

ENGAGEMENT REPORT



LAZARD
FRERES GESTION



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INTRODUCTION

In the context of its active portfolio management philosophy, Lazard Frères Gestion encourages analyst-portfolio managers to conduct dialog and engagement initiatives to promote the implementation of ESG best practices.

The main purpose of dialog is to encourage companies to continuously and constructively improve on all ESG practices: transparency, incorporation of sustainable development issues, Sustainable Development Goals (SDGs), governance best practices, etc.

Individual meetings with Management are an essential part of the analysis and monitoring process. They give analyst/portfolio managers an opportunity to interact with Management on many ESG issues. Drawing on their expertise, they define the key points to be addressed during these meetings.

Dialog and engagement initiatives are overseen using databases containing all the reports on meetings carried out by equity and bond analyst/portfolio managers.

Since 2019, bond portfolio issuers rated "Weak" by our partner Vigeo-Eiris (ESG rating <30/100) have been systematically contacted by e-mail to ask them about their incorporation of ESG criteria.

In line with our collaborative engagement with CDP and TCFD, as well as our approach to supporting companies, we inform these issuers of the importance of transparent communication on environmental, social and governance issues. In our experience, all too often a lack of information is detrimental to certain issuers that otherwise take ESG matters seriously or are ready to make that commitment.

Lazard Frères Gestion also believes in active shareholder engagement, allowing shareholders to influence the ESG strategies and practices of their company. We apply our own policy when voting at General Meetings of issuers falling into the established voting scope.

The number of opposing votes, and the reason for which they were cast, are recorded in a software tool and form an integral part of the annual voting report.

ENGAGEMENT THROUGH DIALOG

A Presentation of our individual engagement activity

1. EQUITY MANAGEMENT

Meetings with Management

Lazard Frères Gestion sets itself apart through its investment management rooted in conviction, and based on regular communication between portfolio managers and listed companies. Lazard Frères Gestion's equity strategies teams participated in 973 meetings with Management teams in 2020, the details of which are presented in the table below.

Our equity analyst-portfolio managers meet with Management teams on a regular basis. Our team, made up of 12 analyst-portfolio managers, conducted over 800 meetings in 2019.

	"One-on-one" meeting	Other (one-on-few, plenary...)	Total
Large Caps Equity Team	322	485	807
Small Caps Equity Team	86	80	166
Total	408	565	973

One-to-one meetings are preferred because face-to-face interactions provide a wealth of information and help build a close relationship of trust and Management teams.

The analyst-portfolio managers write a report on the meetings (also referred to as "Minutes"), which are classified by name and date in a database available to all portfolio management teams.

This report includes, in particular, an ESG section in which the analyst-portfolio managers provide the non-financial information deemed relevant. This section may contain comments or analyses of ESG information provided by the company, or recap the dialog undertaken with the company, as well as our commitments.

Lazard Frères Gestion engages in dialog with all portfolio companies. During its meetings with Management, the intensity and frequency of dialog on ESG issues varies depending on recent developments.

"One-on-one" meeting	
Total number of "Minutes"	726
Number of ESG comments	481
Number of ESG dialogs	83
Number of ESG commitments	61

This database has been in development for several years now and is used to track changes in the various ESG issues discussed with companies.

Analyst-portfolio managers can consult the database to determine whether a company should be challenged again on a particular point. The timeline of meeting minutes, stored in a single database, can be used to keep track of changes in the company's initiatives.

If no progress has been made on a given point discussed at a previous meeting, the analyst-portfolio managers can ask the company if it has enacted measures to resolve the problem. If not, the analyst-portfolio managers may decide to launch the escalation procedure.

The intensity and frequency of dialog on ESG issues may vary, and ESG dialog may be conducted by telephone, face-to-face meetings, e-mail or on-site interviews.

