested changing all non-independent Directors, adding new Committees, including an Audit Committee, reconstructing internal control management team, hiring a full-time Compliance Officer, and asking an independent third-party firm to monitor audit systems.

In September 2022, LAM followed up and learned that the company had met all of our requests and implemented these changes.

Later in the year, LAM had a call with Korea Corporate Governance Improvement Fund (KCGI), a significant shareholder in the company, to discuss proposed amendments to the articles of incorporation—to be voted at the company's forthcoming AGM. KCGI proposals were to establish a truly independent board of directors—including two new independent directors, expand the responsibilities and authority of the Audit Committee and augment minority shareholder rights. We agreed as these built on our own engagement letter to the company in 2022.

Just outside the Stewardship Code reporting period in Q1 2023, a private-equity consortium announced a tender offer to buy Osstem Implant. We decided to tender our holdings, given the high offer relative to our entry price and the risk from persistent lack of minority shareholder rights in South Korea.

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. Their 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.

We take a holistic approach to DEandI 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 gender thresholds allow the investment team to narrow its investment universe to a more focused group of companies on which to concentrate our diversity research. Through our diversity due diligence, we aim to get a holistic perspective on an organization's overall commitment to DEandI, both within and outside their organization.

We actively engage with companies as a powerful tool to influence company behavior and accelerate the pace of change. Through engagement, we share best practices and hold management accountable. Bespoke engagement meetings are led by the portfolio management team in conjunction with LAM's global sector specialists.

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 purposeful 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.

Quantitative Strategies

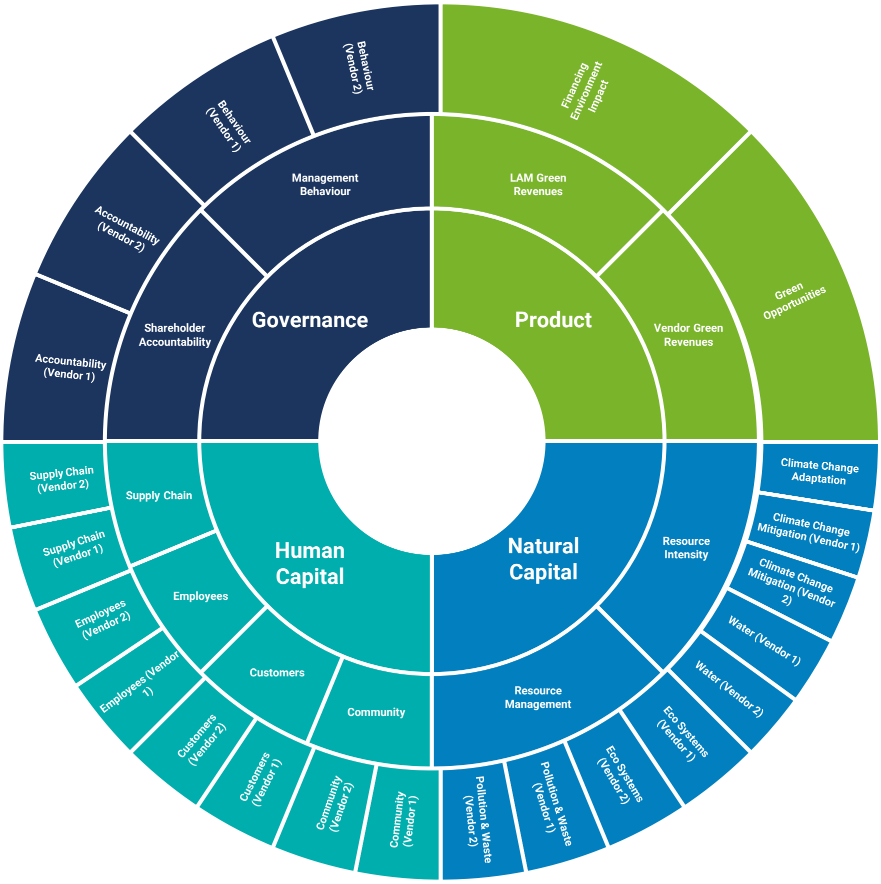
Advantage Quantitative Equity

The Advantage Quantitative Equity team has developed a proprietary ESG scoring model that assesses a given company's sustainability profile using four pillars (Exhibit 1). Three of these—Natural Capital, Human Capital, Governance—are used to assess operational risk. The fourth—Product—looks at the impact of a company's goods and or services on society and the planet (i.e. how "green" its revenues are). The assessment relies on data sourced from multiple external vendors and industry bodies (e.g. Climate Disclosure Project (CDP), Transition Pathway Initiative (TPI), etc). The model does not rely on aggregate vendor scores. Instead, proprietary scores are derived from low-level data capturing:

- The extent to which a company is **exposed** to a given risk.
- How well it's **managing** the risk.
- How important the risk is to its business (**materiality**).

The illustration below shows how Materiality Mapping is represented in the quantitative equity process. This illustrative example shows the top tiers of the full hierarchy for simplicity. Each ring is a tier, with the central area representing the aggregate score.

Process Hierarchy Example



As of February 2023. For illustrative purposes only.
Source: Lazard

Alternative Strategies

Convertible Arbitrage (LAM's "Rathmore" Strategy)

The Rathmore team, in its convertible arbitrage strategy, employs a multifaceted approach to ESG integration, centered on direct, issuer-level engagements in the strategy's investment universe, designed to:

1. Better understand an individual issuer's approach to ESG (current, short term, and long term)
2. More accurately assess ESG risks and opportunities at the issuer level
3. Promote accountability and meaningful change

The direct relationships cultivated with issuers in its investment universe over many years has facilitated the team's active, integrated approach to ESG analysis. In addition to discussing differentiated ways for issuers to enhance their capital structures, these conversations now include a detailed review of an issuer's current ESG risk rating (including any material issues identified by Sustainalytics) as well as an issuer's broad-based outlook on ESG and long-term plans for expanding its current approach.

Rathmore Investment Process—Multifaceted Approach to Integration

Selective Screening

- Pre-trade, customised restricted lists to meet the individual needs and sensitivities of investors
- Independent oversight by Lazard's Risk Management and Compliance Surveillance teams

Third-Party Analysis

- Use of Sustainalytics ratings
- Integration of Sustainalytics ESG risk ratings into the strategy's Universal Monitor

Direct Engagement

- Ongoing dialogue with issuers surrounding individual ESG risk ratings and an issuer's current, short-term and long-term approach to ESG integration
- Direct engagements are logged in a database that is maintained by the portfolio management team

The team's investment process is presented here in sequential steps for illustrative purposes only. In practice, the process is not sequential and will, as needed, weigh certain criteria over others. For illustrative purposes only

Fixed Income Strategies

Global Convertibles

LAM also offers a long-only Global Convertibles investment platform. This team's analysis of ESG criteria for each company in its investment universe is an integral part of their convertible bond portfolio management process. Each investment thesis produced by the team includes specific analysis on ESG using a Sustainability Scorecard. This Scorecard is split into two components (Products and Operations) and eight criteria (Products/Services, Employees, Community, Supply Chain, Customers, Resource Intensity, Resource Management, and Governance). The strategy's portfolio management team relies on company reports, extra-financial sources, discussion with company management, and data from our ESG data provider to determine a rationale and a score ranging from -5 to +5 on an absolute basis for each criterion. Additionally, the team uses LAM's Materiality Mapping process to assign materiality of such criteria to the company according to its sector.

Global Fixed Income

With growing concerns about climate change pressuring corporate and government issuers to reduce their carbon footprints, our Global Fixed Income team believes that a thematic approach to sustainable investing will add value from both an opportunistic and defensive perspective.

Evaluating environmental factors is, in this team's view, as critical as assessing social and governance factors. The team now has over 40% of capital invested in bonds labelled green, social, and sustainable bonds in the global fixed income strategies and have been investing in these "use-of-proceeds" bonds since 2015. The Global Fixed Income team collaborates with LAM equity analysts for engagement with corporates, leveraging LAM's proprietary framework for ESG analysis and Materiality Mapping.