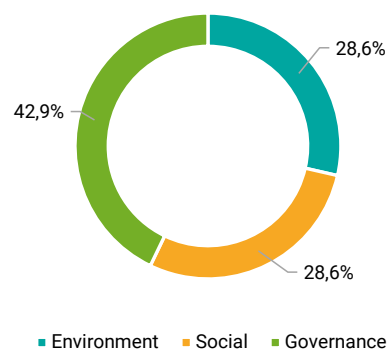
Our engagement initiatives

• Encouraging companies to improve their ESG practices

During meetings with companies, analyst-portfolio managers discuss the entire range of ESG issues. However, the governance pillar receives special consideration: Lazard Frères Gestion finds a solid and stable corporate structure to be a prerequisite for all ESG practices to be consistent at the strategic level.

In 2020, we held talks with 24 companies on the improvement of ESG practices.

Engagement topics

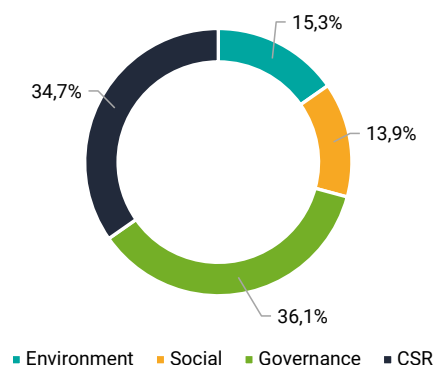


• Encouraging companies to improve non-financial communication

Since 2019, Lazard Frères Gestion has conducted engagement initiatives with issuers given a very low score for their ESG practices.

A lack of communication by issuers is partly to blame. We have undertaken to work with 26 issuers to encourage them to disclose more ESG data. 16 companies were contacted specifically about this issue, which was addressed at 11 company meetings.

Engagement topics



2. FIXED INCOME MANAGEMENT

The fixed income management teams carry out three types of engagement initiatives:

- **A systematic annual engagement campaign for all issues rated "weak" by V.E. or less than 2 out of 5 on our internal analysis charts.**

Every year, we conduct an engagement campaign with all portfolio issuers that have a low ESG rating. We contact all companies rated "Weak" by our non-financial partner Vigeo-Eiris and those rated between 1 and 2 out of 5 on our internal charts, with the aim of encouraging them to improve their ESG practices, transparency and communication.

A more comprehensive description of our internal ESG analysis chart is presented in our *ESG Approach*. (<http://www.lazardfreresgestion.fr/download.aspx?Doc=W20&Ref=APPROCHEESG&Lang=ENG&Extension=pdf>)



The overall message is as follows:

- We currently hold bonds
 - Poor ESG ratings can force us to restrict our investments
 - Your main weaknesses and areas for improvement are...
 - Could you comment on this data and provide us with your ESG objectives?
- **Engagement initiatives in response to market events (controversy, bond issue by a very low-rated issuer, major downturn in ESG practices):**

Being responsive to market events is a top priority. If a controversy affects a major issuer in our investment universe, we place the issuer on a watch list, contact it as soon as possible and may, depending on the responses provided, exclude it from the investment universe.

Similarly, when a low-rated company issues bonds on the markets, we take advantage of the opportunity to stress the importance of improving its ESG practice and communication. Several times 2020, we ended up not taking part in issues due to our internal ESG constraints, because the issuer's rating was too low.

- **A continuous engagement campaign to enhance our information on issuer practices**

Meetings with Management teams now systematically dedicate time for ESG issues. We address their weaknesses, areas for improvement and our expectations.

We also specifically target issuers on which we lack enough information or which have fallen significantly behind their sector peers. In doing so, we are able to complete our internal analysis charts and obtain a clearer picture of an issuer's actual practices.



B / Key figures on our commitments

1. EQUITY MANAGEMENT

We conducted engagement initiatives with 55 issuers in 2020, covering various issues related to governance, social policy and the environment. These initiatives can be summarized as follows:

Engagement topic	Number of engagement initiatives	Concrete examples
Environment	11	Engagement on this subject calls for discussions with the company on certain issues such as the achievement of CO2 emissions targets, the company's investments in the environment and its environmental commitments. We also look closely at adaptation to climate change, which is a key component of the E Pillar assessment.
Social	10	Engagement on this subject calls for discussions with the company on human capital: measures taken to protect employees, staff management during the COVID-19 crisis, HR policy, recruitment and measures to reduce staff turnover.
Governance	26	Engagement may call for discussions with the company on the independence, diversity or composition of the board or the scope of authority of directors.
ESG rating	24	This engagement topic includes discussions on areas for improvement for companies in terms of ESG, the importance of cooperating with our external ESG rating partners, and the need to communicate more on the incorporation of ESG criteria.

2. FIXED INCOME MANAGEMENT

In respect of fiscal year 2020, we contacted 41 issuers for the purposes of our engagement activities. We received 27 detailed responses on issuer practices, objectives and resources invested.

In accordance with our convictions and internal constraints, we sold our holdings in six portfolio issuers and elected not to take part in two issues due to excessively low ratings.

The general impression that emerged from this campaign was as follows:

- We are seeing continuous improvement in practices and better issuer communication (all cap sizes combined).
- Many issuers have informed us that some practices are already in place but held back by poor communication often perceived as a lack of transparency.
- Issuers are setting increasingly specific non-financial targets and participating in more and more marketplace initiatives.

1. EQUITY MANAGEMENT

Example of a Finnish company:

We wanted to strengthen the independence, diversity and skills of a Finnish large cap. This governance issue was addressed at each meeting with the company's Management.

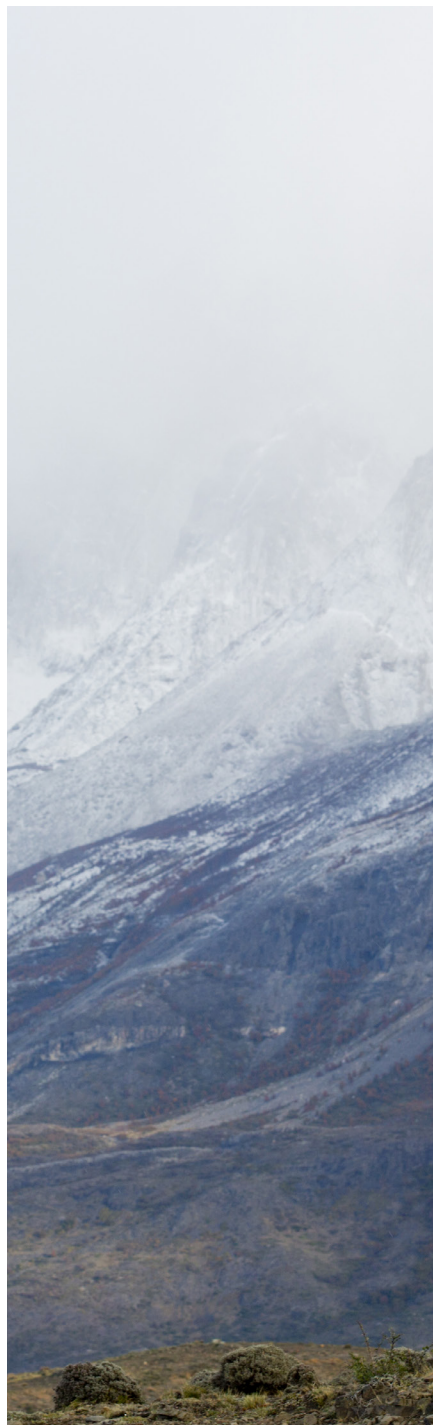
During the last such meeting, the company told us that it would share our comments with the Board. This year, the appointment of a new independent director was submitted for a vote. Although the Board's independence rate remains unsatisfactory, this initiative improved the diversity and independence of the Board.