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 transition to net zero emissions by 2050, 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 associated human costs often being the highest in the emerging world.

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

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

Vulnerability indicators include analysis of changes in registered temperatures and indices that assesses 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 LAM's membership with the Emerging Markets Investors Alliance, the details of which can be found in Principle 10.

Whilst there are distinct ESG integration approaches at the strategy or asset class level as shown above, some integration and stewardship activities encompass multiple strategies within the same investment platform. For example:

US Equity platform

In 2021 LAM initiated the "LAM CEO Series" to foster more corporate engagement with the firm's largest holdings. The CEO Series hosts deep-dive conversations between selected CEOs of publicly traded companies with key LAM investment professionals, fostering cross-collaboration between sectors and specialties. Each session is a bilateral discussion whereby we provide the visiting CEO insight into the LAM team and how we work together to approach and assess companies in which we invest. At the same time, participating investment professionals are able to engage across different industries, discover diverse learnings, and apply those insights to contrast sectors and scenarios. Where appropriate, we incorporate discussion of relevant sustainability issues, including but not limited to environmental-related considerations.

After hosting 21 CEOs in 2021, we hosted 19 CEOs in 2022 from a variety of sectors and plan to continue this programme into 2023. CEOs hosted included Chevron (energy), Boston Scientific (health care), Brown Forman (consumer), and ATandT (communications). With Brown Forman we discussed the US market dynamics and the increasing trend of low-to-no alcohol spirits. With Chevron we discussed the current supply/demand environment and the pros and cons of integration. Our meeting with ATandT was focused on its long-term investments and pricing strategy. Participating investment professionals conducted follow-up discussions, allowing for cross-sectoral debate and comparisons. Learnings were discussed amongst investment professionals to foster sharing of best practice across sectors, companies, and management teams. Feedback was also collected from the presenting CEOs. We understood the meetings to be mutually beneficial, providing insight to company management teams regarding how LAM operates as a firm and to understand more about its ESG integration and stewardship.

How Stewardship Activities Inform Investment Decisions

As active managers, insights from our fundamental engagements are incorporated into investment decisions, further enhancing long-term value for clients and beneficiaries. This approach is integrated into our applicable fundamental research efforts, which drives decisions to engage with a company on ESG matters.

Stewardship activities can inform investment decisions in a number of ways. As demonstrated by the examples above, these may include but are not limited to:

- Ongoing dialogue with some relevant Japanese equity holdings has influenced positive change and, in our view, mitigated sustainability-related risks, which is then reflected in LAM's investment thesis and cost of capital.
- Engagements via initiatives like the LAM CEO Series inform our view on the quality of management and can help to provide insights as to whether participating investment professionals decide to support management and their incentive structure at an AGM.
- Engagement and voting on shareholder resolutions at companies held within strategies committed to Net Zero help us think about exposure to transition risk and the potential impact on the company's financial performance.
- In 2022, we developed new engagement definitions to increase the focus on outcomes, and as part of this we enhanced the processes for tracking and recording engagement. One way in which we measure tangible outcomes is a change to the investment decision for example, a change to the investment thesis or change to our sustainability scorecards. This new process was implemented in Q4 and we were able to identify 38 examples of tangible outcomes, 60% of which related directly to the investment thesis. See Principle 9 for more detail.

Principle 8: **Monitoring managers and service providers**

Signatories monitor and hold managers and/or service providers to account.

Monitoring Service Providers

As discussed in Principle 2, several third-party data sets are used to provide investment teams with a wide variety of environmental, social, and governance data points. LAM's Sustainable Investment and ESG team is responsible for meeting with and monitoring ESG data providers to ensure that the firm's relevant investment teams have access to relevant data sets. These data sets are expanding in coverage, although not always with the consistency we prefer, almost as quickly as client and regulatory demands.

Some data solutions have also been built in-house. For example, as referenced in Principle 4, a proprietary Net Zero Framework that we developed in 2021 was further enhanced this year to support net zero-committed portfolios in the modelling of carbon emissions for corporates on a proprietary basis rather than relying solely on data from a third-party provider.

LAM's Head of Proxy Operations, alongside members of the Legal and Compliance Team and other relevant stakeholders, conducts regular due diligence of our proxy voting research and other data providers. In 2022, this included meetings with ISS and Glass Lewis. We also participate in the ISS questionnaire that informs the upcoming policy template, from which our own custom policy is based. LAM recognises that the ESG data and ratings space is evolving quickly and as such conducts regular assessments of the quality of current providers as well as considers new data providers to ensure we meet the needs of our clients and future regulation.

In 2022, LAM conducted several reviews of third-party data services, including:

- A holistic review of our vendors and primary sources of data for certain data elements
- Automated the process of acquiring NGO data from net zero tracker, SBTI, CA100, CDP
- Assessed solutions for calculating avoided emissions but concluded that current available solutions have opaque methodologies and/or data quality issues
- Started review process for the best vendor/solution for Business Involvement data to assist with screening and controversy monitoring
- Developed an automated process for regulatory reporting to meet SFDR requirements in Europe

Engaging with Service Providers

LAM has an ongoing dialogue with service providers to communicate firm-wide expectations and provide feedback. When inaccuracies or concerns about research or data quality are identified in the provision of research or data, direct engagement with the service provider is undertaken, which can help to improve the service provided back to us and other clients. For example, regular calls with our proxy advisor are scheduled, and frequent interactions with ESG data providers are carried out. This allows the opportunity to provide feedback and highlight errors where they occur. The Sustainable Investment and ESG team and investment professionals worked together with the service providers to illustrate the mistake and update the reports accordingly.

Examples are: engaging with one of our ESG ratings providers on their controversy reports where a financially material issue concerning labour relations was not accurately reflected within the reports, engaging with our proxy advisors to understand why they had not integrated a financial fraud into the assessment of board effectiveness and internal controls at the AGM, and in-depth discussions on the evidence of controversial weapons exposure as identified by a third party vendor. These examples illustrate the only ongoing due diligence that is possible where we leverage the in-depth company knowledge that our investment processionals have. Feedback on a range of other issues has also been shared, such as the accuracy of third-party analysis, the ability for companies to fact check proxy research, selecting relevant peer groups, and timeliness of research ahead of company annual general meetings.

We also initiated a series of monthly calls with one of our primary ESG research providers to discuss changes and improvements to our existing products.

Principle 9: **Engagement**

Signatories engage with issuers to maintain or enhance the value of assets.

As outlined within the Sustainable Investment and ESG Integration Policy, LAM is committed to ongoing due diligence on the companies and securities held in client portfolios. The fundamentally driven investment teams seek to build constructive relationships with senior management representatives, to share our views when given the opportunity, and to support companies undertaking positive changes. As active managers, we endeavour to continuously incorporate the insights from stewardship activities into investment decisions, and vice versa, to enhance long-term value for clients and their beneficiaries.

We have a long legacy in engaging with our companies. Empowered by an average of 20 years industry experience, our investment professionals have long-standing relationships and deep knowledge of the companies we invest in. 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 AGMs. Our stewardship approach seeks to align both engagement and proxy voting, with investment decision-making at the heart of these interactions. Our dedicated stewardship and ESG specialists work in collaboration with our investment professionals, they are not a siloed function to which decisions are outsourced.

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

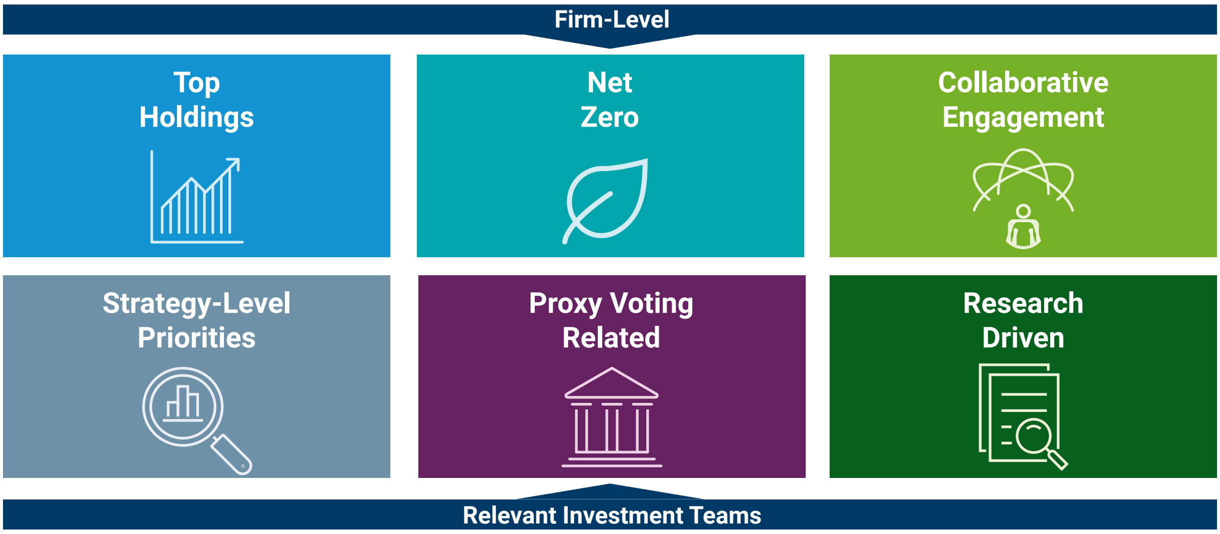
1. Redefining engagement – To ensure our efforts are focused on tangible outcomes
2. Prioritising engagement – Developing a framework to help our investment professionals identify which companies to engage with based on criteria that we believe will be value additive to the investment decision-making process, and based on our understanding of material environmental or social risks and corporate governance practices
3. Implementing 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

As discussed in Principle 2, we monitor the effectiveness of our governance structures, including the Global Stewardship Committee. The changes made in 2022, as described above resulted in an increase in the quality of engagement, with the number of purposeful engagements doubling over 2021 and the ability to track investment-related outcomes from our engagements from Q4 onwards, indicating that over half of our engagements influenced an investment thesis in some way.

Prioritising Engagements

Engagement is an integral part of LAM's investment process for ESG-integrated portfolios. As a firm we typically have participated in over 4,000 company meetings globally per year, with just under a third of these including some level of discussion around material sustainability topics. Investment professionals conduct meetings with company management as a regular part of the research process and to better understand how companies are deploying their capital and conducting their business operations. The prioritisation of the engagement may reflect both the materiality of the issue and the significance of the security within a given portfolio. During 2022 we developed a new framework to bring together some of our long-standing processes that drive engagement, as well as newer process developed in 2022 to more clearly articulate how we prioritise which companies to engage with and why. This is a balance of firm-level engagement priorities agreed to by our Global Stewardship committee, specifically Climate Change, Diversity, and Executive Compensation, with the ESG integration that happens at a strategy and investment platform level. This balance of top-down and bottom-up prioritisation process is illustrated by the graphic overleaf:

Engagement Priorities across Relevant Portfolios



For illustrative purposes only.

- Top holdings focus on where our clients collectively have high exposure to individual companies, they are then screened against a list of ESG metrics and a refined list discussed with sector analysts to agree to potential engagement candidates.
- Net Zero priorities help to ensure we target engagement with companies in portfolios that have the most material risks related to climate change, or are the highest emitters, or have poor practices related to disclosure and transparency as outlined in our white paper discussed in Principle 4.
- Collaborative engagement has been an area where we have introduced a policy to help ensure we are selective in joining engagements that can add the most value to our investment decision-making process and raise industry standards. See Principle 10 for more detail.
- Strategy-level priorities align engagement priorities with the individual ESG integration approach of relevant strategies.
- Proxy voting-related engagement typically aligns with the pre- and post-proxy season discussions and is an area where there is a higher number of proactive requests from companies seeking our views compared to other forms of engagement. Proactive engagement is also undertaken.
- Research-driven engagement captures engagements resulting from our fundamental research process, whether it's reacting to negative news flow and potential controversies or monitoring emerging trends within our existing holdings. In 2022, LAM developed a controversies framework to assess a company's responsibility, response, and remediation. This process is typically driven by our relevant investment professionals.

Once an engagement has been undertaken, either face-to-face, by conference call, letter, or email, the sector analysts and portfolio managers are expected to record this interaction. Through this database, the investment professionals can share, in real time, the investment conclusions of company meetings with their colleagues worldwide within LAM's proprietary research database. Analysts flag whether the meetings covered an environmental-, social-, or governance-related topic, and this research is available on the platform for all investment professionals to use. This helps to ensure all analysts and investment professionals can incorporate this information into their view on the company. Our 2022 data shows that ESG topics were discussed in 31% of all company meetings, with corporate governance topics being the most popular topic to discuss with company management.

Engagement Objectives for Integrated Portfolios

Historically, we maintained two overarching engagement objectives: either information gathering for informed decision-making or purposeful engagement where we may add value for our clients. To ensure we are accountable to our clients, in 2022 we developed new engagement definitions. 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.

Our objective was to more effectively track both engagement objectives and outcomes, allowing us to measure our engagement effectiveness. Effectiveness can be measured by a tangible outcome. As an active manager driven by fundamental research, we are assessing sustainability through the lens of pricing externalities to understand financial risk and opportunities. This requires us to translate our engagements so that they're meaningful to our investment process as active managers. If an engagement doesn't result in a tangible outcome, then we label it as due diligence. A tangible outcome is where learnings from an engagement led to a potential change to our investment decision-making process, for example; our proxy voting decisions, sustainability scorecards, or other investment-focused metric. Under our new definitions, this is called an integrated conversation engagement.

These types of engagements may also lead to another type of engagement, an influencing engagement. This is where we can identify a missed opportunity or risk that hasn't been adequately addressed. This is where we define a specific objective around something we want a company to do differently. Again, this must result in a tangible outcome for the relevant investment process, but we can also measure results through what has changed at a company, a real-world outcome such as lower absolute emissions or a more effective board. It is our view that it is challenging to credibly measure the extent to which investor engagement has influenced changes in company practice, given that an investor won't have full transparency on the visibility into the range of stakeholder engagements that an individual corporate is involved in at any one time. However, we believe that investors can evidence how an engagement has impacted their own investment process, or measure whether a requested change has occurred, regardless of how many other stakeholders may have been requesting the same change.

In consultation with relevant stakeholders across our firm, our new definitions were approved by our Global Stewardship Committee in Q3 2022. We commenced a new tracking system via our centralised research system, LAMR in Q4 2022.

Our new definitions are illustrated by the graphic below:

LAM Engagement Objectives for Integrated Portfolios

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 managment 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.

For illustrative purposes only.

ESG Engagement Case Studies

Top holdings engagement priority: Toromont Industries – International Equity

We contacted the company, which had been identified as an engagement target through our firm-level top holdings engagement priorities. A LAM research analyst and stewardship specialist met with the company to discuss their approach to ESG and Sustainability reporting, with a focus on climate, diversity, safety and executive compensation alignment. Whilst we acknowledge the challenges of implementing a sustainability strategy across a decentralised business model, we were encouraged to learn about the firm's commitments and encouraged them to consider further steps to strengthen their risk management around transition risk.

During this engagement, we encouraged Toromont to include more data on limited Scope 3 emissions in their 2023 sustainability report alongside more specific targets across all company-defined material areas. The engagement concluded with Toromont stating they are aiming for 2024 CDP reporting after ISSB disclosure standards have been announced.

Top holdings engagement priority: Bidvest – Emerging Markets Equity

We met with Bidvest to discuss areas where Bidvest could take the next step in improving its ESG commitments and disclosures. Bidvest is one of the biggest employers in South Africa, employing 90,000 people (120,000 across the group including offshore). These steps included reporting into the CDP, Scope 3 measurement, diversity targets, and ESG metrics in remuneration. In this engagement, we were encouraged by the steps Bidvest is taking to improve its disclosure and its evolving strategy on ESG impact. The group is decentralised which in many respects forces the need for higher ethical and safety standards. Further, while by nature Bidvest is not the biggest emitter, they recognise that they have a far-reaching supply chain where there is an opportunity for them to have an impact on everyday goods and services. This engagement taught us that the biggest challenge for the group was the capturing of data in a uniform and systematic manner across the 250 businesses across the group. Bidvest wants to have a meaningful and sustainable impact. We also learnt about their sustainable framework and how it has evolved.