Example of a company based in the Netherlands:

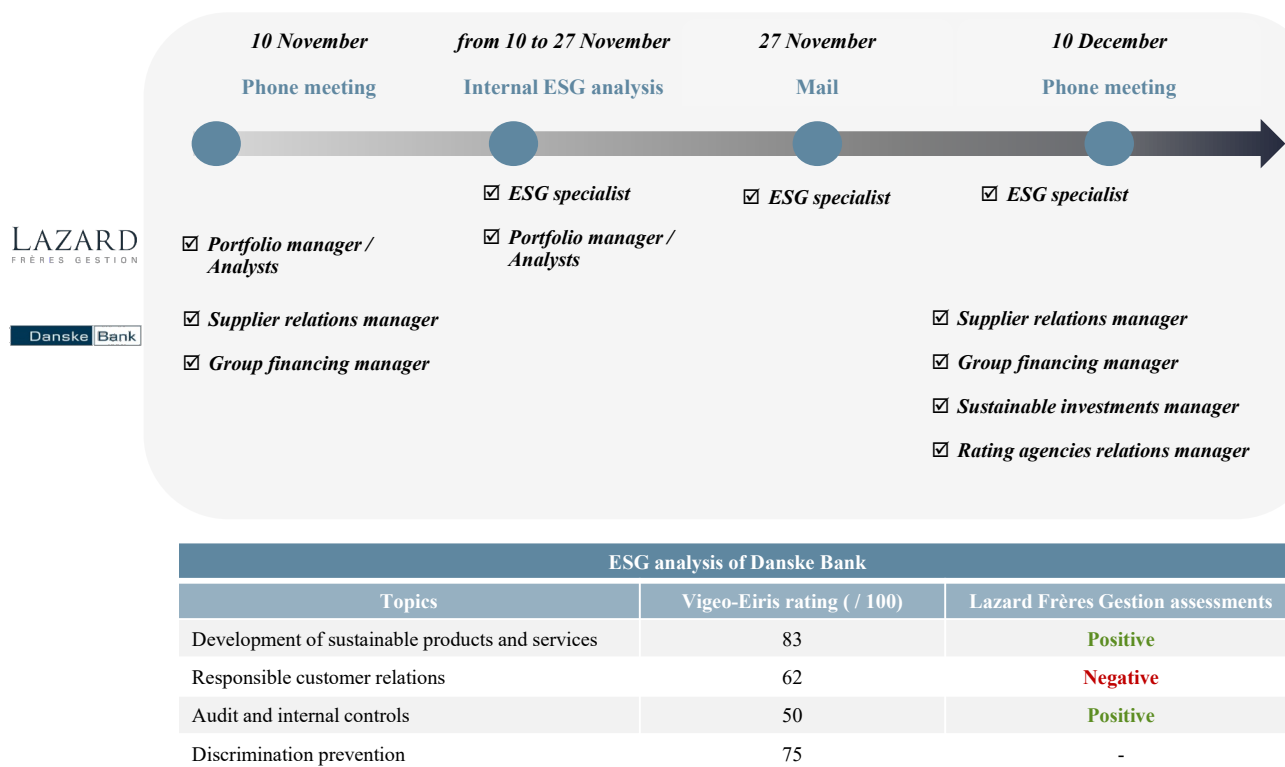
We raised the issue of the company's poor ESG assessments by ESG rating agencies with the CEO. We noted that the company is currently working to resolve the problem: Capital Markets Day was focused on ESG, and multiple ESG targets have been set (water, waste, energy, sustainable sourcing) by 2025.

Example of a French insurance company:

We were not satisfied with the new financial report, based on geographic regions instead of business activities. In our view, this change could have a negative impact on the governance rating. We therefore asked the company at the end of 2020 to continue to report the previous indicators.



2. FIXED INCOME MANAGEMENT



Jyske Bank example:

- Rated 26/100 by Vigeo-Eiris in November 2020.
- We contacted the company as usual, explaining its strengths, weaknesses and areas for improvement.
- Regular discussions took place over the following months to ensure that the company was meeting its commitments.
- The company's V.E. rating doubled to 46/100 in May 2021.