Overall, we were encouraged by the steps Bidvest is taking to improve its disclosure and its evolving strategy on ESG impact. We will continue to review diversified groups for ways the company can seek to achieve best-in-class ESG commitments. We will seek to review Bidvest's supplier development and supplier engagement program.

Strategy-level priority: Rockwell Automation

We met with Rockwell's management to learn more about the environmental aspect of its products/services and 2030 carbon neutral goal. $1.6bn of Rockwell's company revenue can be attributed to energy savings-related products. The company's automation systems can be used by customers to aid in tracking and optimising other ESG functions over time. Rockwell has also established a goal of being carbon neutral by 2030 for Scope 1 and 2 emissions. The company has signed on to a virtual power purchase agreement, in which it will invest in a windfarm and will then use electricity from the windfarm. Management compensation is not currently tied to the carbon neutral initiative, but this according to the company is expected to evolve.

We will continue to engage with Rockwell Automation, particularly on the company's carbon neutral goals and the virtual power purchase agreement.

Research-driven engagement: Payment services – US Equity

Following a reported controversy within a payment services sector, the portfolio manager, sector analysts and 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 controversy framework as a guide. Our objective was to understand the rules that were in place already to prevent potential illegal activity from taking place, then we wanted to understand how the company was enforcing those rules.

Details of engagement:
What we learned from our engagement was that the company could improve its approach to monitoring their 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 their payment network but thought that there was opportunity to further enhance their oversight and the effectiveness of their internal controls.

Next steps:
Given these opportunities to strengthen the existing risk management framework to increase the company's ability to prevent these potential risks from coming to fruition. We engaged with other companies in the same sector to understand their risk management practices and who have avoided controversies like this one and then went back to the company with some recommendations on best practices. As we learn more from peers, we anticipate that this will lead to more questions for the company.

Strategy-level engagement: Intercontinental Exchange – US Equity

Intercontinental Exchange (ICE) operates a network of regulated exchanges including the New York Stock Exchange and clearing houses for financial and commodity markets.

Topic – Sustainability disclosure requirements

Objective of Engagement:
We met with the company to determine if they are considering plans to enact ESG-related listing requirements for companies listed on NYSE. In Q1 2022, we spoke to ICE to provide guidance on suggested listing 'requests' and subsequently communicated recommendations for ICE in May of 2022. This engagement was a follow-up call with the sustainability team and investor relations to discuss our views on their approach.

Details of Engagement:
With regard to listing requests, the disclosure landscape is evolving rapidly, and ICE is now incorporating the idea of these requests into conversations with companies and gauging feedback. ICE is also closely following the SEC climate disclosure proposals and ISSB work to incorporate TCFD and SASB. ICE understands that companies want to do the right thing but recognise newer companies are thinking about disclosure differently. The disclosure burden has been eased by some alignment but differences and concerns also remain with regards to Scope 3 data quality. To better help issuers, ICE is providing resources through webinars and weekly updates and is also creating benchmarking tools for issuers. Further, they are bringing issuers and ambassadors together in small groups to ask questions of the stewardship teams of key investors to discuss nuances and what investors are looking for.

LAM Analysis:
We agree with the company regarding the apparent coalescence of regulations and reporting requirements. Whilst there has been pushback from the NYSE regarding listing requests due to the burden to adapt, which could in turn discourage companies from entering public markets, we believe a grace period could help remedy this. We view it as unlikely that the NYSE will choose to adopt listing requests in the medium term.

Outcome and Next Steps:
The company has requested that we contribute our expertise in small-group roundtables that NYSE hosts with issuers and ambassadors covering sustainability reporting and integration into investment strategy. We remain acutely aware that regulations and expectations are likely to increase, so we will continue to encourage the NYSE to become a leader for listed companies and the investment community through implementing listing requests. We continue our ongoing dialogue and continue to hold the shares (as at 31 December 2022).

Below is an example of how both engagement and voting fit into the broader research and integration process for relevant portfolios:

Research driven: Voting on an Oil & Gas sector company's Net Zero Report – International Equity

Research and Engagement	**Analysis and Discussion**	**Stewardship**	**Outcome**
Oil and Gas sector analyst completed a **sustainability scorecard** for the company in December 2021. In February 2022 we held a **one-on-one meeting** with company's CEO. Both the sector analyst and ESG team attended. Energy transition was one of the key topics discussed.	Lazard's Oil and Gas analyst, portfolio managers, and ESG team actively **debated the company's transition plan** via email and our internal messaging board "Dragonfly". Nearly 30 **investment professionals** interacted with this Dragonfly post. We **engaged with industry peers** and considered additional third-party research from IIGCC, our proxy providers and CDP.	We **met with the company for a second time** in 2022 ahead of the AGM to discuss management's Say on Climate resolution and a shareholder resolution. We applied our proprietary **Climate Alignment Assessment** tool to determine that the company is 'Aligning' with a net zero pathway.	Collaborating with the portfolio managers and ESG team, the Oil and Gas analyst reviewed the AGM agenda and voted to **support the progress made on the company'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 and engage** to encourage further alignment with a net zero pathway.

As a long-term investor we have an in-depth knowledge of the company to support our fundamental research. We had our first ESG engagement with the company in 2008, actively voted at the company's AGM every year since 2010, and held 16 meetings with company management since 2014.

Net Zero engagement: Compass – International Equity

Compass Group PLC provides catering and support services in countries throughout the world. The company's clients have locations ranging from offices to military and offshore platforms.

Topic – Net zero strategy and progress

Objective of Engagement:

Following an information gathering and general ESG discussion meeting, we subsequently set up a purposeful engagement meeting to share our thoughts on best practice for carbon emissions accounting and reporting, net zero roadmaps, and to hear more from the company about their approach.

Details of Engagement:

A LAM analyst and our Sustainable Investment and ESG team member met with Compass's Group Head of Sustainability. LAM presented a detailed analysis sharing LAM's view on net zero implementation and our expectations for Compass, having reviewed their public disclosure in detail. We discussed their progress so far and the challenges that come with a decentralised business model. Further, we provided guidance on Scope 3 reporting which the company undertook in order to create a baseline in 2019 but has not updated since—including providing views on best practice methodologies, annual disclosures, and carbon pricing. We also discussed the benefits of sharing a transition plan for a vote with shareholders which is something the company may consider in the future.

LAM Analysis:

Compass is at an early stage in its net zero journey with the most progress being made in its UK market. We understand the challenges that come with a decentralised 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 practice and feed into Compass's evolving net zero strategy—both in how they are measuring and disclosing emissions and how they are approaching reduction projects. Now that Compass has set a group-wide net zero target we will continue to monitor progress globally. Given that the company commented on having a net zero strategy as a "commercial imperative" in bids for government contracts in some key markets, we were encouraged with the progress made to date.

Outcome and Next Steps:

We intend to arrange a follow-up meeting with Compass to discuss their plant-forward diets and food waste initiatives in more detail. This is due to the fact that these two programme areas are the ones with the greatest contribution to their Scope 3 emissions reduction given 72% of Scope 3 emissions are from food products. We will continue to engage on emissions reporting and disclosure. We deemed this as a positive meeting, and we believe we can work in partnership with Compass to guide them towards best practice.

Ongoing Dialogue by Relevant Investment Professionals

We believe our relevant portfolio managers and analysts are well positioned to evaluate the potential impact that ESG issues have on the sustainability of financial returns and long-term shareholder value. As such, engagement activities are the responsibility of investment professionals and are not delegated to stewardship specialists and separate meetings. This is an important differentiator, and we believe the most effective shareholder engagement is undertaken by the investment professionals who can act upon the information that arises from the dialogues.

For equities, engagement is led by the investment professionals that own the companies in the portfolios they manage. As active managers, we can fully incorporate the insights from our engagement into investment decisions as necessary and appropriate, further enhancing long-term value for clients and beneficiaries.

LAM's relevant fixed income investment professionals may engage with both sovereign and corporate debt issuers to better understand risks and opportunities. In addition to arranging their own meetings, fixed income investment professionals may also participate in meetings with management arranged by LAM's global equity investment professionals. Regular meetings with management enable investment professionals to further understand a company's business models, financial projections, ESG issues, and stress scenarios, as well as stay current on economic and financial conditions.

Methods of Engagement

A range of different methods to engage with our investee companies are used: in-person meetings, conference calls, group meetings, conferences, and written correspondence, as appropriate. The volume of meetings is currently tracked, but the engagement methods are not yet systematically tracked. This is something we will consider as we evolve the systems used to record stewardship activity. Engagements may happen before we invest in a company as well as through our ownership as part of ongoing monitoring or influencing change. Engagement meetings can involve different company representatives, from board members and senior management to investor relations and sustainability specialists. As outlined in Principle 1, as an active manager, we believe that stewardship is fundamental to understanding the companies we invest in, and it's part of our objective to persuade companies to adapt where we identify sustainability risks and opportunities.

Engaging across Different Geographies and Asset Classes

Engagement is primarily driven by LAM's fundamental research sector analysts and the portfolio managers for our fundamentally driven investment strategies. Their engagement insights and objectives are shared through LAM's proprietary research platform, which is broadly accessible by our global professionals. In addition to the equity examples above, we also conducted engagement across our sovereign debt holdings during the year.

Case study: Fixed Income South Africa – Emerging Markets Sovereign Debt

Engagement with governments through fixed income investing is more challenging and therefore more limited in scope and frequency. However, in 2022 LAM joined the Emerging Markets Investor Alliance collaborative initiative, which supports dialogue between governments and other investors focused on emerging markets.

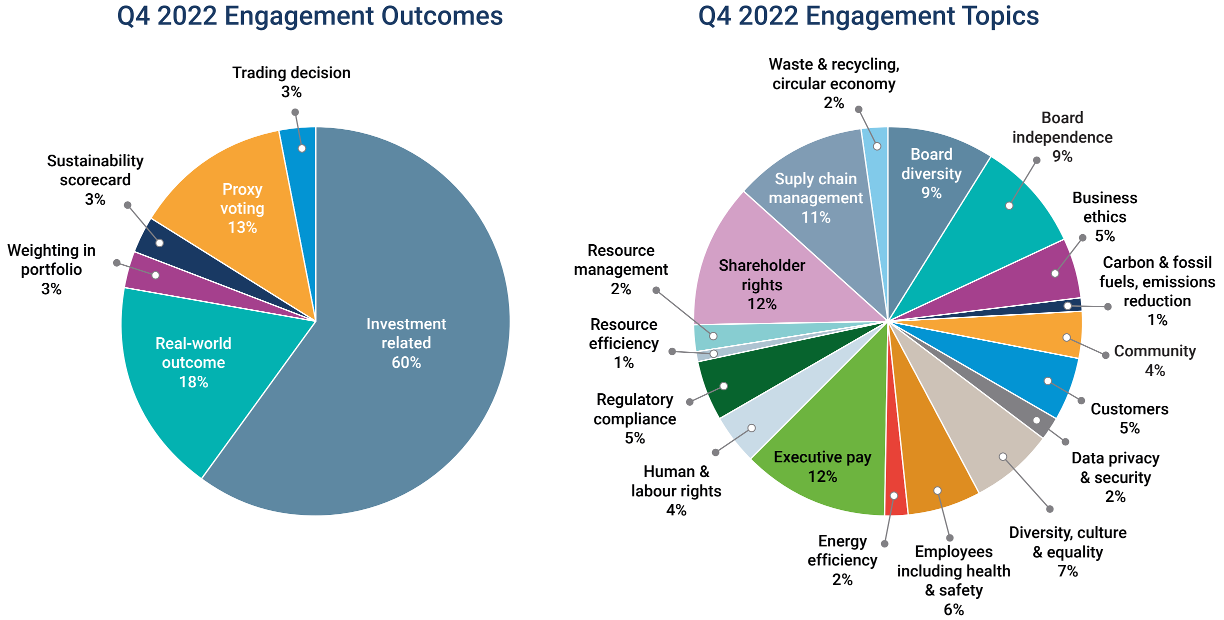
LAM took part in a collaborative engagement in August 2022 with the National Treasury of South Africa. We discussed the country's Integrated Resource Plan (IRP) for meeting the country's energy needs, the implementation of a carbon tax, and the country's Climate Change Bill. Representatives from seven 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 is scheduled to increase significantly by 2030. We have some outstanding concerns that the implementation of the second phase of the carbon tax could be further delayed. Government officials acknowledged that the IRP must be revised and the GHG trajectory in the Climate Change Bill must be reviewed to reflect the revised NDCs, 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 JSE and financial regulators about establishing mandatory climate-related disclosures for corporates.

Engagement Outcomes

The majority of our investment professionals record their engagements on our centralised research database, LAMR. Over the past few years, we have built additional functionality into LAMR so that any company meeting where an ESG topic has been raised and tagged can be better tracked as part of engagement monitoring. Most recently, we enhanced our tracking as part of implementing the new engagement definitions discussed above. These changes were implemented in Q4 2022 and are designed to allow us to track outcomes more effectively. We believe these enhancements will provide greater insight into the value created through our engagements and distinguish between ESG due diligence from 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 Definitions: Engagement Stats Q4 2022



Source: Lazard

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. Further to the statistics above, a case study of an investment-related outcome is detailed overleaf:

Case study on engagement outcomes: An investment trust – International Equity Holding

Topic – Corporate governance practices/board structure

Purpose of Engagement:

In May 2021, the board of this investment trust put forward a series of initiatives including proposals to be considered at the 2021 AGM such as a proposal to help address the illiquidity and discount to Net Asset Value (NAV) associated with the company's shares. Further initiatives included proposed amendments to the company's investment policy and transforming the investment trust into a permanent capital vehicle.

The 2021 AGM resolution, to adopt the proposed changes to the investment policy, only narrowly passed with 52% of shareholders voting in favour. However, this included the votes of both the underlying management firm and, the financial advisor to the company (who together held 28% of the issued capital).

Details of Engagement(s):

Given the high level of dissent at last years' AGM, we initiated an engagement with the board in March 2022 to raise our concerns particularly in relation to the increased illiquidity of the company' shares .

In June 2022, the board received a request to requisition an Extraordinary General Meeting (EGM) of the company. This was to consider reconstituting the board by removing three of the four current directors and the election of two new directors. We met with the requisitioning shareholders, who had established an ad hoc committee, as well as with the independent director, nominated by the dissidents. In addition, we had a call with the CEO of the parent of the investment manager, to understand the views of all parties involved.

Through LAM's analysis, supported by the numerous engagement meetings and review of third-party research from proxy advisors, we acknowledged that the current board cannot be viewed as serving the interests of all shareholders. The failure to engage with shareholders after the high level of dissent at least years' AGM meant we were supportive of proposals to strengthen the corporate governance practices of the board. We also voted for the removal of the existing Chair and support of the new candidate. At the EGM in August 2022, a majority of the investment trust's shareholders voted in favour of the removal of the Chair and the appointment of the independent nominee.

Outcome and Next Steps:

Following the EGM and after consultation with shareholders, the Board announced that it will compulsorily redeem no less than 95% of each shareholders' holding in the company. Once the redemption has been completed the Board will commence a process to wind up the company. Shareholders representing 86% of the issued share capital indicated their support for the proposals. The two months running up to the EGM and the subsequent announcement of governance changes and greater liquidity saw the investment trust's share price increase by almost 30%.