Adler example:

- On November 9, 2020 we did not participate in an Adler primary issue, despite Adler being an issuer we like, because its ESG rating had fallen below our internal constraints (rating below two out of five on our internal charts).
- We notified the issuer that it needed to improve its practices so that we could take part in future issues.
- Its ESG rating by Vigeo-Eiris has since increased from 18/100 to 34/100.
- As a result, its internal rating improved and we will be able to invest in the company going forward.

ENGAGEMENT THROUGH VOTING

A Presentation of our voting policy ////////////////

Lazard Frères Gestion looks very closely at the financial performance of the companies in which it invests. For financial performance to be sustainable over the long term, it must be combined with exemplary governance and strong social and environmental responsibility. In conducting this analysis, Lazard Frères Gestion fully plays its role as shareholder, particularly by exercising its voting rights and engaging in shareholder dialog.

In 2020, we voted at 90 out of 94 General Meetings (GMs), representing a participation rate of 96%. In accordance with our voting policy, we are committed to good governance and we examine social and environmental issues in proposed resolutions.

The voting scope applies to the shares of:

- All French companies in which funds managed by Lazard Frères Gestion hold more than 1% of the share capital
- All companies accounting for more than 0.2% of the total AuM in equity and diversified funds managed by Lazard Frères Gestion

An annual voting report is available at:

http://www.lazardfreresgestion.fr/EN/ESG-SRI-approach-Share-ownership_116.html

B

Key figures on our voting record

Country	Number of 2020 GMs	Voted GMs	Percentage
Germany	11	11	100%
Austria	1	1	100%
Belgium	1	1	100%
Spain	3	3	100%
Finland	1	1	100%
France	65	61	94%
Ireland	2	2	100%
Luxembourg	2	2	100%
Netherlands	6	6	100%
United Kingdom	1	1	100%
Switzerland	1	1	100%
Total	94	90	96%

C

Dialog ahead of General Meetings

Shareholder engagement is key to our responsible investor approach. It is based on a clearly detailed voting policy that provides a framework for our discussions with companies ahead of General Meetings.

Companies are increasingly interested in engaging with their minority shareholders on the resolutions they intend to submit to the General Meeting.

These meetings provide an opportunity to better understand the motivations and nature of draft resolutions for General Meetings and to explain our voting policy.

Companies are holding more and more meetings to specifically address governance issues in the run-up to GM season.

Shareholder dialog is central to our assessment of corporate governance and takes on special importance ahead of annual General Meetings. It is also more broadly aligned with our engagement philosophy, aimed at influencing corporate behavior. By raising awareness of best practices, we hope to support portfolio companies and help them make continuous progress.

D Concrete examples

- **Disclosure of grounds for voting**

We explained to one French small cap why we voted against authorizing the switch from Euronext Paris to Euronext Growth Paris.

Euronext Growth sets lower obligations for listed companies, particularly regarding the publication of regular financial information.

- No requirement to disclose whether or not a corporate governance code is applied (Middlenext Code, AFEP-MEDEF Code, no code)
- No ex-ante and ex-post vote on remuneration
- Simplified corporate governance report
- The rules governing parity on the Board of Directors are no longer applicable
- The obligation to elect members of the Board of Directors on the proposal of employee shareholders, where they hold more than 3% of the share capital, and the obligation for the General Meeting to decide on a draft resolution calling for the election of members by employees, are no longer applicable.

Consequently, the transfer would reduce shareholder rights or generate corporate governance risk.

- **Voting decisions themselves**

In accordance with our voting policy, environmental resolutions are analyzed from the standpoint of reducing environmental impacts and combating greenwashing. In 2021, we voted in favor of two climate-related resolutions. We issued a favorable opinion on a resolution in which a major French company presented its environmental transition plan by detailing the concrete initiatives that need to be implemented. We also issued a positive opinion on the climate transition plan of a large UK firm. The plan described the way forward to achieve a target of zero net CO₂ emissions, as well as the main measures taken to achieve this objective.

We are waiting to get results back on our other engagement initiatives. Some involved pre- and post- GM discussions, as we the case for 11 companies. These discussions made it possible to influence the company's resolutions, such as changing directors or changing resolutions.