Principle 10: **Collaboration**

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Evolving Our Approach to Collaboration

Generally, engagement activities are conducted through one-on-one meetings with company management and the Board of Directors, as we can act independently on issues that we have identified. We often mix discussion of stewardship and sustainability issues with proprietary insight into a company's business performance and financial health—in other words, insights that we regard as commercially sensitive in nature. However, as stated in our previous reports, collaborative engagement was identified as an area of weakness through both the independent review conducted by an external consultant and benchmarking against the UK Stewardship Code. We acknowledge that client expectations are shifting, and some are supportive of industry-wide engagements and the view that this may be influential through consistent messaging and representation of a larger shareholding. We note that collaborative engagement can also offer a type of escalation where direct engagement may not have resulted in the desired outcome.

During 2021 the Stewardship Committee reviewed stakeholder views and effectiveness of collaborative engagement and agreed to formalise a policy to help identify the most constructive collaborative opportunities where we believe there is a material risk (or opportunity) that may have not been addressed by a company or industry. Our intention is to be highly selective in reviewing collaborative engagement opportunities. Our objective is not to increase engagement volumes, but review collaborative engagements through the lens of opportunity in terms of alignment with financial materiality, and clear and investment-focused objectives, constructive in approach and acknowledging that it is not the role of investors to micro-manage corporates. We also consider any risks in participating in collaborative engagements, for example, seeking to identifying an potential conflicts of interest, ability to influence the engagement, and overall governance of an initiative. The approval process requires that all collaborative engagements are reviewed against this framework with the Global Stewardship Committee granting sign-off. The collaborative engagement policy draft was presented to the committee at the end of 2021, and it was implemented in 2022. This allowed us to increase the scope of our engagements, with our collaborative engagement activities reaching over 900 listed equities and 500 municipal issuers. Examples illustrating how this new policy was implemented and the outcomes generated are detailed below:

Collaborating through Industry Initiatives

In 2022 we implemented review and approval infrastructure and participated in several collaborative engagement initiatives with both corporates and sovereigns to further progress our stewardship priorities and those of our clients:

CDP

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

- Non-disclosure equities: engaging with listed 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.
- 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.
- Science-based targets: to contribute to accelerating the adoption of science-based climate targets in the corporate sector, by collaboratively engaging companies on this matter.
  - OUTCOME: Only 12% of companies targeted have either targets set or are committed to the SBTi.

- UN Climate Change Conference 27 (COP27)—LAM's Co-head of Sustainable Investment and ESG, Jennifer Anderson attended COP27 in person. While the previous year's event in Glasgow was widely attended by banks, insurers, and investors, representation from the financial services industry was visibly lower. This was likely a reflection of the complexities of putting capital to work through frameworks that are net zero aligned, an approach that remains in its early stages. Jennifer participated in several events and roundtables, which provided the opportunity to engage with a range of policymakers, industry initiatives, think tanks, and industry peers. We published a series of observations and learnings about the event to both clients and investment professionals on our website. Key findings from COP27 were the enormous hurdles the financial industry faces with the implementation of net zero commitments, as well as setting up appropriate guardrails and the best ways to measure success, particularly in relation to emerging markets.

In conjunction with this event, LAM also signed the Global Investor Statement to Governments on the Climate Crisis collaborative initiative along with 442 investors representing $25 trillion in assets. The statement sets out five actions that governments need to undertake:

1. Ensure that the 2030 targets in their Nationally Determined Contributions align with the goal of limiting global temperature rise to 1.5ºC.
2. Implement domestic policies and take early action to ensure that their 2030 greenhouse gas emissions are aligned with the goal of keeping global temperature rise to 1.5ºC.
3. Contribute to the reduction in non-carbon dioxide greenhouse gas emissions.
4. Building on the agreed outcomes of COP26, scale up the provision of climate finance from the public and the private sectors for mitigation, and for adaptation and resilience, with a particular focus on the needs of developing countries.
5. Strengthen climate disclosures across the financial system.

Climate Action 100+

CA 100+ is a collaborative engagement platform focused on 167 listed companies representing 80% of global greenhouse gas emissions that are critical to the net zero transition. LAM has ongoing CA 100+ engagements with Ecopetrol and Petróleos Mexicanos (PEMEX) through our emerging markets platform. A summary of these collaborative engagement efforts are included overleaf.

Finally, we participated in two consultations with the CA 100+ covering both the governance and strategy of the initiative and the benchmark methodology. See case studies in Principle 9 for more detail.

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 collaboration among investors, companies or governments, and public policy experts.

Through the Emerging Markets Investors Alliance, LAM's Emerging Markets Debt platform is working on three sovereign engagements related to South Africa, Indonesia, and Colombia.

PRI Advance

In 2022, LAM joined the PRI Advance initiative, a collaborative stewardship initiative for investors to work together to act on human rights and social issues within the metals and mining and renewables industries, coordinated by the UN PRI.

Collaborative Engagement Examples

Sovereign Engagement in collaboration with EMIA: National Treasury of South Africa

LAM took part in a collaborative engagement in August 2022 with the National Treasury of South Africa. We discussed the country's Integrated Resource Plan (IRP) 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 is scheduled to increase significantly by 2030. We have some outstanding concerns that the implementation of the second phase of the carbon tax could be further delayed. Government officials acknowledged that the IRP must be revised and the GHG trajectory in the Climate Change Bill must be reviewed to reflect the revised NDCs, 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 JSE and financial regulators about establishing mandatory climate-related disclosures for corporates.

Corporate Engagement in collaboration with CA 100+: Oil & Gas sector - Example 1

We participated in a collaborative engagement as part of Climate Action 100+ (CA100+) 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 company since joining CA 100+ in early 2022. The key focus of our meetings has been the company's net zero target and decarbonisation capital expenditure, methane emission reduction strategy, and interaction with the national government. We agreed to have a follow-up call within the next 6 months. Potential topics for discussion going forward include:

1. Scope 3 reduction plans and challenges with setting targets in more detail,

2. results of the planned scenario analysis and,

3. whilst we touched upon 'just transition' considerations in previous meetings we plan to go into further depth in the next meeting and discuss how the company can be in line with the country's National Development strategy.

Corporate Engagement in collaboration with CA 100+: 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 of the call were that the company recognised 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.

Given LAM's limited involvement in collaborative engagement with companies in prior years, we were historically not tracking outcomes systematically. However, in the final quarter of 2022 we expanded our engagement reporting capabilities to better track engagement outcomes going forward. We believe our increased involvement in industry initiatives during 2022 has continued to strengthen our understanding of industry trends, the regulatory landscape, and enabled learnings about emerging best practices on topics such as climate transition plans and promoted greater transparency from companies on science-based targets. Additional transparency from corporates has also directly enhanced our ability to assess financially material risks and opportunities through proprietary tools including our Climate Alignment Assessment and Net Zero dashboard.

Collaboration may also be undertaken through our involvement with industry initiatives, as referenced in Principle 4. Participation in industry initiatives furthers our understanding of industry trends and the regulatory landscape. It also is designed to keep the firm fully informed about emerging best practices and industry standards such as climate transition plans and portfolio-level carbon metrics.

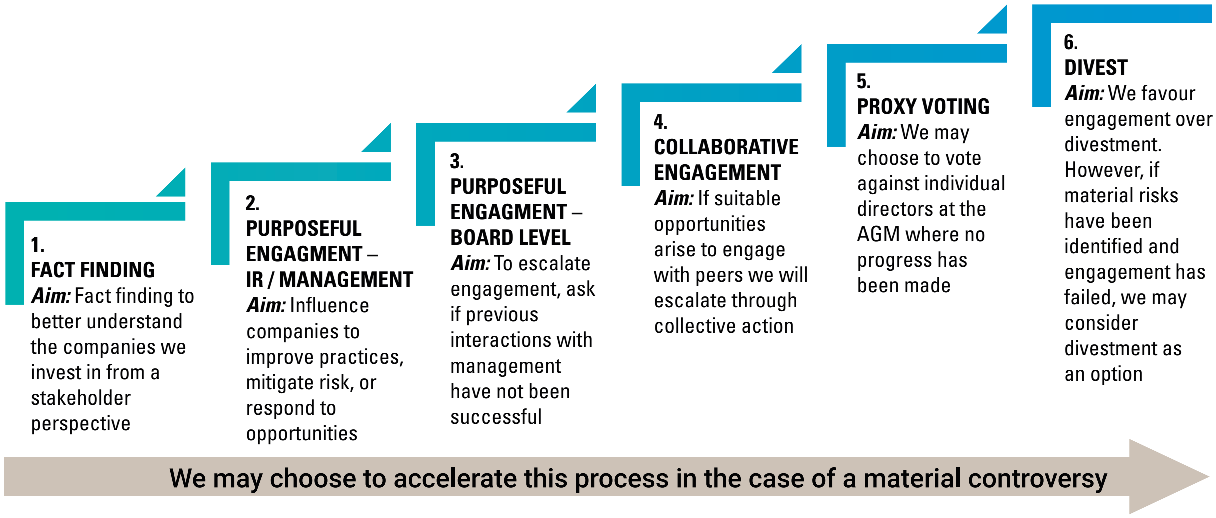
Principle 11: Escalation

Signatories, where necessary, escalate stewardship activities to influence issuers.

As highlighted in our 2021 report, we identified escalation as an area for improvement and in 2022 our Global Stewardship Committee formalised an escalation process as part of our wider ESG policy. The process below is applied on a case-by-case basis. It does not require that each step be implemented, but rather outlines the range of options available to our relevant investment professionals when an engagement has failed to achieve the desired outcomes.

The below graphic illustrates our approach to escalation:

LAM Engagement Objectives for Integrated Portfolios



Divest or engage?

As an active manager we prefer to engage with our investee companies and will favour this option where possible as divesting is unlikely to achieve real-world outcomes and we have no control over who we sell to or to determine whether they will be responsible owners. However, when material risks identified negatively impact the investment thesis and engagement has failed, we will consider divestment as a last resort.

For illustrative purposes only.

In addition to the new process outlined above, we also employ other processes to complement the escalation process. At a firm level, we provide our investment professionals with access to an ESG Watchlist, which relevant equity and fixed income investment professionals can use to help identify potential ESG issues in the publicly listed issuers in their investment universe. On a monthly basis, the ESG Watchlist flags companies with environmental, social, or governance ratings falling below certain thresholds based on multiple factors including, but not limited to, a low ESG rating from a third-party provider and/or a potential breach of the UN Global Compact (UNGC). Investment professionals may then conduct further research and engagement on these companies to determine the reasons for the low rating. Our Stewardship committee also reviews any changes to UNGC breaches and started to strengthened the review process at the end of 2022.

Escalation Case Study: Shimano

Shimano is a Japanese multinational manufacturing company for cycling components, fishing tackle, and rowing equipment.

Purpose of Engagement:

Our engagement with the company formally began in 2020, when we had a call and subsequently sent a letter to engage on three items: single-use plastic packaging, Board effectiveness (both diversity and structure), and financial productivity/shareholder returns.

Details of Engagement(s):

In June 2022, we had a call with the company to discuss progress made since our letter. Firstly, on the issue of packaging, the company was unable to provide granular information but was in the process of collecting the data and gave examples of where they are replacing plastic which was encouraging. However, on gender diversity, the company does not yet have any female directors. They indicated this was an objective, but there is currently a lot of competition for female directors in Japan. The company said the candidate was likely to be announced at the next general shareholders meeting. On financial productivity/shareholder returns, net cash had grown to over JPY350bn vs. JPY295bn when we sent letter. We asked again to raise returns to improve return on equity (ROE). The company acknowledged our concerns about levels of cash on the balance sheet.

In September 2022, following repeated direct engagements, we wrote again to Shimano requesting a meeting to discuss Board effectiveness, specifically our concerns on the combined Chair/CEO role, ROE, and improved disclosure on executive compensation. Whilst the company took onboard our feedback and viewpoint, the information we heard was unchanged from our previous meeting in June 2022. Whilst the company expressed openness to hiring an additional independent female Board member and increasing disclosure on compensation criteria, Shimano's progress remained slow. The company reiterated that they are well aware of the abundant cash on balance sheet but want to be able to distribute a dividend even in a tougher environment and they also want to invest in growth.

In March 2023, we held another follow-up engagement call to discuss progress on our requests and were encouraged to see good progress on Board independence and diversity, some progress on cash returns, and executive compensation disclosure.

Outcome

Whilst our extended engagement efforts with the company provided opportunities to feedback regarding the company's practices on board independence/diversity, balance sheet management, and executive compensation, in general we felt that the company had not sufficiently addressed the key issues raised. Subsequently this acted as a catalyst for reducing exposure for certain strategies. For portfolios that retained a position, we actively voted against management at the 2022 AGM and communicated this to the company directly. We will seek to engage further on the topics to drive positive change at the company.

Principle 12: **Exercising rights and responsibilities**

Signatories actively exercise their rights and responsibilities.

As an extension of LAM's fiduciary duties to its equities clients, LAM is responsible to vote proxies in the best interests of those clients over the long term. The firm currently subscribes to research services and proxy voting execution provided by ISS and Glass Lewis (as discussed in the response to Principle 2). These proxy advisory services provide independent analysis and recommendations based on the guidelines formalised in LAM's own Global Proxy Voting Policy. This research helps improve our understanding of the issues surrounding a company's proxy proposals. Investment professionals are responsible for providing the vote recommendation for a given proposal except where we have identified a material conflict, as set forth in our Global Proxy Voting Policy. LAM has approved specific proxy voting guidelines regarding various common proxy proposals—the "Approved Guidelines"—which determine whether a specific agenda item should be voted "For", "Against", or should be considered on a case-by-case basis. The firm's Global Proxy Voting Policy is reviewed annually and is implemented by the Proxy Committee. The Policy covers the following:

- Our fiduciary duties informing our responsibility to vote proxies
- General administration including the use of third parties and our voting process
- Detailed policy on what we will vote for and against including topics such as routine items, amendments to board policy, shareholder rights, board structure, changes to capital structure, executive compensation, and shareholder proposals
- Shareblocking
- Conflicts of interests (covered in detail in Principle 3)
- Reporting

Our Global Governance Principles and Proxy Voting Policy and Procedures are both available on our website.

Proxy Committee

Oversight of the Proxy Voting process is provided by a Proxy Committee composed of senior investment professionals, members of the Legal and Compliance department, the firm's Co-heads of Sustainable Investment and ESG, Director of Stewardship, and other operations personnel.

As discussed in Principle 2, Lazard's Proxy Committee approves specific proxy voting guidelines regarding the most common proxy proposals. Although it is the general policy to vote proxies on all holdings in the same way, on occasion, one portfolio management team may desire to vote differently than another. In such event, a meeting of the Proxy Committee will be held to determine whether it would be appropriate to split the votes, based on evaluation as to the best interests of clients.

The Proxy Committee meets regularly, generally on a quarterly basis, to review the Global Proxy Voting Policy and other matters relating to the firm's proxy voting functions. Meetings may be convened more frequently as needed, for example, to discuss a specific proxy proposal or approve a vote that is contrary to a policy guideline. A representative of Lazard's Legal and Compliance department will participate in all Proxy Committee meetings.

How Our Voting Approach Differs for Funds, Assets, and Regions

The Proxy Operations team identifies upcoming meetings, and these are assessed against the bespoke Global Proxy Voting Policy. Where resolutions require additional analysis and do not fall under the policy, these meetings are shared systematically through the ISS Communicator platform to the global equity sector analysts and/or portfolio management teams. With their in-depth knowledge of their companies, the relevant analyst reviews company meetings on a case-by-case basis, discussing with portfolio managers when required. The process is applied across all equity portfolios globally. The voting statistics provided on page 62 show how we voted differently across regions. For example, we were able to support a higher proportion of management proposals in the UK compared to emerging markets, where corporate governance practices are still evolving.

For quantitative equity strategies, where there is a position held by the fundamental equity teams, they generally defer to the voting recommendation recommended by the fundamental sector analysts or equity teams. When a company is held exclusively by the quantitative equity team, they will make the voting decision. Bond-only votes, while extremely rare, are treated no differently than a regular equity proxy vote. As discussed in Principle 2, as part of assessing the effectiveness of our policies and practices, we initiated a review of our Global Proxy Voting Policy and started to explore the feasibility of developing regional policies. Following the 2021 proxy season we reviewed our proxy voting processes and activity and started to explore the possibility of further strengthening our custom policy to account for regional differences in governance best practice. We started to review two of our key markets, the US and Japan, ahead of 2023.

Supporting Clients' Requirements

It is our belief that disaggregating engagement and voting from the investment process may not be the most effective way of overseeing sustainability practices, holding companies to account, and influencing best practices. Where LAM has been delegated the voting authority on behalf of clients, LAM does not delegate that authority to any other person or entity but retains complete authority for voting all proxies on behalf of its clients. We believe that voting decisions taken by our investment professionals, who have in-depth knowledge of the companies in question, an understanding of which sustainability issues are relevant to financial productivity, and ability to engage directly with management, is the most effective way of meeting our fiduciary duties to our clients. However, some clients have chosen to keep voting rights in-house, delegated to a third party, or requested that we implement their own custom policy through our own voting platform. There are some regional differences across our global client base, but during 2022 the majority of clients delegated their voting authority to LAM. As highlighted in Principle 5, robust controls and procedures are in place to monitor what shares and voting rights we have.

Segregated versus Pooled Accounts

While LAM has approved specific Proxy Voting Policy and Procedures regarding various common proxy proposals, a small number of clients are managed where we implement a different voting policy to their segregated accounts. This is accommodated at an additional cost, but it is noted that the majority of clients follow LAM's custom policy.

Stock Lending

As noted, Lazard does not generally vote proxies for securities that a client has authorised their custodian bank to use in a stock loan program, which passes voting rights to the party with possession of the shares. Stock lending is very rare. Under certain circumstances, LAM may determine to recall loaned stocks in order to vote the proxies associated with those securities. For example, if Lazard determines that the entity in possession of the stock has borrowed the stock solely to be able to obtain control over the issuer of the stock by voting proxies, or if the client should specifically request LAM to vote the shares on loan, LAM may determine to recall the stock and vote the proxies itself. However, it is expected that this will be done only in exceptional circumstances. In such event, portfolio management teams will make this determination and the Proxy Administration Team will vote the proxies in accordance with the Approved Guidelines.

Our Voting Records

In 2022, LAM analysts voted in 5,629 meetings—of which, 4,723 were on a case-by-case basis (84%), 811 followed the LAM defined policy (14%), and 95 were in conflict (1.7%). In all cases, the votes are reviewed by the relevant sector analysts and portfolio managers with support from our Sustainable Investment and ESG team where required.

LAM voted against management on one or more proposals at 43% of the total meetings where we submitted ballots. In general, we may also decide to engage with the management of a company to address any concerns we have about a proposal. In 2022, we voted at 98% of meetings where we had voting authority. This was lower than 100% because markets like Egypt, Norway, and Switzerland have share blocking periods or require a re-registration period that limits trading. To maintain liquidity for our clients, we may therefore choose to not vote the shares.

Voting Record

2022	Emerging Markets	Europe	Other	UK	USA	Total
Total meetings	1,912	691	1,026	322	1,678	5,629
Meetings voted	1,882	619	1,024	322	1,667	5,514
Meetings voted 100% with management	1,068	314	622	258	841	3,103
Meetings with one or more votes against management	814	305	402	64	826	2,411
Meetings not voted (share blocking/re-reg)	30	72	2	0	11	115
Meetings with one or more abstentions	62	5	7	2	3	79

Shareholder Proposals

LAM supports the principle that corporations should act as good citizens and generally votes on environmental, climate, social, and corporate governance proposals in a way that we believe will increase long-term shareholder value. Many ESG and climate change issues can be improved through such use of shareholder proposals.

In 2022, LAM developed a framework for ESG-related shareholder proposals that leverages both the company knowledge of Lazard'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, as outlined below.

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 by collaborations of institutional investors to ensure they are more aligned with a company's business strategy. LAM's support for shareholder proposals on behalf of portfolios for which we have voting authority was 64% in 2022. We don't believe that applying a blanket policy supporting all ESG shareholder resolutions is the right approach as we want to assess the materiality, feasibility, and consequences of supporting (or voting against) shareholder proposals.

More likely to support a shareholder proposal based on:

Materiality
Issues are deemed material to the company

Progress
Where there is a lack of progress in managing an issue

Transparency
Resolutions target increased transparency

Asymmetric Knowledge
Resolution respects that management is best placed to implement change

Responsible Conduct
When there is an insufficient response to a controversy

For illustrative purposes only.

Transparency of Our Voting Records

When a client delegates responsibility for proxy voting to LAM, we provide reports directly to our clients on all voting activity undertaken on the client's behalf. This is completed on a quarterly, semi-annual, or annual basis, as directed by the client. Information on how LAM voted securities within a reporting period and information regarding our rationale for proxy-voting decisions in a client's portfolio may also be provided upon request. In general, LAM does not disclose detailed voting records publicly, except where we are required to do so by law, including in the annual N-PX filing required by the US Securities and Exchange Commission and as part of the EU Shareholder Rights Directive, for which we have provided voting records on our website. We publish aggregated global statistics of LAM's full voting activities every year on our website. We currently provide voting rationales within our client reports but only voting instructions within our publicly available reports. Opportunities to strengthen our transparency is currently under review and is a focus for 2023.

Equity Holdings and Voting Outcomes

Within our equities strategies, we monitor voting outcomes on a case-by-case basis where we believe the outcome will be material to our investment case, as illustrated in the case study below:

Case study: US Foods Holding Corp – Equity holding

Topic—Corporate Governance Proxy Contest

US Foods is the second-largest US food service distributor behind Sysco, holding a 10% market share of the highly fragmented food service distribution industry.

Purpose of Engagement:

To understand the governance changes being proposed by the Board.

Details of Engagement(s):

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. Although the company's focus is on the efficient distribution of food and related products, US Foods is also known for its best-in-class e-commerce system and technology solutions, as well as its product offering innovation.

Early this year, 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 operational improvements and the mediocre capital allocation decisions being made in recent years, we entered into an intensive engagement with both the Board as well as the activist.

We engaged with the Chair and the audit committee chair ahead of the AGM. Although acknowledging positive governance changes being made by the board in recent years—including the separation of the Chair and CEO role, declassification of the board, and the elimination of supermajority voting requirement—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 through a series of meetings. Although we agreed with most of what the activist was advocating, we expressed the view that we want to avoid draconian cost cutting and to minimise disruption.

Outcome and Next Steps:

Just one week ahead of the 2022 AGM, 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 thirteen directors, while the CEO will not stand for re-election. Two of the director nominees will 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. We are hopeful that a new CEO at the company will bring fresh change to reinvigorate service levels and more efficient logistics—and distribution operations. Although acknowledging the short-term disruption of the CEO change, we remain positive on our longer-term investment thesis of market share gains amongst scaled players in this post-Covid recovery period.

Exercising Rights and Responsibilities for Fixed Income Assets

As part of our Fixed Income research and stewardship approach, our objective is to understand the business model, business risks, financial leverage, liquidity, and what structural protections are provided by the bond indenture terms and covenants. This determines the likelihood of credit stability or deterioration and guardrails provided by covenants, security, or other structural elements of a given bond.

Reviewing Prospectus and Transaction Documents

Our process is to review:

- Financials including historical cash flow, earnings levels and volatility, leverage, liquidity, etc.
- Business description for business model, strategy, competitive position
- Covenants for any bond structure protections
- Use of proceeds especially for green, social, and sustainable bonds
- Assessment of creditors rights' in issuer's jurisdiction
- Assessment of the SOE's relationship with government entities

As part of our analysis, we review the covenants and must assess the various business, financial, and operations risks, and bond structure. This helps to determine the risk level and view on pricing relative to other investment options.

Amendment of Covenants

In the unlikely situation that an issuer asks for amendments to the indenture or the business does not perform as expected, the Fixed Income teams would review what is being asked and the level of any compensation being offered. We would then determine if the adjustments could materially weaken creditor protections.

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.

Important Information